Please note: This is a transcription so there may be slight grammatical errors.

Rachel:

Hello everyone, and welcome to today's presentation on What's Coming out of Your Paycheck. This is brought to you by CAPTRUST, which is the independent financial advisory firm that works with your employer sponsored retirement plan. I would now like to introduce Debra Gates, Manager at CAPTRUST Financial Wellness and Advice team. Go ahead, Debra.

Debra Gates:

Thank you so much, Rachel. So good afternoon. Can we move on to the next slide, please, Rachel? Just want to go back one for the disclaimers. Yeah, there you go. Just go into those legal disclaimers. Thank you everyone for joining us today. And most of you have come to these presentations before, and I do want to reiterate that every individual investor, they have different needs and different goals that they're trying to set, and all of that is as unique as you are. So we can give you investment advice here at CAPTRUST, but what we cannot do is give you any tax or legal advice. So I do want to say we are going to talk about what's coming out of your paycheck. We are going to educate you on the taxes that are taken out, but we can't give actual advice because we received several questions asking for advice on how much should I withhold?

And we're going to address some of these things, but we cannot advise you and tell you how to do that. But we can educate you and give you some options and give you some resources and where to go and who would you contact for those types of things. But we are readily available to give you any type of advice or any questions that you might have on your employer sponsored plan. So I want to take a moment to introduce my guests. The format that we usually do these webinars that I will moderate and... The next slide, please, Rachel. For this particular presentation, when you registered for the presentation to come to this webinar, we asked you a question, what questions did you have about your deductions? And several of you answered questions. And thank you so much for always being so ready and available to answer questions for us to help us with our polling and anything else that we might need.

So we really appreciate you for doing that. But today I have my colleague with me, Brandon Carr. Brandon started his career in the financial industry 12 years ago, 2011. He started out with Fidelity. In his time working in the industry, he's held many different positions with a variety of concentrations, but he's always been client facing. He hosts several different licenses, including his series seven, his 63, and his 66.

3 years ago, he actually took the largest step in his career so far and attained his CFP, which is a certified financial planner designation. He's been here at CAPTRUST for the past two years. He serves as a senior retirement consultant in our financial wellness and advice group. He holds appointments on a daily basis. So some of you may have spoken to Brandon Carr before when you're calling us on our advice desk. And so what he does is that he helps you set your goals, he helps you get through all of the confusion, and he helps you put a plan together for your future. So I thought he would be well suited to join me in this presentation on what's coming out of your paycheck. So welcome, Brandon. Thank you so much for joining me today.

Brandon Carr:

It's good to be here.

Debra Gates:

All right, so let's go to the next slide. Let's dive right in. This is one of our shorter presentations as CAPTRUST. It's about 30 minutes. Lot of questions that came in, a lot of information that we want to cover. And so when we're looking at your paycheck, I know everyone has direct deposit, it's very rare that someone is getting a paper copy of their check, but you might want to just take a look at your deposit and you want to look at some of those deductions that come out, making sure that they're accurate. And I know what we do. We budget on whatever's in that box for the net. But today we're going to talk about all of the other things that could possibly be on your paycheck as it relates to taxes, as it relates to deductions. And just to give you a broad overview and a really broad definition when we're looking at the deductions, that's all the things that are taken out of your gross pay, which leaves you that number in that little box for your net deposit.

So Brandon, let's just jump in. We received so many questions. Some of them were personal in nature. Let's go to the next slide. But a lot of them were around taxes and actually knowing what those taxes are. So for federal income tax, state income tax, social security, Medicare, some of the questions were, what's the difference between federal income tax and FICA, or is there a difference? Questions like what is the limit for the social security tax or this Medicare tax, what is that? And then some states may have state income tax, others may not. So we had several questions around taxes. So I want you to just do a free fall and really kind of talk about these things, these taxes that are coming out. And another question that came out is, can you make any adjustments to these or are some of these adjustable or some of them just set? So if you can hit on some of that, some of the questions that we were getting about this as it relates to taxes.

Brandon Carr:

Sure, absolutely. So honestly, looking at this slide for the past, I don't know, a few weeks, I keep looking at it and I think to myself, God bless America, but this is kind of how we pay for the blessings. So if we look at the top two here, federal and state, I'll start with those and then we can move on to social security and Medicare. Federal income tax is determined... When you see the withholding on your paycheck, what determines that is how your W4 is ultimately filled out. A big part of it is how much you make. And then another big part is if you have any dependents, and then also your filing status. So whether it's single, whether it's married filing jointly, or even if it's a head of household, which is a totally separate one.

You can adjust your federal income tax withholding, but it gets a little bit dicey because if you withhold too little throughout the year, and we can talk about what happens, you owe rather than getting a tax return. And if you typically owe, then you might owe even more if you withhold too little and you can pay penalties for withholding too little. If you go to line 4C on your W4 you can increase what's withheld. So you can withhold even more and expect a much larger return at the end of the year. So there's ways to go on there and adjust it. And you can do that throughout the year. So things change, spouse gets a different job, pay increase. It's happened to me. You can go in there and adjust your W4 throughout the year. If we could all hit zero at the end of the year, that would be nice.

Not owing anything, not getting anything back. It's very difficult to do that. If you have to cut a small check at the end of the year, that's not a bad thing either. But many folks that I talk to almost depend on a somewhat sizable tax return. And the way to get that is to make sure that you have enough or a little more than enough withheld. As far as your state taxes go, so that is a very diverse subject across the 50 states that we're in. We have actually nine states that have zero state income tax. So the lucky folks that live in those states, they don't have to worry about the next few things that I'll say at all.

But when you look at taxes throughout the states, some of them are flat tax rates, some of them are progressive, like our federal tax system is, the more you make, the more you pay. So that one, there's not usually a lot of playing around with it. Now here in North Carolina where I'm at, I do have the ability to withhold a little bit more just to make sure that I'm not cutting a check to the state. I'd rather get at least a small tax return from both of those at the end of the year, federal and state, if I can, couple hundred dollars is nice, but I try to get it as close to zero as possible. When we-

Debra Gates:

I'm sorry, one interruption, Brandon, for the state income tax, do you know what those states are so we can just-

Brandon Carr:

Yeah, so-

Debra Gates:

... highlight those?

Brandon Carr:

... you've got Alaska, Florida, Nevada, South Dakota, Tennessee, Texas. You've got Washington, Wyoming, and I believe New Hampshire. So again, those folks don't have to worry about that extra line item on their paycheck. But when it comes to the federal, again, I can't say enough. There really is a great tax estimator tool on the IRS website. So rather than having to walk into an H&R Block to try to sit down with someone and figure out your W4, which is a pretty simplistic form, what you can do is hop online to the IRS website, just type in estimator tool in their search box. And if you fill it out, there's actually a link at the bottom, when you click on it just pulls up a fully filled out W4 that you can just print off. So it's very, very useful and it's very accurate.

So the next two, Debra mentioned FICA. So that's social security and Medicare. A lot of folks can confuse federal income tax with FICA. So FICA, it's two pieces. The total, it's about, what is it, I think it's like 7.56 is the total percentage between the two. Now Medicare, it doesn't matter how much you make, you could make a million dollars a year, you always pay the Medicare piece, which is smaller. It's about 1.45%. But actually once you reach $160,200 worth of income throughout the year, you stop paying on social security. So for those folks out there that make, say a couple hundred thousand dollars a year, at some point, maybe in October, November, you're going to see your paycheck jump up a little bit. So that's actually a planning topic that I speak with folks a lot is what are you going to do with that extra money when you see it in your paycheck, because you've topped off Uncle Sam for the year.

Debra Gates:

All right. So I think that's really a broad overview and if you want to make those changes, Brandon's given you a great starting point. And of course, if you have any questions about this as to what might work better for you, you can always reach out to our advice desk. But once again, I do want to caution you, we will not give you any tax advice, but we can educate you about all of these topics and help you with your planning for your retirement savings. So let's move on to the next slide [inaudible].

Okay, so that's taxes that come out. So let's talk about some other things that could possibly come out of your paycheck when we are looking at health and welfare benefits. So looking at your health insurance, some employers offer HSA, which is a health savings account. So you would want to check with your benefits department to see if that is offered through your plan, but you know your benefits, so you would probably know if you have a health savings account. We want to talk a little bit about these things that come out as well. One of the questions that we received also was looking at pre-tax deductions and post-tax deductions. So where does this fall when we are looking at something that comes out pre-tax, something that comes out post-tax?

Brandon Carr:

Yeah, so this is more exciting because this is for you. This is not for Uncle Sam. We paid the bills for our blessings on the last slide. Here, we'll talk about putting money into our own pockets. So the health insurance, in most cases, that's going to come out pre-tax. And same with the HSA. Now, you can certainly buy additional healthcare... It says supplemental there. You could buy supplemental and depending on the plan, you could potentially be looking at a post-tax deduction on the paycheck. But usually you're looking at pre-tax. And then the HSA, the HSA is a wonderful pairing with what we'll talk about on the next slide, which is a pre-tax deduction. It reduces what you ultimately have to report as taxable income at the end of the year. So both of these are big legs up when it comes to flying under the radar with Uncle Sam.

Debra Gates:

Yeah, and if you have that health savings account, can you talk a little bit about the benefit of that, of having that health savings account? What is that used for? The money that you're putting in that account? So we understand the health insurance, that's to go to your doctor and all of that, but what about when you're looking at a health savings account, what is that really going to do for you? And can you kind of speak briefly about some of the benefits before retiring and even after retiring? Just kind of briefly highlight [inaudible].

Brandon Carr:

Yeah, so the HSA is an account that you're able to open up as long as you're under a high deductible health plan and you're able to put in, depending on your family situation, a certain amount each year, and you can use that money throughout the year. You're on a high deductible health plan and if you have to use hospital services, it can get expensive, the deductible. So you are able to use it and tap into it. If you use it in the most efficient way though, what you'll do is pay out of pocket for any of those expenses that might come up and you let the money grow in the HSA. And many HSAs these days, you're able to invest the money, and sometimes you have to have a couple thousand dollars in there before you start investing, but you put the money in there, save taxes when that happens, you grow the money over let's say 10, 20 years.

You get 30 years, you get to retirement, all of that growth is tax-free. And then when you pull the money out, if you're using it for medical expenses, it's completely tax-free. So that's that triple tax advantage that we've talked about in the past. However, once you reach age 65, you could pull money from your HSA to go buy a car and all you would pay is income tax on that distribution. You don't get that last tax-free positioning on that withdrawal if it's not used for medical expenses. But you can almost use it as another IRA almost after age 65.

Debra Gates:

Great. So let's move on. Man, we are halfway through. This is really something. The time just flies by so fast. This is great information that you're providing, Brandon. And we have the question panel, but I know that people are probably throwing questions in there. We've kind of informed this presentation by the questions that we received. And so really looking at a broad overview, there were some questions that came in that were more personal in nature. You would know that you have CAPTRUST available on the advice desk where you can call us, set an appointment, go to CAPTRUSTadvice.com to set an appointment, or you can call us at 1-800-967-9948. Speak with us directly. So let's look at some other things [inaudible] there are other deductions. Let's go to the next slide please, Rachel, and the one that we all know and love, definitely looking at this, we have the option of pre-tax or after-tax going into a Roth.

And it really depends upon your employer sponsored plan. We did receive a lot of individual questions about your particular employer sponsored plan that we will not be able to address in this particular session. If you call us on the advice desk or schedule an appointment, we can look at your particular plan, but we're going to do a really high level here. I want you to kind of mention, Brandon, what the limits are, just as a reminder to people. What are the limits, the catch-up contribution, when can you make changes, can you make changes to these deductions? And then I want to kind of dig into emergency savings. But before we do that, let's talk about employer sponsored retirement plans and then I'll dig into emergency savings. We'll take these separately.

Brandon Carr:

Sure. So yes, like you said, this is another one for you. We're done paying Uncle Sam at this point. This is for you and your future. So 401K is 403b's. Just any employer sponsored plans is a great way. We got a lot of questions on reducing your tax liability. So this is where you get the most bang for your buck. The HSA on the last page is a good one as well to stack on top of this, but this is the meat and potatoes of reducing your taxable income.

The limits right now in 2023, if you are under age 50, you're looking at up to $22,500 per year. And if you're above age 50, you're looking at a total of 30,000, there's a $7,500 catch up, and those absolutely can be adjusted at any time. You can make your election at the beginning of the year and increase it or even reduce it any time throughout the year. And obviously it never hurts to save more. So if you're not reaching the ceiling, that's not the end of the world. Try to get there at some point throughout your career. But yeah, this is really the best way to save yourself on taxes if you're hurting.

Debra Gates:

So once again, if you have questions about your particular plan, please reach out to CAPTRUST. The other deduction that could be utilized that you could use as a payroll deduction, we talk a lot about emergency savings and when we're looking at emergency savings high level, you might need anywhere from three to six months. Depending upon your family, your goals, set aside in an emergency savings fund. And for those that can set aside that amount, three to six months, that's great that you can do that. And that's your goal. That's your ultimate goal. You want to get there and have that money set aside and you can decide how you want to do that. If you want to have three to six months worth of income or three to six months worth of expenses saved. But Brandon, what about the person that cannot put away three to six months just by writing out a check and doing that one time? How can they utilize their payroll deduction to get to that amount?

Brandon Carr:

Yeah, and it applies in a big, big way, especially with a lot of the folks I've spoken with recently with inflation prices going up, it's extremely difficult to carve out that very first step of the financial order of operations, which is emergency savings. It's very difficult. You can't just stroke a check and put it in a separate account and keep that. That's a lot of money, 10, 15, $20,000 in some cases. But if you look at saving in an emergency account as a payroll deduction, like federal taxes, all the things that we've been talking about, most employers will allow you to direct your paycheck to multiple accounts.

Many of you might have just one check hitting one account every pay period. However, some places you can put, you use two accounts, four accounts, 10 accounts. It all depends on your payroll provider. But it's an easy way to have that carved off. It could be 10, 20, $30 a paycheck to start, have it carved off, have it go into a totally separate account that you set up at a bank of your choice or credit union, wherever, and don't look at it. Treat it as if you have no control over reducing that or anything like that. And if you do that for a year, $30 a pay period, $50 a pay period, you'll be amazed at what you're staring at when the process is complete.

Debra Gates:

The other thing with the questions that I've seen is sometimes people are a little bit apprehensive about increasing their contributions or setting this money aside in an emergency savings fund because we have so many priorities, there are only so many ways that you can divide your check. So if someone wants to know that information beforehand, so even if they want to increase their contributions, what tools could you recommend? What's in place that they could say, okay, if I increase my contributions, how is this going to affect my take home pay? Because I want to save, I have all of these things, but I need to live for today as well. So what can we offer? What recommendations do you have that can help with that in making that decision, making that ultimate decision as to how is this going to affect my take home pay?

Brandon Carr:

Yeah, so many of your payroll providers, such as names like ADP, Paychex, a lot of these companies, they will have paycheck estimator tools on their own websites. Of course, we do have a paycheck estimator on CAPTRUSTadvice.com. It's one of the resources that we offer, I believe. And so doing that ahead of time, if you're nervous about making that deduction, saying, well, if I get $50 less next week, I don't know if I'll be able to pay my bills because I carved off this $50 to an emergency account, mock it up, look at it first, and always know that you can change it.

So it goes the same way with a contribution to your 401k. If you increase it by one or two percentage points and then you get that next paycheck and you realize I can't really afford to live on what's left over, the net, well, you can always go back in there and reduce it. And it's the same thing with the emergency savings. But if you want to see what it looks like ahead of time, the web has many of them, but your payroll provider should have a paycheck estimator, and we've got one on the CAPTRUST advice website as well.

Debra Gates:

And these are things that you have control over. So when we're looking at your retirement plan, your emergency savings, once again, we were getting questions about how much control do I have over the deductions that's coming out of my paycheck? And these things you do have control over. And like Brandon said, you can make changes by going onto your record keeper site. And just to make sure everyone is clear, when we mention record keeper, that could be, let me see, T. Rowe Price, TIAA, some of the other ones, Brandon?

Brandon Carr:

Fidelity, Vanguard.

Debra Gates:

Power. Yeah, so all of those, so it's the vendor that's sending you your quarterly statements or where you're logging into to check your balances. And you want to make sure that you're going in and you're checking your balances and that you have your login information so that you can see what's going on in your account. So up until this point, we've talked about some of the mandatory with the taxes. We can't get away from that. And interesting enough, we did get a question from someone that said, what can I do so that I don't pay any taxes? I'm sorry, I'm not touching that. [inaudible]

Brandon Carr:

If you know how to do that legally, let me know please.

Debra Gates:

So you do have some choices, but there are some deductions that come out that you may not have control over. So let's go to that next slide. I do want to talk about this. I want to talk about garnishments, child support, alimony. Let's kind of talk about some of the other deductions that could possibly come out of a paycheck.

Brandon Carr:

Yeah, so like she said, these are ones we don't necessarily want to see. I hope that very few of you out there are dealing with some of these. These are all... Well, the first two wage garnishments and child support payments have always been an after tax deduction from your pay, alimony was actually tax-deductible on the part of the payer up until the 2017 Tax Cuts and Jobs Act, I believe. So now they're all just after tax payments going out that we really can't control. If you've reached a point where these are coming out, there's obviously been a long process before that you were well aware of, but just know that these are just obligations that have to be paid until situations change.

Debra Gates:

And your employer has no choice.

Brandon Carr:

Correct. Yes. And actually, if they don't let these garnishment or withdrawals happen from your paycheck, they could be on the hook for what you're not paying. So there is no controlling this. The courts have decided.

Debra Gates:

So yeah, there is a responsibility. So when you get those letters, you get any type of notification, don't pile them up, look at them, see what you can work out. And so when we're looking at wage garnishment, sometimes that may be, what, Brandon, like the IRS could do a wage garnishment. It could be-

Brandon Carr:

It could be really any outstanding debts. If the person or entity that you owe takes the process to the end far enough, this is basically the farthest reaching thing that they can do, which is to remove money from your paycheck before you ever see it. And then of course, child support payments, we sort of all know what that's about. Again, many times lengthy court process, same thing with alimony, it really is the end all be all. So we just sort of have to deal with it while it's there.

Debra Gates:

Excellent. So let's move to the next slide. So we are here. We here to help you, to talk you through. So as you can see, we talk about a plethora of things. We can talk to you about your retirement, but not just about retirement. We can speak to you, Brandon has conversations about budgeting, about credit management, debt management, all of those things. He can talk about all of that with you, so strongly encourage if you have other questions, questions that we may not have addressed on this call today, please don't hesitate to go out to CAPTRUSTadvice.com. Schedule an appointment.

We have evening appointments available Monday through Thursday, 8:30 AM until 8:00 PM Eastern Standard Time, on Friday, 8:30 AM until 6:00 PM Eastern Standard Time, and that's if you want to schedule an appointment. If you want to call us directly, you can call us. We have one prompt, I think it's press two if you want to speak to someone in Spanish.

Brandon Carr:

I think so.

Debra Gates:

And then 20 seconds, you have someone on the phone. And so the phone number is 1-800-967-9948. Monday through Thursday, 8:30 AM until 5:30 PM Eastern Standard Time, Friday, 8:30 AM until 4:00 PM Eastern Standard Time. Brandon, any last thoughts in these next two minutes?

Brandon Carr:

I think that, as Debra said, we got a lot of questions and a lot of truly answerable questions. Ones that, if I'm on the phone with you speaking one-on-one, I can go pretty far in terms of getting you a response. Again, I'm not a CPA, I'm a CFP, but I know quite a bit about taxes because of just my experience. And so give me a call, I'll work with you. I can't necessarily fill out your W4 for you, but I can give you high level guidance and point you in the right direction, no doubt.

Debra Gates:

Excellent. So as always, every webinar that we offer, it's been recorded and you will receive it within 24 to 48 hours if you want to revisit this information. Again, thank you so much for taking out the time of your day to spend it with Brandon and I talking about what's coming out of your paycheck. So again, thank you and have a pleasant day.