

MANAGING YOUR MONEY

Ten Tips To More Effectively Manage Your Paycheck

More than 40 percent of America's workers still manage their expenses by living from paycheck to paycheck, according to a survey sponsored by Automatic Data Processing, Inc. (ADP), the world's leading provider of integrated payroll, human resource and benefits administration services.

In partnership with the American Payroll Association (APA), ADP has formulated the following tips designed to help American workers maximize additional income through strategic management of their paychecks, withholdings and deductions.

1. Taxes: Knowledge is power. Pay attention to new tax laws. They are like a moving target – changing yearly. Although recent tax changes are supposed to put more money in the pockets of American taxpayers and add an estimated \$55 billion to Americans' disposable income this year, most of the tax cuts are not “phased in” until 2004 to 2006. If you don't have enough taxes withheld, you may be in for an unpleasant shock at tax time. On the other hand, if you received a large refund last year, you may have had too much money withheld at work, in effect giving Uncle Sam an interest-free loan at your expense. The more you know about taxes now, the more likely you'll get the right amounts—both taxes and net pay—in the future. To see examples of the effects of withholding adjustments, please visit www.nationalpayrollweek.com/my paycheck.

2. A 401(k) now can mean a “Pot of Gold” later in life. Many workers do not take full advantage of, or effectively manage, the benefits offered by their employer. For more than 20 years, Section 401(k) of the Internal Revenue Code has authorized employers to create tax-deferred savings plans for their employees to help supplement Social Security. Remember, it's your responsibility to pay attention to how your funds are distributed. Is your investment performing to its fullest potential? To calculate your retirement dollars now to see where you'll be at 65, visit www.nationalpayrollweek.com/my paycheck

3. Are you giving up free money? Some employers match contributions.

Some employees who take part in their employer sponsored 401(k) plans do not use it to their maximum advantage. Does your company contribute a percentage match to your 401(k) contributions? If it does, and you are not contributing the maximum



amount that your employer matches, you are giving up “free money.”

4. Don't just take the standard deduction. If your employer hosts annual fund drives and charitable events that allow payroll deductions to make a difference for favorite causes and charities, you might be able to improve your bottom line. When your charitable contributions are deducted directly from your paycheck, you can easily prove to the IRS that you do, in fact donate more than the standard deduction allowed.

5. Manage medical costs with advance planning. Taking part in your employer-sponsored health plan and utilizing a Health Care Flexible Spending Account could help you save tax dollars. Some employer sponsored insurance plans allow your medical and/or dental insurance premiums to be deducted from your paycheck before taxes are taken out so you won't pay federal, state, and social security taxes on those premiums. In addition, a Health Care Flexible Spending Account allows you to set up accounts that help you save tax dollars on your planned out-of-pocket medical/dental care costs. Check with your benefits administrator to determine if these options are available to you.

6. Dependent care costs could lower your tax bill. Some employers offer Dependent Care Flexible Spending Accounts to help defray the cost of work related dependent care, including child or day care. If your dependent care costs are deducted from your pre-tax paycheck, you could save money in more ways than one. While saving for your child's care today you could save tax dollars tomorrow.

7. The cost of your commute might save you money with TRIP.

Transportation Reimbursement Incentive Programs (TRIP) are available to many American workers to help them save tax dollars based on the cost of their daily commute. These dollars saved mean more money in your pocket. You don't have to pay Federal and FICA taxes on commuting-related parking or transit expenses if you have money

deducted from your paycheck before taxes are calculated. Can you offset your transportation costs by using pre-tax dollars? Find out more from your employer or benefit administrator.

8. Saving – The best intention. Although we intend to, many Americans save less than 5 percent of their annual income. There are easier ways to manage your paycheck deductions and to continue saving for a rainy day through direct deposit. By setting up separate allotments to both your checking and savings accounts, you are more likely to live within your budget while still ensuring that a portion of your paycheck is safely held in savings. You never know when some extra cash will come in handy.

9. START NOW! It's not too late. Don't be left without your pot of gold when you need it most. Game shows, lotteries and the stock market are not the answer for most people. Life passes quickly and before you know it, you might need extra money for the unexpected and the long term. The point is: take time now to understand and manage your paycheck. It takes some knowledge and a little hard work but will be worth it in the end when you achieve your future goals.

10. The APA can show you the money! As the nation's leader in payroll education and training, the American Payroll Association (APA) is dedicated to promoting understanding of payroll—not only for the professionals who perform the payroll function, but also for the millions of Americans who receive wages and salaries. Workers interested in improving their understanding of their paychecks, withholdings, deductions and related options can visit www.nationalpayrollweek.com for helpful information, including a free streaming video version of APA's popular guidebook, *Your Paycheck*.

ADP and the American Payroll Association are working together to help America's employees better understand their paychecks in order to take advantage of possible tax savings and reduce controllable costs. Making small but well-planned adjustments now can help you succeed in the future.

To learn more about your paycheck and how to better manage your paycheck, log on to: www.nationalpayrollweek.com/my paycheck.

