



Looking Forward

4 Key Steps to Take When You Get a Raise

AS YOU STRUT FROM YOUR BOSS'S OFFICE TO YOUR DESK, VISIONS OF EVERY LITTLE UPGRADE—VACATION! BIGGER PLACE! CLEANING SERVICE!—MAY DANCE IN YOUR HEAD. BUT FIRST CONSIDER HOW EXPERTS SUGGEST MAKING IT BENEFIT YOU NOW AND FOR DECADES TO COME.

By Ellen Sheng

1

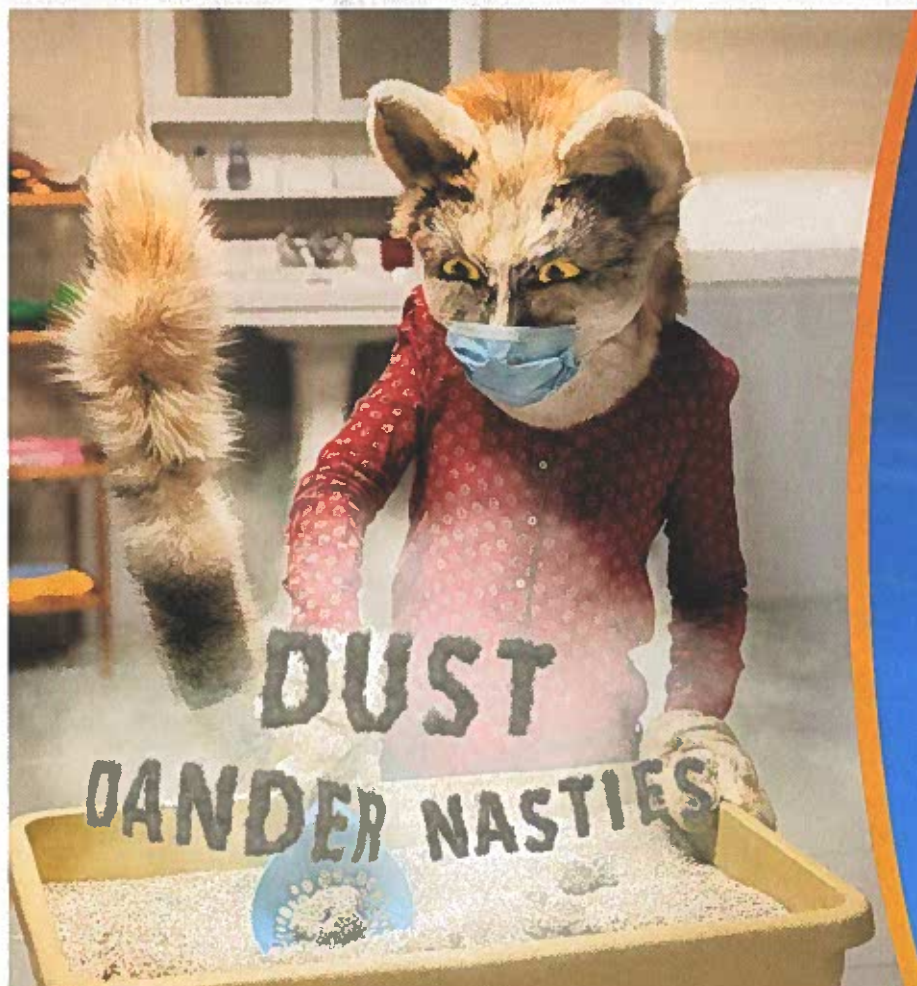
Calculate what it shakes down to per pay period.

That \$3,000 bump may seem sizable, but use the calculator at smartasset.com or paycheckcity.com to see what you'll really have to play with per paycheck after taxes and withholdings, says Mario Hernandez, a financial planner at Gemmer Asset Management in Walnut Creek, California. (If the cash is a bonus rather than a raise, it may be taxed even more heavily.) And not to look a gift horse in the W-2 form, but a raise might put you in a higher tax bracket. Luckily, that doesn't necessarily mean less take-home money, says personal finance expert Stefanie O'Connell Rodriguez. "Even if the increase pushes you into the next bracket, you only pay the higher tax rate on the portion that exceeds the threshold," she says. For instance, if your income jumps from \$84,200 to \$90,000, you'll pay the higher tax rate only on the \$5,800 difference, which still nets you more green.

2

Maintain your lifestyle.

The more you make, the more you spend—a phenomenon financial experts call "lifestyle inflation." Discretionary spending can be a temptation. "Don't inflate your lifestyle just because your salary increased. That's what leads to overspending," says personal finance expert Rachel Cruz, author of *Love Your Life, Not Theirs*. Resist purchases that require ongoing expenses (the way a bigger house comes with more upkeep) and put windfalls toward long-term financial goals, like retirement or an emergency fund. Lastly, if you get a small pay bump called a "cost-of-living adjustment," it's really just meant to accommodate the slow upward creep of daily expenses—it's not license to ramp up spending.



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3

Put more toward investing.

Earmark at least part of the raise for retirement. (Set up an auto transfer from your paycheck.) About 20 percent of Americans have less than \$5,000 saved for retirement, and almost 15 percent have none at all, a 2019 study by Northwestern Mutual found. Sure, you could spend that extra \$300 a month on your day-to-day life, but if you stash it in a retirement account, it could grow to \$239,180 in 30 years. Plus, boosting contributions to a tax-advantaged account, like a 401(k) or IRA, could lower your tax burden if you're in a new bracket.

4

Spend a little on yourself.

Yes, you can splurge a bit to celebrate. Consider taking a vacation: Employees who use more vacation days have better performance reviews, research shows. You could also spend the money to further your career, says Julia Lorenz-Olson of the Art of Finance, a financial planning firm in Austin, Texas. Maybe put some money toward getting a professional certification. Just think: What might help you get that next raise?

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