



Paycheck Comparison

The Paycheck Comparison module can be used as a stand-alone utility, or in combination with the Federal 1040 Analysis module.

Among its main features, the Paycheck Comparison:

- allows you to compute a new take-home pay amount by entering a new salary deferral amount, or vice versa, automatically adjusting federal, state and local taxes;
- solves for a new salary deferral amount by calculating a zero federal tax refund, if you use the Paycheck Comparison in conjunction with the Federal 1040 Analysis calculator;
- compares paychecks from different calendar years;
- automatically adjusts the paycheck to show the average Social Security deductions, taking into account the appropriate Social Security compensation limit;
- illustrates growth in voluntary and non-voluntary funds, taking into account employer contributions and mandatory employee contributions, if you wish. Either simple or complex employer matching schemes can be entered. Future contributions can be based on estimated federal limits, if you like.
- some versions of the system permit batch processing of paycheck comparison reports; contact Still River for more information about this arrangement.

We have done our best, within the limitations of a deliberately simplified calculation, to make this system reflect the current status of the appropriate tax laws and regulations. However, it is important to emphasize that this system is not intended to be used to provide tax advice. We always recommend that participants review these matters with their personal tax advisors in order to confirm the results of the computer calculations, and to verify that the calculations performed are appropriate to each person's situation.

When to Use This Calculator

The Paycheck Comparison is used to illustrate the after-tax impact of pre-tax salary deferrals to 403(b), 401(k) or other plans. It can be used in a supplementary, educational way, or as an integral part of the sales or annual review process.



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In the former case, it is used to fine-tune a decision that is already made, answering questions like, "How much will a change in my salary deferral affect my take-home pay?" or "How much can I afford to defer?"

As a more central part of the sales process, the Paycheck Comparison can be used in conjunction with the Federal 1040 Analysis to illustrate how money that is currently being "saved" by over-withholding federal taxes (and then, probably, being spent when the tax refund arrives), can instead be truly saved, on a tax-advantaged basis, in an employer-sponsored plan. In combination, the Paycheck Comparison and Federal 1040 then show how the salary deferrals can be increased and the withholding reduced to result in a zero tax refund, without affecting take-home pay.

Paycheck Comparison

	Current check	New Paycheck(s)	
Name: <input type="text"/>	Year: <input type="text"/>	Year: 2003	<input type="button" value="Show Altern. #2"/> <input checked="" type="radio"/> Yes <input type="radio"/> No
Paycheck frequency (number of paychecks per year): <input type="text" value="12"/>		Altern. #1	
Paycheck Amounts			
Gross pay for this pay period:	\$ <input type="text"/>	\$ <input type="text"/>	\$ <input type="text"/>
PRE-TAX: Voluntary retirement contributions:	\$ <input type="text"/>	\$ <input type="text"/>	\$ <input type="text"/>
Enter as dollar amount or percent - both will display	<input type="text"/> %	<input type="text"/> %	<input type="text"/> %
PRE-TAX: Mandatory retirement contributions:	\$ <input type="text"/> %	\$ <input type="text"/>	\$ <input type="text"/>
PRE-TAX: Other benefits (Section 125 plans):	\$ <input type="text"/> %	\$ <input type="text"/>	\$ <input type="text"/>
AFTER-TAX: Total misc. reductions from pay:	\$ <input type="text"/> %	\$ <input type="text"/>	\$ <input type="text"/>
Federal Income Tax withholding:	\$ <input type="text"/>	\$ <input type="text"/>	\$ <input type="text"/>
State/local income tax withholding:	\$ <input type="text"/>	\$ <input type="text"/>	\$ <input type="text"/>
Marginal tax rate for state/local income taxes (zero if contribs. are not exempt):	<input type="text"/> %		
Social Security and Medicare taxes:	<input type="text" value="Social Sec. & Medicare"/>	\$ <input type="text"/>	\$ <input type="text"/>
Average take-home pay:	\$ <input type="text"/>	\$ <input type="text"/>	\$ <input type="text"/>

Calculate new take-home pay amount
 Calculate new retirement contrib. from target take-home pay
 Calculate new retirement contrib. by minimizing federal tax refund

Version 4.42A expires 01/15/04



How to Use This Calculator

The Paycheck Comparison screen is pretty densely packed, and can be a little intimidating on first view. It usually works best if you think of the calculator as being in two or three columns: work down the left-hand side of the screen first, then down the middle, then down the right side. As you do so, certain fields and certain options will be enabled or disabled, according to what choices you make. This will guide you in your inputs. Use the detailed instructions that appear in this guide, or press the <F1> key at any time during the input process to obtain on-line Help.

More specifically:

1. Enter the name and paycheck frequency at the top.
2. In the first column, enter information for a single paycheck as currently being received (ideally, you have the pay stub right in front of you). Make sure the information is for the year indicated at the top of the column (if not, change the year). The system can calculate withholding amounts, so when you get to that part of the data input, instead of typing the numbers from the paycheck, click the "Calculate Withholding" button. You will need to know the Federal (and state) W-4 information to do this calculation, but if you do it this way, the system can make more accurate paycheck adjustments reflecting state taxes. If you don't enter data this way, you must enter the state and local marginal tax rate (use zero or blank for states with no taxes).
3. You may enter a rate of return and a number of years if you want the system to illustrate how funds will grow under the current vs. alternative paychecks. If the employer matches contributions, entering that information will show the employer matching funds on top of the growing employee salary deferrals.
4. Select the calculation option you want to use (bottom left corner).
5. Fill in the middle column, adjusting any figures you need to from the first column. If you want to show two alternative paychecks instead of one, select that option at the top right and then fill in the third column as well – applicable only if you are not linking to the federal 1040.
6. If you are linking the paycheck comparison with the Federal 1040, now click the "1040 Input" button, and the Federal 1040 form will open. A few numbers will be pre-filled, but you must fill in the rest.
7. Use the Employer Contributions button to show how funds will accumulate. This very long narrow button is near the bottom of the Paycheck Comparison screen, and clicking



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it will open up a detail screen. Also use this screen if you want to adjust the assumptions (rate of return, number of years) used to illustrate future voluntary contributions only. If you do not want to illustrate future accumulations at all, enter "0" (or delete) the Years to Retirement field.

8. Hit the Calculate button or use the Print menu to preview the results, or print them. If you are linking to the 1040, though, you might want to pre-calculate or preview before printing, because only after you do so will the second column of the Federal 1040 form become available for additional adjustments, if you want to make them. (Usually this is not necessary, but if you are illustrating a paycheck for next year as an alternative, it may be appropriate).

Then what? The Paycheck Comparison does not tell you specifically what to do about withholding. Most states that have an income tax have their own separate forms for this. On the federal W-4, you can change withholding in large steps by changing the number of exemptions (the impact of which depends on filing status), and/or you can make a dollar amount adjustment to get the withholding to match quite precisely what the system calculates.

Note: we appreciate your help in keeping our state withholding formulas up to date. If you notice significant differences in what our system calculates vs. what appears on pay stubs you are working with, let us know. We will check it out and, if our calculations need adjustment, we will make a change to the system immediately.



Detailed Input Instructions

Name

Enter the participant's name as it should appear on the printed report.

Year

Under the "Current check" column, enter the year for the current paycheck. The system will default to the current calendar year. Under the "New paychecks" column(s), verify that the year for the new paycheck is correct. Normally, this is the same as the current paycheck, but you can compare different years if you wish.

Paycheck frequency (number of paychecks per year)

Enter the number of paychecks received in a year. For example, enter "12" for monthly paychecks, "24" for semi-monthly, "26" for bi-weekly, or "52" for weekly.

Show Altern. #2

If you want to show a second alternative in addition to the current and first alternative paychecks, select "Yes".

Please note that if you choose the third calculation option at the bottom of the screen (using the Federal 1040 Analysis calculator to minimize the tax refund), only one result will be calculated and a second alternative is inappropriate. In this event, the system will automatically set the "Show Altern. #2" field to "No", and suppress the third column of fields.

Gross pay for this pay period

Enter the current average gross pay for a single pay period. If you know only the annual pay amount, use your right mouse button to summon the on-line calculator and divide the annual amount by the number of pay periods in the year.



The gross pay for the second and, if used, third columns will default to your entry in the first column. You may change these if you wish.

PRE-TAX: Voluntary retirement contributions

In the first column, enter the current contribution amount. You may enter a dollar amount or a percentage; regardless of which you enter, both will be displayed. However, the numbers on the printed report always appear as dollars, not percents, in all cases.

You should enter dollar or percent amounts in the second (and third) columns only if the calculation option you are choosing is a calculation of takehome pay. Otherwise, the system will recalculate the salary deferrals applied to the retirement plan, and whatever you input will be ignored and then overwritten.

In most versions of the system, you also have the option (assuming you are calculating takehome pay) of indicating that you want the system to use the IRS maximum for one of several different kinds of plans, appearing in the dropdown list. If you select this option, and indicate on the Non-Voluntary Contributions screen that there are multiple Years to Retirement, thus triggering a calculation of potential future accumulations, the system will estimate future contributions based on the expected future Federal limits for the plan(s) chosen. These estimates are based on current rules, and are subject to change depending on future legislation, inflation rates, and salary levels. Salary levels are important because, if the current salary, less specified deductions, is less than the current federal limit for the plan chosen, the Federal limits cannot be used; instead, the system will use the highest available percentage salary deferral for each scenario (i.e., that results in zero take-home pay), and will apply that same percentage to future years. Also note that applicable catch-up limits will not be applied unless the date of birth is entered on the Basic Client Input screen or elsewhere in the system.

Enter dollar or percent amounts in the second and third columns only if you are calculating a take-home pay amount. Otherwise, the system will recalculate the salary deferrals applied to the retirement plan, and whatever you input will be ignored and then overwritten.

PRE-TAX: Mandatory retirement contributions

In the first column, enter the current, non-voluntary pre-tax contribution amount. This type of contribution is common for public employees, but rare for employees of corporations or other non-government entities.

By default, a dollar amount (if any) is expected. But you can enter a percentage of gross pay by clicking on the grey percent sign to the right of the input field. Whichever you enter, the



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printed report will always show dollar amounts, not percents.

The second column (and third if applicable) will default to the amount or percent you entered in the first column. If you entered a dollar amount in the first column, the other column(s) will show the same dollar amount. If you entered a percentage in the first column, the other column(s) will show, in dollars, a percentage of the gross pay for the alternative year(s). Once default values appear, they will not change automatically if you make a change to the first column. To re-initialize all the automatically calculated fields, either click on the "Reset" button in the lower right hand corner of the window, or change the entries manually.

PRE-TAX: Other benefits (Section 125 plans)

In the first column, enter the current amounts deducted from gross pay that are going into other benefit plans on a pre-tax basis. This usually applies if a "cafeteria" (Section 125) plan is offered, and frequently covers medical and dental benefits, etc. Do not count any pre-tax retirement plan benefit deductions that you've already entered into the previous fields. As above, you can enter amounts as dollars or percentage of gross pay.

The second column (and third, if used) will default to the amount entered in the first column, and will not change automatically. To change the default(s), use the Reset button or manually enter amounts.

AFTER-TAX: Total misc. reductions from pay

In the first column, enter the total of all after-tax amounts deducted from gross pay, except those that represent income tax withholding and/or FICA (Social Security and Medicare).

The second column (and third, if used) will default to the amount entered in the first column, and will not change automatically. To change the default(s), use the Reset button or manually enter amounts.

Federal Income Tax withholding

Enter the amount withheld from one paycheck for Federal Income Tax. You cannot make entries into the second and third columns because they will be calculated automatically by the system.

If you want the system to calculate federal withholding on the current paycheck for you, click



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the "Calculate Withholding" button. You will need to know filing status, number of withholding allowances, and any extra amounts to be withheld.

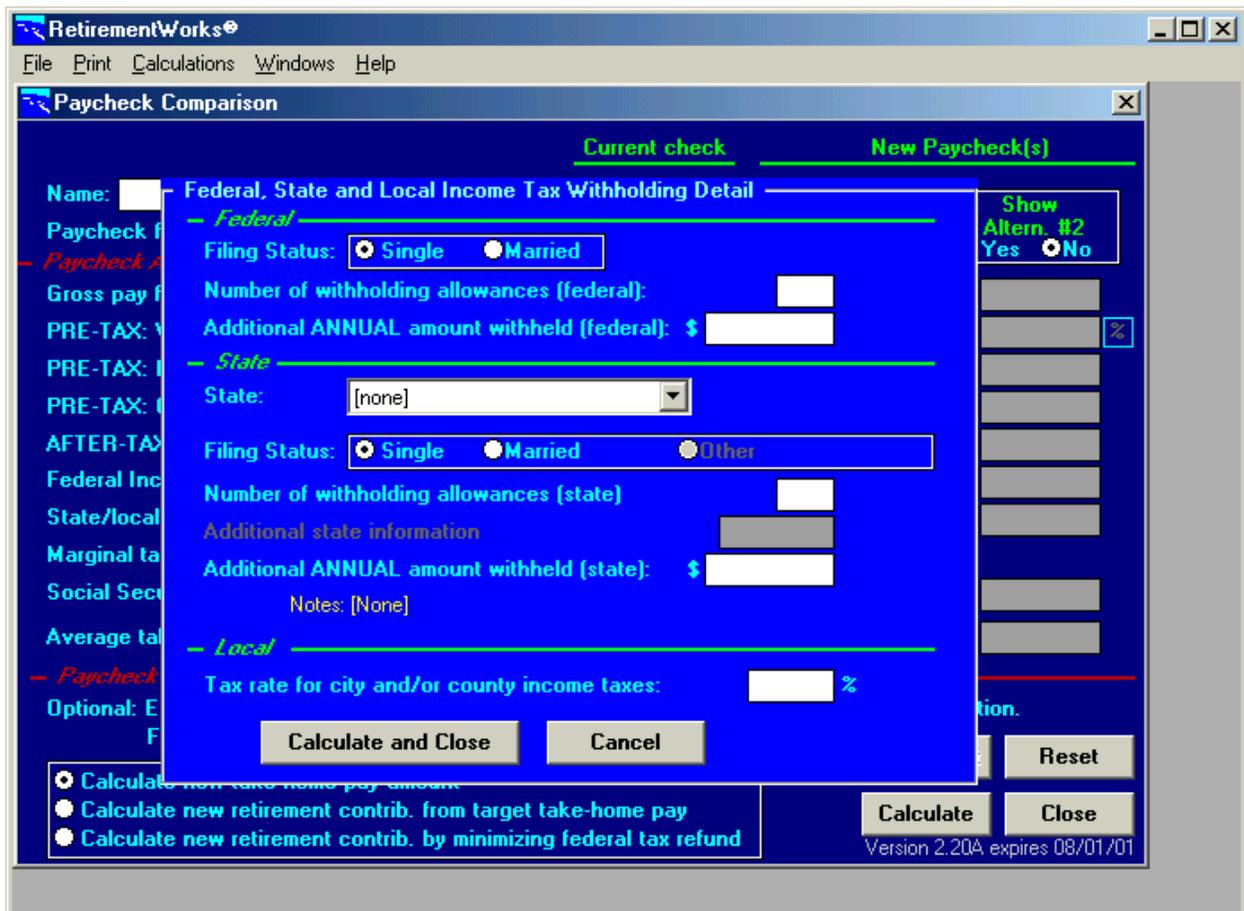
State/local income tax withholding

Enter the amount withheld from one paycheck for state income taxes plus local income taxes if they apply. These fields are suppressed in the second and third columns because they will be calculated automatically by the system.

If you want the system to calculate state and local withholding for you, click the "Calculate Withholding" button. You will need to know the pertinent details for the state and/or locality.

Calculate Withholding

Click this button if you want the system to calculate federal, state and local tax withholding. A pop-up screen, "Federal, State and Local Income Tax Withholding Detail", will appear with the necessary inputs.



The screenshot shows the RetirementWorks software interface. A 'Paycheck Comparison' dialog box is open, with a sub-dialog titled 'Federal, State and Local Income Tax Withholding Detail'. The sub-dialog is divided into three sections: Federal, State, and Local. The Federal section includes fields for Filing Status (Single, Married), Number of withholding allowances (federal), and Additional ANNUAL amount withheld (federal). The State section includes a dropdown for State (currently set to [none]), Filing Status (Single, Married, Other), Number of withholding allowances (state), and Additional ANNUAL amount withheld (state). The Local section includes a field for Tax rate for city and/or county income taxes. The sub-dialog also has a 'Show Altern. #2' section with Yes/No radio buttons and 'Calculate and Close' and 'Cancel' buttons. The background dialog box has various input fields for paycheck comparison and 'Calculate' and 'Close' buttons. The version number 'Version 2.20A expires 08/01/01' is visible at the bottom right of the sub-dialog.

Federal Filing Status

Click the appropriate button for Single or Married filing status. Note that while the federal 1040 form offers four filing options, the federal W-4 form offers only two, which are reflected here.



Number of withholding allowances (federal)

Enter the number of exemptions (allowances) claimed on the W-4 form. This may or may not be different from the exemptions and/or deductions claimed on the federal 1040 form.

Additional ANNUAL amount withheld (federal)

Enter any additional withholding amount entered on the W-4 form. Note that this additional amount is the total for the entire year, not for a single pay period.

State

Select from the drop-down list the state for which withholding is to be calculated. Depending on the state chosen, other fields in this section may change, or may become enabled or disabled, according to the withholding requirements (if any) of that state.

State Filing Status

For most states, this field is disabled, because there is no difference in withholding related to filing status. For states where such a difference is relevant, however, two or more choices will appear as appropriate; select the one that applies.

Number of withholding allowances (state)

This field will be enabled if it is appropriate to the state selected above. Enter the number of allowances indicated on the federal W-4 form or the equivalent state form. For California, this field is only for standard allowances; allowances for income tax deductions are entered in the next field.

Additional state information

This field will be enabled if it is appropriate to the state selected above. It has different meanings for different states. For example:



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- Arizona: State withholding is a percentage of federal withholding, but different percentages may be used. Enter the applicable percentage here.
- California: Withholding allowances that account for income tax deductions are treated differently from normal allowances. Enter the additional allowances used for income tax deductions.
- Indiana: Enter the number of dependent exemptions (as opposed to the number of personal exemptions, which are entered in the preceding field).
- Louisiana: Credits may be claimed to reduce withholding. Enter the number of credits claimed. These are in addition to the "0", "1", or "2" normal exemptions entered as allowances in the preceding field.

Additional ANNUAL amount withheld (state)

Enter any additional withholding amount that is entered on the appropriate state withholding form. Note that this additional amount is the total for the entire year, not for a single pay period.

Tax rate for city and/or county income taxes

Enter the tax rate, if any, for the city, county or other local taxing entity. This number should be entered as a percentage, not a ratio (e.g. a two percent rate should be entered as "2").

Once you have entered the required information on the "Federal, State and Local Income Tax Withholding Detail" screen, click the "Calculate and Close" button to calculate tax withholding and have the system enter the resulting values into the current paycheck withholding fields. Or you can click the "Cancel" button to close the pop-up screen.

Once you have clicked on the "Calculate and Close" button, you can still over-write the results. The system will not re-calculate the withholding for you unless you again click the "Calculate Withholding" button, so any changes you make will be safe. Also, if you change the current gross pay, you should generally click the "Calculate Withholding" button again to update the withholding amounts.



Marginal tax rate for state/local income taxes (zero if contribs. are not exempt)

Enter the applicable marginal tax rate (percentage) for state plus local taxes on ordinary income. Many states have only one rate at which income is taxed, while others have graduated tax rates. If you use the "Calculate Withholding" button to calculate state withholding, the marginal rate will be filled in for you.

This rate is used to determine the effect on state/local taxes of changes in pre-tax retirement plan contributions. If voluntary retirement plan contributions are NOT available on a pre-tax basis in this state, there is no such effect on taxes, and you should enter "0" in this field.

Social Security and Medicare taxes

Most people are subject to both Social Security and Medicare taxes. If appropriate, however, you may select "Medicare only" or "None". The system will then calculate FICA withholding. The amount does not display for the first year, although it does display in the second (and third) column for the alternative paycheck(s). To preview the calculated value for the current paycheck, click on "Print" on the main menu, then "Preview Paycheck Comparison".

FICA payments are not level throughout the year for persons whose taxable income exceeds the Social Security compensation limit. For those people, both Social Security and Medicare taxes are taken out until that limit is reached, after which only Medicare taxes are taken out. **The Paycheck Comparison averages out the total Social Security and Medicare taxes over the full number of paychecks received in a year. This means that the "Current check" illustrated in the system is actually an average paycheck, and does not necessarily match any actual paycheck received during the course of the year.**

Average take-home pay

The system will automatically calculate take-home pay in the first column. It will also automatically calculate take-home pay in the second (and third) column, unless you select the "Calculate new retirement contrib. from target take-home pay" option at the bottom of the screen. In that case, you must provide a target take-home pay amount in the second (and third) column.



Calculation Options

Select one of the three options at any time during the input process. Selecting an option before you begin entering information is helpful because inappropriate or unnecessary input items will be disabled.

- **Calculate take home pay amount.** Enter all the current and alternative information for each paycheck except the take-home pay. The system will calculate the take-home pay for you.
- **Calculate new retirement contrib. from target take-home pay.** This option allows you to specify a target take-home pay. The system then calculates how much of a pre-tax retirement plan contribution will result in the specified amount of take-home pay.
- **Calculate new retirement contrib. by minimizing federal tax refund.** This option ties the Paycheck Comparison module to the Federal 1040 Analysis module. If you select this option, click the "1040 Input" button before you calculate or print the Paycheck Comparison. The Federal 1040 Analysis screen will appear. Enter any other 1040 information, including other income, deductions, taxes, credits, and payments. Then, switch back to the Paycheck Comparison screen, click on the "Calculate" button and the system will adjust the pre-tax retirement plan contribution so that the annual decrease in take-home pay exactly matches the otherwise expected federal tax refund. The result is that taxes are reduced so that the refund is zero, and the paycheck is recalculated to match, with the tax savings going into increased pre-tax retirement savings. Under this option, only the current and one alternative paycheck are calculated. The third column, "Show Altern. #2", is disabled.

Showing Future Plan Accumulations

The Paycheck Comparison reports will illustrate how the different paycheck alternatives would affect future plan accumulations under certain assumptions. The illustrations will also take into account employer contributions and mandatory employee contributions if the appropriate data is entered. The Paycheck Comparison allows you a very thorough and sophisticated way to enter such information. Employer matches can be particularly important, because they mean that increases in voluntary contributions can have a multiplied effect, adding up to very significant differences in the long run.

If, however, you do not wish to illustrate future accumulations, you can have this omitted from the reports, simply by setting the Years to Retirement field to zero (or blank). This field, and all others relating to future accumulations, appear on the Non-Voluntary Contributions pop-up



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screen. To get to this screen, simply click the long button near the bottom of the main screen that is labeled: "Update assumptions about future fund growth and employer contributions."

	Start Year	End Year	Match Percent	Max Percent	Max Amount	Employer Discretionary Contributions Percentage	Employer Discretionary Contributions Amount	Second Match %	Second Max %	Mandatory Percent
1.										
2.										
3.										
4.										
5.										

The following options and input fields appear on this pop-up screen:

- **Employer Match Type Options.** Two options appear at the top left corner of the Non-Voluntary Contributions screen.
 - The Simple match (or No Match) option enables the top half of the screen, and permits simple patterns of employer and mandatory employee contributions to be input.
 - The Comprehensive Graded Match option permits illustration of tiered matching (i.e., a certain matching percentage up to a certain limit, and a different percentage above that limit) as well as changes in employer and/or mandatory employee contributions as years of service increase.

If no employer or mandatory contributions exist, it does not matter which option is selected, as long as the available fields are left blank.

- **Years of Service.** This field appears near the top of the Non-Voluntary Contributions screen, but is available only when a Comprehensive Graded Match is being



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illustrated. Use it to indicate how many years of service the employee has as of now. A fractional amount may be indicated, if desired.

This field supports use of multiple rows of the Comprehensive Graded Match (i.e., lower) section of the Non-Voluntary Contributions Screen, indicating different contribution patterns based on years of service. If there are no differences based on years of service, and therefore only one row of the lower section is in use (starting in year 1, ending in year 99), there is no need to use the Years of Service field.

- **Years to Retirement.** Enter the number of years from now through which future plan balances should be illustrated. This information will be used to project growth of both voluntary and (if applicable) non-voluntary contributions.
- **Current Balance.** Enter the total current balance in the plan, if you want it to be reflected in projected future performance.
- **Future Salary Increases.** This field also appears near the top of the pop-up screen. Enter a percentage to indicate expected levels of future annual increases. This information will be used to project both voluntary and (if applicable) non-voluntary contributions in the future.
- **Assumed Rate of Return.** Use this field, at the upper right corner of the screen, to indicate expected average future rates of return on plan contributions. This information will be used to project the growth of both voluntary and (if applicable) non-voluntary contributions in the future.

Enter "0" (or delete any entry) in this field if you do not want to illustrate the growth of future contributions on the report.

- **Simple Employer Matches.** This section occupies most of the top half of Non-Voluntary Contributions screen, and is available if you select the Simple Match (or No Match) option at the top left corner of the screen.

Five options are available for employer contributions. Select one of the five by clicking on one of the option buttons along the left edge of the screen. When you select an option, one, two, or three input fields will be open for you to use.

In addition, you may enter a percentage for mandatory employee contributions at the bottom of this section. Unlike the mandatory contributions on the main input screen, which include mandatory contributions to state retirement systems as well as to other plans, include in the Simple Match inputs only mandatory contributions to the same plan or kind of plan where the voluntary contributions go.

This information is used to illustrate how the plan account could accumulate over



time under different salary reduction alternatives.

- **Complex Employer Matches (“Comprehensive Graded Matches”).** This section occupies most of the lower half of the Non-Voluntary Contributions screen, and is available if you select the Comprehensive Graded Match option at the top left corner of the screen.

There are five rows for input. You may use any or all of them (or none at all). Each row represents what happens during a certain span of service.

For plans that do not vary employer or mandatory employee contributions based on years of service, use only one row, and indicate "1" as the Start Year and "99" as the End Year. Then fill in the rest of the row as indicated below.

For plans that do vary contributions based on years of service, use multiple rows. If, for example, one set of formulas applies to employees in their first 5 years of service and a second formula applies to everyone else, then use two rows. In the first row, indicate a Start Year of "1" and an End Year of "5". In the second row, indicate a Start Year of "6" and an End Year of "99".

In each row that you use, fill in any columns that apply.

- Columns 3-5 apply to normal matches. The maximum match may be indicated as a percentage (indicating the maximum employee percentage of compensation contribution that will be matched) or as a dollar amount, or both.
- In Columns 6-7 you may also indicate a discretionary employer contribution expressed as a percentage or a dollar amount, or both. This may be instead of or in addition to matching contributions.
- Columns 8-9 permit you to indicate a second match that kicks in after the limit on the first match. Enter the matching percentage and the maximum match limit that applies to the second match.
- In column 10 you may indicate a mandatory employee contribution percentage, if such applies. Unlike the mandatory contributions on the main input screen, which include mandatory contributions to state retirement systems as well as to other plans, include in the Comprehensive Graded Match inputs only mandatory contributions to the same plan or kind of plan where the voluntary contributions go.

These entries will define how the non-voluntary portion of plan contributions accumulate over time, as illustrated on the report.