Pre-Tax Contributions

What you need to know

Deferring a portion of your salary for retirement has different implications. To illustrate this concept, this example features two employees:

Sam makes $1,200 gross pay biweekly and does not save for retirement

Anna makes $1,200 gross pay biweekly and saves 10% of her gross pay for retirement

Savings difference after each pay period (biweekly)

	Sam	Anna
Retirement Savings	**$0.00**	**$120.00**
Taxes Paid*	$218.80	$198.40
Net Pay	$981.20	$881.60

*This example follows withholding guidance in IRS Publication 15-T, Social Security withholding at 6.2%, Medicare withholding at 1.45%, and example state withholding at 4.5%. State tax may vary.

Savings difference after one year

	Sam	Anna
Retirement Savings	**$0.00**	**$3,307.20**
Taxes Paid	$5,688.80	$5,158.40
Reduction in Tax Obligation	$0.00	$530.40
Net Pay	$25,511.20	$22,291.60
Value of Income Sources	**$25,511.20**	**$26,128.60**

Takeaways

- Anna will have $617.40 more money to her name (take-home net pay and retirement savings) than Sam by adding to her 401(k) pre-tax every paycheck.
- $1.00 contributed pre-tax does not equal a whole $1.00 lost in take-home pay, but it does equal a whole $1.00 invested towards your retirement.
- Saving any amount of money for retirement can be beneficial in the long term.

These results are intended for illustrative purposes only. The results are not and should not be considered to be a comprehensive financial plan, investment advice, tax advice.

Ascensus recommends speaking with a licensed professional to assist you with an individualized retirement plan.