

Teach Your Employees a Financial Magic Trick

I was always fascinated with magic tricks. I could never figure out how the trick was performed, even when the magician revealed the secret. However, there is a financial trick that everyone can learn, and there are no secrets or magic involved. I will show you how an employee can have \$1,029.00 deposited into their 403(b) account for only a \$261.00 net after tax contribution, using the Savers Credit. The Savers Credit is a dollar for dollar tax credit, provided to tax payers who are in a lower income tax bracket and who make contributions to an employer-sponsored retirement plan. Employees will need to claim the credit on their tax forms.

For example, a hypothetical nursing home pays a nurse's aide \$11.00 per hour, which in many areas is the prevailing rate for this profession.

Let's assume the following:

- the employer is providing a matching contribution of 50% of the first 3% the employee saves in the 403(b) Plan

Employee 3% Contribution	\$686 ¹
Employer 50% Match	+\$343
Total 403(b) Contribution	\$1,029

- the employee is a single parent and is filing as head of household
- the employee has an effective tax rate of 12% of taxable compensation
- the employee is eligible for the IRS Savers Credit

Here is the magic:

Employee 403(b) Contribution	\$686
Employee Contribution Tax Savings	- \$82
Employee Tax Savers Credit	- \$343
After Tax Savings Net Contribution	\$261

¹ \$22,880 employee yearly income x .03 = \$686

* Please note this example is not meant as tax advice. An employee should always consult their tax advisor.

Most employers and employees are not aware that the government provides a magic tax Savers Credit for lower income employees. But it's a magic trick your employees will enjoy. ☀

If you would like more information on the Savers Credit, please contact Jim Ceplecha at 800.807.0100 x2630.

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