

How Does a 401k Work?

And how can it work with your benefits?

The 401k In Action, a new way to plan

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Everyone should use a 401k, if available in their retirement planning, but because of misunderstanding, lack of education on both the salesperson and the eligible participant; 401k's are not understood nor are the employees educated as to how they work.

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NMIN Alliance wants to help more people take advantage of their 401k!

Please study the following pages, if you have questions please feel free to call our customer service center, or contact your local NMIN Advisor.

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How Does a 401k Work?

NMIN Advisor



**Are you ready?
Let's look at see how a 401k
works...**

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How Does a 401k Work?

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Paycheck Example Without a 401k

Gross	With Tax	Net Take Home	Savings	Net After Savings
\$100				

Let's assume you make \$100.

It doesn't matter for the sake of this explanation if it's weekly, monthly or anything in between. We will also assume that there are no state taxes, FICA or Medicare taxes. Remember this is just an example to show you how a 401k works.

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Paycheck Example Without a 401k

Gross	With Tax	Net Take Home	Savings	Net After Savings
\$100	\$20			

Let's also assume you are in a 20% tax bracket.
So Uncle Sam will take \$20 out of your gross.

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Paycheck Example Without a 401k

Gross	With Tax	Net Take Home	Savings	Net After Savings
\$100	\$20	\$80		

After taxes, you have \$80 left over.

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Paycheck Example Without a 401k

Gross	With Tax	Net Take Home	Savings	Net After Savings
\$100	\$20	\$80	\$10	

Now, let's assume you save \$10.

It might be in a credit union, bank or other kind of after-tax (deduction) savings account.

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Paycheck Example Without a 401k

Gross	With Tax	Net Take Home	Savings	Net After Savings
\$100	\$20	\$80	\$10	\$70

After the IRS takes its 20% (\$20) and you save your \$10, you have \$70 left over to pay your bills, buy groceries, etc.

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The next steps show the effect of using a 401k *instead of* a bank or credit union.

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How Does a 401k Work?

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401k Paycheck Example with a 401k (10% of Gross)

Gross	401k Savings	Adjusted Gross	With Tax	Net After Savings
\$100	\$10			

We'll move your \$10 after-tax savings (deduction) to a pre-tax 401k (reduction).

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401k Paycheck Example with a 401k (10% of Gross)

Gross	401k Savings	Adjusted Gross	With Tax	Net After Savings
\$100	\$10	\$90		

With this shift, the Adjusted Gross is now \$90.

One important thing to remember about a 401k is, the money comes out **before it is taxed!**

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401k Paycheck Example with a 401k (10% of Gross)

Gross	401k Savings	Adjusted Gross	With Tax	Net After Savings
\$100	\$10	\$90	\$18	

The new tax would be 20% of \$90... or \$18.

Tax was \$20 without a 401k.

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401k Paycheck Example with a 401k (10% of Gross)

Gross	401k Savings	Adjusted Gross	With Tax	Net After Savings
\$100	\$10	\$90	\$18	\$72

After the IRS takes their \$18 and you save \$10 in your 401k, your new take home pay has INCREASED by \$2..

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The next steps show the effect of increasing your contribution to a 401k.

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401k Paycheck Example with a 401k Increase

Gross	401k Savings	Adjusted Gross	With Tax	Net After Savings
\$100	\$12.50			

Let's increase the \$10 401k (reduction) by 25% so it becomes \$12.50.

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401k Paycheck Example with a 401k Increase

Gross	401k Savings	Adjusted Gross	With Tax	Net After Savings
\$100	\$12.50	\$87.50		

The Adjusted Gross is now \$87.50.

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401k Paycheck Example with a 401k Increase

Gross	401k Savings	Adjusted Gross	With Tax	Net After Savings
\$100	\$12.50	\$87.50	\$17.50	

The new Withheld Tax is now \$17.50.

That's 20% of \$87.50.

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401k Paycheck Example with a 401k Increase

Gross	401k Savings	Adjusted Gross	With Tax	Net After Savings
\$100	\$12.50	\$87.50	\$17.50	\$70

Your new take home pay is now \$70. You've INCREASED your 401k savings to \$12.50, but your take home pay remains the same!

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401k Paycheck Example with a 401k Increase

Gross	401k Savings	Adjusted Gross	With Tax	Net After Savings
\$100	\$12.50	\$87.50	\$17.50	\$70

That's how a 401k works. By shifting funds into a pre-tax position, you can increase your savings without changing your take home pay.

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But how would you know the \$12.50 pre-tax 401k contribution would equal the same take home pay?

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There is a formula used for figuring pre-tax contributions.

The amount of the contribution (\$10)

Divided by the opposite of the tax bracket (20%/80%)

It would look like this: **$\$10 \div .80 = \12.50**

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Let's take it one step further...

What if you were in the 25% tax bracket and the amount of the contribution was \$100?

It would look like this: $\$100 \div .75 = \133.33

It only costs you (out of your pocket) \$100 to save \$133 into your 401k!

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If you were paid 12 times a year and saved \$100 per pay period into a bank or credit union, you would have \$1,200 at the end of that year AND you would have to pay taxes on the interest.

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If you saved that same \$100 into a 401k, it would be \$133 per pay period (your out of pocket would be the same \$100).

$$\mathbf{\$133 \times 12 = \$1,596}$$

That would equal \$396 MORE in your savings
AND your taxes are deferred!

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So which would you rather have?

\$1,200

in a bank/credit union

1-2% Interest

Pay year-end taxes

-OR-

\$1,596

in a 401k

1%+ Interest*

No year-end taxes

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* Rates could be higher or lower, it depends on what the 401k is invested in.

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Lets take a look at a paycheck to see how we can utilize a 401k and with the help from NMIN Advisor, create an amazing financial plan called, The Advantage.



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How Does a 401k Work?

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The Advantage

Case Study -

Here is an example of how to use The Advantage to your advantage (pun intended)

Your situation may be different, no two people are alike. If after viewing these examples you are interested in seeing how The Advantage can work for you, just ask for more information or sit down with one of our representatives and they will guide you to the correct plan, customized just for you and -

No Pressure and No Obligation of course.

The Advantage

One huge advantage to using The Advantage is the customization that you can do.

Through a series of questions from our Advantage Questionnaire, Jane decided that she needed life insurance protection but she also had worries about paying her deductible and co-insurance in her health plan and critical illness protection.

See what we did for Jane -

The Advantage

Case Study - Jane Doe

Female age 44, single
\$68,400 annual salary

Paid 12 times a year - Monthly
No 401k contribution

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Jane Doe's Paycheck

Calculations	Current
Tax Filing Information	
Federal Status/Allow	S/0
State Allowances	0
Incomes	
Gross Income/Paycheck	\$5,200.00
Additional Income	\$0.00
Summer Pay	\$0.00
Pre-Tax Withdrawals	
Pre-Tax 125	\$165.00
401(k)	\$0.00
	0%
TSA	\$0.00
	0%
Pension	\$416.00
Total Taxable	\$4,619.00
Taxation	
Federal Taxes	\$762.56
State Taxes	\$298.33
Local Tax	\$0.00
FICA	\$312.17
Medicare	\$73.01
Marginal Tax Bracket	32%
Tax Savings	N/A
After-Tax Deductions	\$325.00
Net Pay	\$2,847.93

No 401k contribution

The Pension is for the South Carolina Retirement System – 8% automatically taken out.

She has after-tax deductions of:

\$200 savings in Credit union
 \$75 loan pay back
 \$50/mo for \$50k of term insurance

Total of \$325

How Does a 401k Work?

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Calculations	Current	Proposed #1
Tax Filing Information		
Federal Status/Allow	S/0	S/2
State Allowances	0	2
Gross Income per Paycheck	\$5,200.00	\$5,200.00
Pre-Tax Withdrawals		
Pre-Tax 125	\$165.00	\$165.00
401(k)	\$0.00 0%	\$370.00 0%
TSA	\$0.00 0%	0%
Pension	\$416.00	\$416.00
Total Taxable	\$4,619.00	\$4,249.00

The first thing we did is reposition her Credit Union deduction from \$200 to \$370 into the 401k. That's an increase of \$170 per paycheck.

How Does a 401k Work?

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Taxation	
Federal Taxes	\$499.23
State Taxes	\$230.43
FICA	\$312.17
Medicare	\$73.01
Marginal Tax Bracket	32%
Tax Savings	\$324.98
After-Tax Deductions	\$235.19
Net Pay	\$2,898.97

The next step is to put in the products that Jane requested.

These changes are in the After-Tax Deductions, she now has:

\$91 – \$100k 20 year term

\$24.09 - \$15k CI

\$45.10 - \$3000 GAP Plan

\$75 – Loan payback Total of -
\$235.19

A monthly increase of:

\$110.19

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What we have accomplished for Jane Doe:

- Increased her savings from \$200 to \$370 (\$170 more)
- Increased her life insurance protection from \$50k to \$100k, but this also increased her premium from \$50 to \$91.
- Added the protection of a \$15k Guarantee Issue Critical Illness plan for an additional premium of \$24.09
- Added a medical GAP protection plan to help Jane with her deductible and co-insurance for an additional premium of \$45.10

And she still has her \$75 loan payback

The Advantage

Calculations	Current	Proposed #1
Tax Filing Information		
Federal Status/Allow	S/0	S/2
State Allowances	0	2
Gross Income per Paycheck	\$5,200.00	\$5,200.00
Pre-Tax Withdrawals		
Pre-Tax 125	\$165.00	\$165.00
401(k)	\$0.00 0%	\$370.00 0%
TSA	\$0.00 0%	0%
Pension	\$416.00	\$416.00
Total Taxable	\$4,619.00	\$4,249.00
Taxation		
Federal Taxes	\$756.31	\$499.23
State Taxes	\$298.33	\$230.43
FICA	\$312.17	\$312.17
Medicare	\$73.01	\$73.01
Marginal Tax Bracket	32%	32%
Tax Savings	N/A	\$324.98
After-Tax Deductions	\$325.00	\$235.19
Net Pay	\$2,854.18	\$2,898.97
<i>Estimated Change in Take Home Pay:</i>		\$44.79

Her old take home pay was \$2854.18

Her new take home pay is \$2898.97

After all the savings and premium increases Jane actually took home \$44.79 MORE than she did BEFORE we did our planning.

So what did it actually cost her?

NOTHING!

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Do you really understand benefits like Disability and Medical GAP Plans?

Lets take Disability first, if you work for a company, state agency, school system or almost any size company you more than likely have Group Long Term Disability (LTD). In some case you may even have Short Term Disability (STD).

You did the right thing by having LTD but do you know what you have?

By not understanding your LTD it could cost you both money and protection.

Let's look at a typical Group LTD

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Your LTD Group coverage contains a number of things you should be aware of:

1. If your employer pays for your LTD then you will pay taxes on the income you receive. Which means you will receive less.
2. Almost all of Group LTD will have your benefits (income) reduced by other income, so you will not receive all you need as a monthly income.
3. "Own Occupation" statements will usually limit your benefit (month income) to 24 months.
4. Your Group LTD can be canceled at anytime.

Not all Group LTD are the same, these statements represent a vast majority, if not all of the Group LTD contracts

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Here are two coverages that Group LTD will not cover:

Student Loan Protection

The Student Loan Protection Rider reimburses you for student loan payments - no matter how many you have, or how many institutions they're with.

- Coverage up to \$2500 per month
- You can tailor coverage for a specific debt, \$250 - \$2500 per month
- Duration - 10 to 15 years
- No documentation is required

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And, Retirement Protection Plus (RPP)

Retirement plans are one of the most important benefits an you can use to create a healthy retirement income.

However, should you become too sick or injured to work, generally all retirement saving stops - because neither the employee nor the employer can make contributions if the employee is not actively at work.

RPP helps mitigate this risk by replacing the contribution you would have made to a defined contribution plan while totally disabled.

A monthly benefit insuring 100% of your retirement plan contributions, including any employer match, will be paid into a trust established for your benefit. You direct how benefits are invested and you can begin accessing them at age 65.

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Now lets look at a typical medical plan and how you can use a Medical GAP Plan to help you save money.

Accident Medical Expense

Accident Medical Expense gives you the coverage you need to pay the high out-of-pocket medical bills following an accident

Let's look at how Accident Medical Expense works

Mark was painting the living room when he fell off the ladder and broke his hip.*He has a **PPO Standard Plan** with a \$2,540 out-of-pocket limit and a Plan Enhancer with a \$2,500 benefit level.

TREATMENT COST	\$12,923**
PRIMARY MEDICAL PLAN PAID	\$10,383
PLAN PAID	\$2,500
AME DEDUCTIBLE	\$250

Mark is responsible for the remaining \$290

Availability and benefits vary by state. *Not an actual case. Presented for illustration only. Cost of services will vary. ** Average cost of a fractured hip according to the National Center for Biotechnology Information. Retrieved April 17, 2015.

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This rider gives you the coverage you need with no deductible and no network restrictions

Cancer and Heart/Stroke coverage pays one lump-sum benefit for a covered first-ever cancer diagnosis *and* a covered heart attack or stroke. It pays 100% of the selected benefit for life-threatening cancer, heart attack resulting from coronary artery disease or cardiac arrhythmia, and stroke resulting from cerebrovascular disease.

Availability and benefits vary by state. *Condition-specific benefit percentages and state-specific waiting period details are listed on page 6 3 Not an actual case. Presented for illustration only. Cost of services will vary. ** Average cost of cancer treatment for one

Cancer and Heart/Stroke

Let's look at how the Cancer and Heart/Stroke rider works

Following a routine colonoscopy, Oscar found out he had colon cancer. After a year of treatment, his medical bills started adding up. He has a **PPO Standard Plan** with a \$2540 out-of-pocket limit, and a Plan Enhancer with a \$2,500 benefit level.

TREATMENT COST	\$14,019
PRIMARY MEDICAL PLAN PAID	\$11,497
PLAN PAID	\$2,500
REMAINING OUT-OF- POCKET COSTS	\$40.00

Oscar only has to pay \$40.00 out of his pocket.

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Sickness Hospitalization

Hospital stays are expensive. Our Sickness Hospitalization rider can help

If you're admitted to a hospital for a sickness, this rider will pay a lump-sum benefit for the first day of covered hospital admission. Sickness Hospitalization coverage has no deductible and no network restrictions.

Plus, it pays benefits regardless of other coverage you may have, helping you get the out-of-pocket coverage you need, when you need it.

Availability and benefits vary by state. *Not an actual case. Presented for illustration only. Costs of services will vary. **Average cost of a hospital stay due to pneumonia according to the Agency for Healthcare Resource and Quality, statistical brief #146, January 2013.

Let's look at how the Sickness Hospitalization rider works

Donna was admitted to the hospital with pneumonia.*She has a **PPO Standard Plan / Family** with a \$5,080 out-of-pocket limit, and a Plan Enhancer with a \$5,000 benefit level.

TREATMENT COST	\$9,300**
PRIMARY MEDICAL PLAN PAID	\$4,220
PLAN PAID	\$5,000
REMAINING OUT-OF-POCKET COSTS	\$80.00

Donna only has to pay \$80.00 out of her pocket!

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As we said in the beginning, your situation may be different, no two people are alike and it doesn't make any difference how much money you make.

If, after viewing these examples, you are interested in seeing how The Advantage can work for you, a custom LTD with Student Loan, Retirement Protection and to see how much you can save using a GAP Health Plan, just ask for more information or sit down with our Advisor (see below) and he will guide you to the correct plan, customized just for you and -

No Pressure and No Obligation, of course.

Contact:

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