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GREEN THUMB

By RON LIEBER



How to Use a Hidden 'Raise'

If You Make More Than \$100,000, Pay Close Attention to Your Pay Stub

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By now, many of the 8.9 million Americans who earn more than \$100,000 annually have already hit six figures; scores more will do so in the next few weeks. Here's what they may miss if they don't watch their paycheck carefully: A nice-sized raise that appears without warning, then vanishes just as quietly on Jan. 1.

Sound odd? It's a function of tax rules. Most workers have their paychecks docked 6.2% to fund Social Security. But they stop paying that tax on income above a certain level each year. This year, the threshold is \$94,200. Next year, it is \$97,500.

Once you pass that wage cap you can end up with an extra \$500 or more a month in your pocket, according to Robert C. Jazwinski, who runs the personal-financial specialist committee of the American Institute of Certified Public Accountants. If you earn less than the threshold, you're out of luck; you pay 6.2% all year.

Nobody rings a bell or sends you an email when this occurs. In fact, salaried individuals with biweekly paychecks who don't watch them carefully may not even notice the change. That would be a shame. Any raise, even a temporary one, should be cause to stop, think and plan.



A Stealth Raise


This year, people earning above \$94,200 will see extra pay in their paychecks once they pass that figure, since they don't have to pay social security taxes anymore. Ideas for using that money:

- Save it for taxes due in April
- Hire a financial planner
- Use it for budget-busting holiday gifts for yourself or others

There's no excuse for frittering the funds away. Be deliberate, and start with the obvious checklist: If you haven't maxed out your 401(k), especially the portion that your employer matches, increase your withholding. (Then consider just leaving it there come January to see if you miss the money.) Pay off your credit-card debt, and if you can't get rid of all of it, at least pay down the higher-interest cards. Fund a Roth IRA if you're eligible, and take advantage of the tax-free earnings you'll be able to withdraw once you're older.

That larger pay stub also takes away the last excuse you have for not paying for necessary financial advice. Years often go by between when people realize they need professional help and when they're actually willing to write a check to get it. If you haven't talked to a lawyer about writing a will or have never visited a financial planner, now's the time to do it, before the raise disappears. They'll probably tell you to consider long-term care insurance or beefing up other policies. Paying those premiums now will hurt less than it will once this little bonus

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disappears again.

Also, what the tax man giveth, the tax man taketh away. Mr. Jazwinski notes that it's important to try to estimate now what you might need to pay in April. If there's a chance you'll owe money, you should shuttle your extra pay off to a high-yield savings account and let it sit until the spring. Fulfilling any pledges now that you've made for charitable donations can at least lessen the tax sting.

Finally, don't underestimate your generosity. "Many people don't even notice the additional income, because it vaporizes" around the holidays, says [Barry Kaplan](#) of Cambridge Southern Financial Advisors. Check credit-card statements to get a sense of what you spent last year, then save at least that much out of your temporary windfall. Otherwise, you could end up carrying a balance at the very moment your raise disappears come January.

- Or just give it all to ron.lieber@wsj.com¹

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