

The Benefits of Before-Tax Investing

Government of Guam 457 Deferred Compensation Plan

It Can Pay to Save Through Your Plan!

When your Plan contributions are deducted from your paycheck before federal income tax (and, in most cases, state income tax) is calculated, your contribution reduces your current taxable income.

By contributing before tax in your Plan, you may have more money in your pocket than if you were contributing the same amount to an after-tax account.

Consider this example: Jenny earns \$2,500 a month in regular pay and wants to save and invest \$250 a month in the Plan. Let's compare how much she would save before tax (through the Plan) and after tax (at a bank or in some other type of savings vehicle).

Jenny's Paycheck Comparison

	Contributing Before Tax	Contributing After Tax
Gross Pay	\$2,500	\$2,500
Minus Before-Tax Contributions	- \$250	- \$0
Taxable Pay	\$2,250	\$2,500
Minus Estimated Tax Withholding from Paycheck	- \$563	- \$625
Minus After-Tax Contributions to Other Accounts	- \$0	- \$250
Spendable Pay	\$1,687	\$1,625
Before-Tax Advantage	\$62	
By contributing before tax in the Plan, Jenny has \$62 more to spend (or save) each month—that's \$744 a year!		

FOR ILLUSTRATIVE PURPOSES ONLY. This hypothetical illustration assumes 25% income tax withholding. It doesn't account for Social Security, Medicare, or other taxes.

How much might Jenny accumulate at different contribution amounts?

	Monthly Contribution								
	\$150			\$200			\$250		
	Annual Rate of Return								
	4%	6%	8%	4%	6%	8%	4%	6%	8%
Years	4%	6%	8%	4%	6%	8%	4%	6%	8%
10	\$22,087	\$24,582	\$27,442	\$29,450	\$32,776	\$36,589	\$36,812	\$40,970	\$45,737
20	\$55,016	\$69,306	\$88,353	\$73,355	\$92,408	\$117,804	\$91,694	\$115,510	\$147,255
25	\$77,119	\$103,949	\$142,654	\$102,826	\$138,599	\$190,205	\$128,532	\$173,248	\$237,757
30	\$104,107	\$150,677	\$223,554	\$138,810	\$200,903	\$298,072	\$173,512	\$251,129	\$372,590
35	\$137,060	\$213,707	\$344,082	\$182,746	\$284,942	\$458,766	\$228,433	\$356,178	\$573,471
40	\$177,294	\$298,724	\$523,651	\$263,392	\$398,298	\$698,202	\$295,490	\$497,873	\$872,752

FOR ILLUSTRATIVE PURPOSES ONLY. This hypothetical illustration does not represent the performance of any investment options. It assumes various annual rates of return and monthly contribution amounts, reinvestment of earnings with no withdrawals. This illustration does not reflect any charges, expenses or fees that may be associated with your Plan. The tax-deferred accumulations shown above would be reduced if these fees had been deducted. Rates of return may vary.



How much might Jenny need to accumulate for retirement?

Now that we've looked at the benefits of before-tax investing and examined how much Jenny might accumulate with different contribution amounts, The chart below shows the accumulated account values required to provide a monthly income based on life expectancy.

To receive this monthly income*:		\$2,000	\$2,500	\$3,000	\$4,000
Age at Retirement	Life Expectancy	Jenny would need to accumulate this much by retirement:			
60	25 years	\$310,414	\$388,017	\$465,621	\$620,827
65	20 years	\$279,162	\$348,952	\$418,742	\$558,323
67	18 years	\$263,796	\$329,745	\$395,694	\$527,592
70	15 years	\$237,007	\$296,259	\$355,511	\$474,014

* Based on life expectancy at age of retirement.

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