Plan Your Retirement

How Much Does It Cost to Save for Retirement?

Plan

Grow

Reap

This paycheck comparison shows that by saving a little for retirement it may not affect your paycheck as much as you think.

Let's look at three employees. Amy wants to save $100 per pay period for her retirement with post-tax money. Chris decides that he wants to contribute $100 per pay period on a pre-tax basis. Susan knows how saving $100 per pay period on a post-tax basis affects her paycheck, but wants to see how much more she could save on a pre-tax basis. The effect on their take-home pay may surprise you.

Tax-Deferred Savings Plan Paycheck Comparison

	Amy	Chris	Susan
Gross pay for one pay period	**$2,000.00**	**$2,000.00**	**$2,000.00**
Pre-tax contributions Voluntary retirement plan contributions	0.00	**100.00**	**138.00**
Standard tax deductions *(based on gross pay minus pre-tax contributions)*	560.00	532.00	521.36
Post-tax reductions Association fees Post-tax retirement contributions	36.00 **100.00**	36.00 0.00	36.00 0.00
Take-home pay	**$1,304.00**	**$1,322.00**	**$1,304.64**
Reduction or addition in paycheck with pre-tax savings	—	**+ $ 28.00**	**+ $ 0.64**
Contributions to retirement:	$100	$100	**$138**

Example is hypothetical and for illustrative purposes only. Keep in mind that taxes and other contributions may vary based on where you live, and that this is just an example. Also remember that when Chris and Susan retire, they will have to pay taxes on the money that they save on a pre-tax basis, because the taxes have been deferred. However, by being able to contribute that money without currently paying taxes, their money can compound and potentially grow more than if they have saved on an after-tax basis.

As you can see, Susan is the winner in this scenario. She has nearly the same take-home pay as Amy, but can contribute **$38 more per pay period** to her retirement. Over the life of her career, this could make a big difference in the amount she has when she retires.

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