STUDENT BOOK 2

BUILDING YOUR FUTURE

Paving the Road to Success

A Student and Teacher Resource for Financial Literacy Education

Tue 4/25 interview for Great job

Winning team!

The Actuarial Foundation

About This Book

Personal finance is part knowledge and part skill — and the *Building Your Future* book series gives you a foundation in both. It addresses knowledge by covering essential financial principles for establishing a foundation in Book 1, paving the road to success in Book 2, expanding responsibilities in Book 3, and accumulating wealth in Book 4. The series also addresses the mathematical skills that you need to live a financially healthy life. You will be able to see the real-world consequences of mastering your finances, which should help you understand the relevance of good mathematical skills. We hope you enjoy this *Building Your Future* book series.

About The Actuarial Foundation

The Actuarial Foundation is a 501(c)(3) nonprofit organization. The mission of The Actuarial Foundation is to enhance math education and financial literacy through the talents and resources of actuaries. Please visit the Foundation's Web site at www.actuarialfoundation.org for additional educational materials.

*Please Note: If you are reading this book in PDF on a computer, you can click on highlighted links to access online resources. You can also mouseover **bolded terms** for a pop-up definition. Definitions for all bolded terms can also be found in the glossary at the back of the book. You will need a calculator to complete the activities, which all provide spaces for you to type in your answers.*

It is possible that some of the online resource links provided here may be renamed or removed by their hosts in the future. A quick internet search should lead you to similar online resources that you can use to complete the activities.

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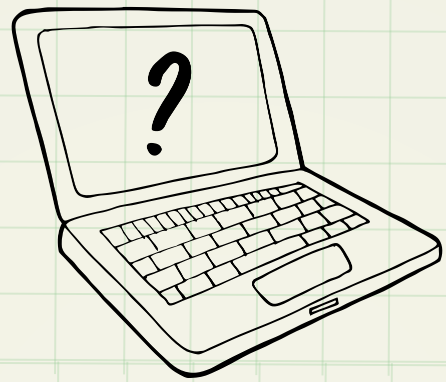

What is an Actuary?

Actuaries are the leading professionals in finding ways to manage risk. It takes a combination of strong math and analytical skills, business knowledge, and understanding of human behavior to design and manage programs that control risk. *US News and World Report*, the *Jobs Rated Almanac*, *CNN Money*, and others all agree: few other occupations offer the combination of benefits that an actuarial career can offer. To learn more about the profession, go to **www.BeAnActuary.org**.

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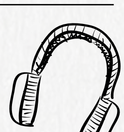


CHAPTER 1: Paths to Employment

Did You Know?

Earnings and unemployment are directly linked to educational attainment. In 2018, workers with only a high school degree earned on average $730 per week and had an unemployment rate of 4.1%. Those with an Associate's degree earned $862 per week and had an unemployment rate of 2.8%. But those with a 4-year college degree earned $1,198 per week and had an unemployment rate of only 2.2%.[1]

As you move through high school and on toward adulthood, choosing a career and mapping a path to success are among the most important decisions you will make. The occupation you choose will occupy 80,000 hours of your adult life and can determine **earning potential** and **lifetime earnings** — which will affect everything from where you live to the kinds of hobbies and leisure activities you can afford to pursue. In addition, building a career is usually a slow process and can require a significant financial and/or emotional investment, so it requires careful consideration and planning.

Career Planning Basics

Ultimately, you want to select an occupation that you will find fulfilling and that will provide you with the income necessary to support you throughout your adult life. The first step is identifying areas of interest. Key considerations are:

- **Career aptitude** and **skills:** Identifying subject areas you enjoy in school, and in which you do well, is a good place to begin your career exploration. For example, if you are good at math and problem solving, then perhaps a career focused on numbers, such as actuarial science or accounting, would be worth considering.
- **Lifestyle:** What kind of work environment do you prefer — an office full of cubicles or physical activity outdoors? Do you prefer to travel or stay close to home? Typical 9 to 5 hours or more flexibility?
- **Employability:** It's important to find your work fulfilling, but personal preferences don't always lead to good careers. For example, you may love sports or acting, but if there aren't a lot of jobs available in these fields, they will make risky career choices. Instead, you may choose a profession that provides you with the free time or income to enjoy sports or acting on your own time. Or you can look for a career, like sales or public relations, that carries across many **industries** and set a goal of landing a position with a sports network or film studio.

Getting Started

- Once you've chosen areas of interest and researched opportunities for employment, reach out to people in the field to conduct informational interviews. Ask questions about what a typical day or week is like, what they like about their job, key skills they use regularly and how they acquired those skills (in school, on the job, etc.), challenges, frustrations, and anything they wish they'd known starting out.
- Personal experience is also a critical part of choosing your vocation. Arrange for **job shadowing** experiences or **internships** that allow you to see firsthand what someone in a specific career field does on a daily basis.

Career Link

Bright Outlook[2] careers are professions that are expected to grow rapidly and/or offer numerous job opportunities. They fall across a broad range of skill sets and areas of interest, from actuaries to acupuncturists, and carpenters to climate change analysts. For example, rapid growth is expected for Educational, Guidance, School, and Vocational Counselors, who assist young adults with such needs as navigating social and emotional situations in school and choosing and mapping a **career path**. This line of work typically requires a Master's degree and has a median salary of over $55,000 annually.

[1] Bureau of Labor Statistics, www.bls.gov/emp/chart-unemployment-earnings-education.htm
[2] See www.onetonline.org/find/bright

Activity 1

PART 1: CAREER RESEARCH

Career clusters are one tool you can use to identify potential occupations that utilize your talents and require varying levels of additional training and education. The Department of Labor's O*NET OnLine is the place to get started.

- Visit O*NET OnLine at www.onetonline.org/find/career and check out the 16 different Career Clusters.
- Choose a cluster that interests you and view the list of occupations.
- Select one of the occupations from the list. Scroll through the entire entry and note the vast amount of information available about the occupation in terms of knowledge, skills, abilities, and aptitudes.
- In the Wages and Employment Trends section, select your state under State and National and click on Go. Note the median wages, percentage of change, and number of job openings in the nation compared with your state.
- Use the information you find to complete the first row of the chart. Then research two more occupations in your career cluster, and use the information to fill out the remaining rows.
- When your chart is complete, answer the questions below.

TIP: This Bright Outlook symbol highlights occupations listed on the O*NET site where there will be rapid growth, large numbers of openings, or new and emerging fields.

CAREER CLUSTER ____

Occupation	Education Required	Median Wage, U.S.	Median Wage, My State	Employment Growth/Decline, U.S. (%)	Employment Growth/Decline, My State (%)
1		$	$	%	%
2		$	$	%	%
3		$	$	%	%

For each of your chosen occupations, how do median wages and employment trends in your state compare to those for the U.S. as a whole? Calculate the differences using the formulas.

Median Wage U.S. - Median Wage in My State = Median Wage Difference

1. $________________ – $________________ = $ 0.00________________
2. $________________ – $________________ = $ 0.00________________
3. $________________ – $________________ = $ 0.00________________

Employment Growth/Decline U.S. (%) — Employment Growth/Decline My State (%) = Employment Growth/Decline Difference (%)

1. ________________% – ________________% = ________________0.00 %
2. ________________% – ________________% = ________________0.00 %
3. ________________% – ________________% = ________________0.00 %

Activity 1

PART 2: WEIGHING YOUR OPTIONS

Research is only the first step in choosing a career. Use the questions below to start weighing your options and making some decisions.

1. Based on what you learned about wages in your state, would you still be interested in any or all of these careers? Why or why not?

2. Why do you think there is a difference between the national median wages and the median wages for your state?

3. Based on what you learned about the employment trends for these careers, both in your state and nationally, would you still be interested in any of them? Why or why not?

4. Are there any states where the median wage is higher and/or the employment trend more promising? Why do you think that is?

5. Would you be open to relocating for a job? Do you think it's more important to choose a career path or decide where you want to live first? Why?

Earning and Learning

As we saw at the beginning of this chapter, there is a direct connection between earnings and the amount of education you receive. However, since additional education can be expensive, examining the **return on investment** for obtaining additional schooling is an important step to take in the career planning process.

Different jobs require different types of training:

- Some jobs require **on-the-job training** or an **apprenticeship** or **internship**, where you work side-by-side with a professional until you've mastered the required job skills and can complete the work successfully on your own. Some fields that provide this type of training are construction, auto service, and manufacturing.
- **Vocational education** is industry-specific classroom learning that has a hands-on component. It often precedes apprenticeships, but can be stand-alone training, followed by a certification test that allows you to work at a junior level. This is common in fields like massage therapy, hair/makeup, and computer tech.
- Other jobs require completion of a broader program of study at a college or university. You will need to first earn a high school **diploma.** Each degree then requires a certain number of credit hours in coursework and/or experience in the field. Once you have earned your degree, you may be required to pass a licensing exam, as well.

  Associate's degree programs usually take two years and are offered for a wide range of fields. This degree is typically awarded by community, junior, or technical colleges.

  Bachelor's degree programs take four to five years — or an additional two to three years after attaining an Associate's degree — to complete. These degrees are earned at colleges and universities.

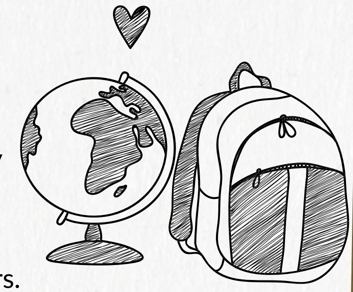
  Master's degree programs take two to four years to complete and generally require a bachelor's degree as a prerequisite. Some schools offer programs that combine a Bachelor's and Master's degree as part of a longer period of study. Master's degrees are awarded by universities.

  Doctorate (Ph.D.) and advanced degree programs, such as those for medical doctors (M.D.) and lawyers (J.D.), can require three to eight years of study after earning a Bachelor's degree, depending on the career. These degrees are awarded by universities and by professional schools that are usually part of a university.

Remember that education and career training are investments in your future. Consider that every type of employment has certain expenses associated with it, whether it is the purchase of a uniform or equipment, a fee for licensing and exams, or the cost of acquiring specific skills through formal education after high school.

Activity 2

EDUCATIONAL ROI



To make a smart investment in your future, estimate the **ROI** — return on investment. This is simply the difference between what you invest and what you can expect to earn over the course of your career. Use the information in this chart to calculate the ROI for five different career options in the construction industry. To estimate lifetime earnings, multiply the average annual income by 40 years.

LIFETIME EARNINGS – COST OF EDUCATION = ROI

Occupation	Required Education	Cost of Education[3]	Average Annual Income	Lifetime Earnings (over 40 years)	Total ROI
Construction Carpenter	1 year apprenticeship	$0	$45,170	$	$ 0.00
Civil Drafter	Associate's degree	$7,140	$52,870	$	$ -7,140.00
Civil Engineer	Bachelor's degree	$52,792	$89,070	$	$ -52,792.00
Urban Planner	Master's degree	$90,000	$71,490	$	$ -90,000.00
Lawyer	Doctorate degree	$167,076	$125,250	$	$ -167,076.00

Now answer these questions:

1. How important do you think Return on Investment is when choosing a career? Why? ____

2. Based on this chart, does more education always mean a greater return on investment? ____

3. Taking into consideration the cost and time invested in education and the expected lifetime earnings for each occupation, which career would you select if you were making a decision today? Explain why. ________________________

4. In addition to income, many careers also offer **benefits**. These can include health insurance and dental coverage, retirement plans and pensions, profit-sharing plans, stock options, and even gym membership. For many people, benefits like these are as important as income. How about you? Would you choose a lower paying job with great benefits over a higher paying job without benefits? Why or why not?

The average person will spend around 80,000 hours working in their career, so it's important to find work that is fulfilling and stimulating as well as financially rewarding. Some people call this the Emotional Return on Investment — the emotional investment may include doing rote tasks for a few years while you're in a junior position, working hard at soft skills like communication to help you succeed, and other non-financial investments that you make. The return, or reward, will be achieving success in your chosen field, whether that means climbing the professional ladder to a leadership role, making a difference in others' lives, or solving complex STEM problems. Success looks different for everyone; the key is to find what motivates *you*.

[3] www.usnews.com/education/best-colleges/paying-for-college/articles/what-you-need-to-know-about-college-tuition-costs

Activity 3

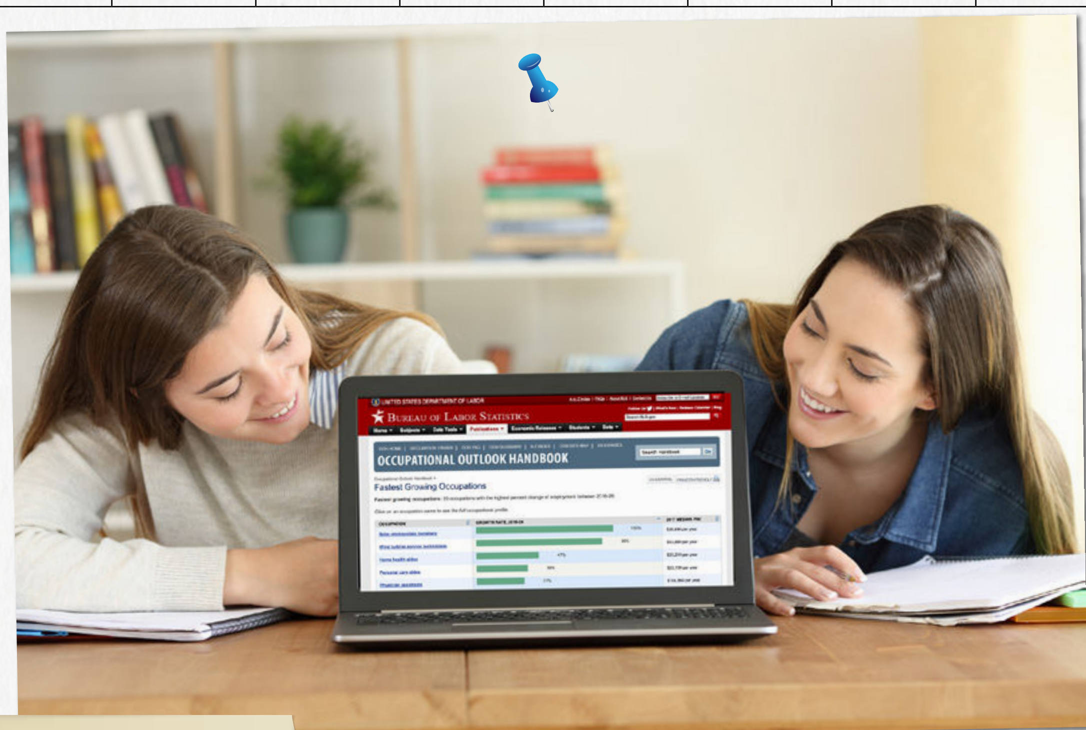
PLANNING IT OUT

Now it's time to apply what you've learned to your own future. You are preparing to graduate from high school and need to determine your pathway to a successful career. Use what you have learned about career planning, employment trends, investing in education, and return on investment to explore three possible career paths. Be sure to check out the Fastest Growing Occupations at www.bls.gov/ooh/fastest-growing.htm and the occupations projected to have the Most New Jobs at www.bls.gov/ooh/most-new-jobs.htm as you consider your interests and opportunities.

Choose three different occupations that fit your aptitude, interests, and work-style. Use this chart to gather and analyze your career research. You can download a spreadsheet version of the chart at ymiclassroom.com/byf/byf_book2_job-search.xlsx and continue to explore your options until you find a career goal that's right for you.

REAL-WORLD JOB SEARCH

Occupation	Median Wage, My State	Job Growth/ Decline, My State (%)	Required Education	Skills/ Aptitudes	Educational Investment	Annual Salary	Lifetime Earnings (40 years)	ROI
	$	%			$	$	$	$ 0.00
	$	%			$	$	$	$ 0.00
	$	%			$	$	$	$ 0.00
	$	%			$	$	$	$ 0.00



CHAPTER 2: Paying for Post-secondary Education

Did You Know?

In 2017-18, the cost of undergraduate tuition, room, and board was estimated to be $18,000 per year at public institutions (in-state), $38,400 at private not-for-profit institutions, and $26,800 at private for-profit institutions.[4] In most cases, students pay a portion of this fee by accumulating debt during their college years. For students who graduated in 2016, the average accumulated debt totaled $37,172 in student loans.[5]

As we have seen, many careers require additional education or training after high school. Whether your choice of career requires four years of college studies or four months of hands-on trade school, it must be paid for. Understanding how to estimate the cost of education, save money to pay for it, and find sources of financial aid, student loans, scholarships, and work-study programs can make post-secondary education more attainable. This chapter will offer information on each option available to you so you can begin planning now to cover the educational expenses you expect to incur on your career path.

There are many different options for covering the cost of post-secondary education. Most people will ultimately pursue a mix of these, including:

- Savings
- Scholarships and External Funding Programs
- Grants and Work-Study
- Loans

Remember to also look at ways to *increase* income and *reduce* expenses. Ideas include working while attending college, living at home instead of on campus, and buying used textbooks. Lowering your total costs while increasing the funds you have available to pay those costs will help make college or vocational training a more affordable proposition.

Saving Up

The cost of education after high school can seem daunting, but there are many ways students and their families can meet the challenge. The key is to start preparing as early as possible. Putting money away now to cover these future expenses is a smart move, and there are programs available that can help you leverage your education savings.

- **Education IRA** and **529 Accounts:** These types of savings plans build wealth over time, much like retirement savings accounts, and rely on compounded interest to grow your investment. There are also significant tax benefits; while deposits into these savings plans are not deductible, there are no federal taxes on the accumulated interest. These savings plans can be started as soon as a child is born, and must be used on qualifying expenses like tuition at college or vocational school, books, computers, room, and board.
- **Tuition pre-payment programs:** By purchasing tuition credits, families can pay for college tuition while a child is still young. The advantage to this type of purchase is that one can avoid the annual increase in tuition costs between now and when one's child goes to college.

[4] nces.ed.gov/pubsearch/pubsinfo.asp?pubid=2018060
[5] www.forbes.com/sites/zackfriedman/2017/02/21/student-loan-debt-statistics-2017/#6848c1f75dab

External Funding Sources

- **Scholarships:** Public and private groups offer a wide range of financial gifts which may be awarded for any number of criteria, including academic performance and **ACT** or **SAT** test scores, involvement in certain activities, choice of major/vocation, financial need, and more. Your local community or a parent's employer may even offer them. Many scholarships require that recipients maintain a certain level of academic performance.
  Since scholarships are generally awards that do not have to be repaid, applying for this "free money" is time well spent. There are a number of websites dedicated to helping students locate and secure scholarships as well as assisting with completing scholarship applications, including inaid.org/scholarships/ and studentaid.ed.gov/types/grants-scholarships/ inding-scholarships.
- *Military Service:* Students who are interested in the military have several options to consider.
  - The **Reserve Officer's Training Corps (ROTC)** program provides a career path into the military while paying a student's college tuition. The training requires that students serve as reservists for up to 8 years and can include deployment to active duty. Learn more at todaysmilitary.com.
  - *Department of Veterans Affairs:* Enlisting in the armed forces offers the opportunity to obtain job training in many different areas while serving the country. After you have completed your enlistment successfully, you can access additional educational programs and opportunities through the Department of Veterans Affairs. Learn more at gibill.va.gov/.

Financial Aid Packages

Even with savings and scholarships, most students will still need additional resources to complete their post-secondary education. To begin exploring your options, you will need to complete the **Free Application for Federal Student Aid (FAFSA)**. This aid is awarded based on your financial need, which is determined by a government assessment of both your financial information and that of your parents.

The level of need is reported in a letter called a Student Aid Report, which sets the amount your family is expected to contribute. This is known as your **Estimated Family Contribution (EFC)**. The EFC is also reported to the colleges you apply to, who use it to determine what aid you qualify to receive.

A FAFSA application is the *only way* to apply for federal student aid. Submitting the FAFSA application and following the required guidelines is critical to receiving financial aid, and all required data and due dates must be followed in order to receive aid.

After completing all of the required financial aid applications, you will receive an award letter from the colleges where you are accepted. In it, you will learn what kinds of financial support each school can offer you. If you are considering more than one institution, it is important to compare the offers before deciding which school to attend. Aid is awarded in three main categories: grants, loans, and work-study. Understanding the financial responsibilities of each of these is important when selecting which awards are most appropriate for your specific needs.

- **Grants:** Some students will receive a grant as part of the aid package. Since this money does not have to be repaid, it is an excellent way to pay for college expenses. A **Pell Grant** can be awarded for up to $6,095 (2018-2019 limit), but awards vary depending on need, the cost of the school, and whether or not a student attends full or part-time. A student can receive a Pell Grant for up to 12 semesters (6 years) worth of undergraduate study. This money is typically applied first to the cost of tuition and fees and then to room and board for students who live on campus. In the event that a student does not live on campus, any remaining funds can be issued to the student for living expenses.

In addition, each year, schools receive a set amount of funds to distribute as **Supplemental Educational Opportunity Grants (SEOG)**. These grants of $100 to $4,000 per year are awarded on a first-come, first-served basis to the students with demonstrated need. Thus, completing the FAFSA and submitting it early can be especially beneficial for students with a high need for financial assistance.

- **Work-Study:** Work-study is another part of many students' financial aid packages. Part-time jobs are arranged through the financial aid department at the school, at a public agency, or at a not-for-profit organization. Students are paid the federal minimum wage for the hours. This money is paid directly to the student, and can be used to pay for college tuition or living expenses.
- *Loans:* Even with grants and work-study, there is often additional funding needed to cover college expenses. Within an award letter, a number of different **student loan** options may be provided. Most student loans offer low **interest rates**, a **grace period**, and **deferred payment** options for repaying the amount borrowed. This allows students to borrow money for education without worrying about paying it back while they are still in school. The most popular student loans are provided by the U.S. Department of Education through its William D. Ford Federal Direct Loan Program. Students with financial need can apply for **Direct Subsidized Loans**. (Many people still refer to these as **Stafford Loans**.) The U.S. Department of Education pays the interest on this type of loan so long as you are in school at least half-time, and for the first six months after you leave school. All students can apply for **Direct Unsubsidized Loans**, which require you to begin paying interest as soon as the loan is granted. The interest rate on both types of student loans is 5.05% (2018 rate). The amount you can borrow is determined by your school's financial aid office and can vary from $5,500 to $12,500 per year for undergraduates, depending on criteria such as what year you are in at school.

If financial need still remains after grants, work-study, and loans have been awarded, a **Parent Loan for Undergraduate Students (PLUS)** can be considered. At a rate of 7.6% interest (2018-2019), this is a more expensive college loan. It is taken by the student's parents, making them liable for repayment. The maximum amount of this loan is equal to the total estimated cost of attendance minus all other financial aid that has been offered. Repayment of the loan is expected to begin when the funds are provided, but loan recipients can make deferred payments if requested and approved.

- *State Debt-Free College Initiatives:* Several states now offer debt-free education options. Most of these scholarships and grants are known as "last-dollar" or **promise programs** because they provide grant money to cover the remainder of tuition not covered by any Pell Grants and aid a student receives. West Virginia and Arkansas, for example, offer grants that will cover some of the costs of a 2-year community college to state residents willing to stay and work in the state for two years after graduation. Students must complete a FAFSA to apply, and each state has its own requirements, which can be based on such criteria as income, choice of major, etc.

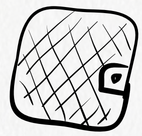
Activity 1

PART 1: CALCULATING EDUCATION COSTS

Determining the **total cost** of your education and financing can be a challenge. Begin by calculating the basic costs of attending college for one year using the data and charts below.

Scenario 1. You are planning to continue your education at State College after graduating high school. Costs are as follows:

- Tuition is generally calculated as a rate per credit hour. As a full-time student, you will be expected to take 15 hours of weekly classes per semester (which works out to 5 courses per semester), at $275 per credit hour. Part-time students can take up to 3 classes or 10 hours of weekly classes per semester (3 courses).
- The school year is two semesters, or approximately 9 months long; off-campus rent and utilities are $400 per month.
- Food and other living expenses are $200 per month.
- You need books, which average $125 per course.
- Student fees of $375 are assessed each semester.



Tuition	Cost per credit hour	x Number of credit hours/semester	x Number of semesters/year	= Yearly tuition cost
	$			$ 0.00
Books	Cost per course	x Number of courses/semester	x Number of semesters/year	= Yearly book costs
	$			$ 0.00
Student Fees	Cost per semester		x Number of semesters /year	= Yearly fees
	$			$ 0.00
Housing	Cost per month		x Number of months/year	= Yearly housing cost
	$			$ 0.00
Living Expenses	Cost per month		x Number of months/year	= Yearly living expenses
	$			$ 0.00
ANNUAL COST				$ 0.00

Now use your calculations to answer these questions.

1. How does your annual cost for attendance compare to the national averages in the "Did You Know?" factoid at the beginning of this chapter?
____

2. How could you lower the cost of attending school without changing the number of classes you take or the quality of the education? ____
____

3. What would be your total cost of attending for four years?
$____

4. Assume that you could live with your family, saving the cost of rent and utilities, and reducing the cost of food and other living expenses to $150 per month. What would be your total savings for the school year? $____________________

Activity 1 PART 2: MAKING ADJUSTMENTS

Circumstances change, and different people have different objectives. Here are two more scenarios to consider.

Scenario 2

Imagine you are considering going to State College part-time. You will take 3 classes each semester for 10 credit hours per semester. All your other costs will be the same as if you were going to school full-time. Meanwhile, you will earn $12/hour working part-time for 60 hours per month. Use the chart from Part 1 to calculate your education costs with this new data. Then answer the questions below.

1. What will be the annual cost of attendance? $____________________
2. How much of this annual cost will be covered by your earnings during the school year? $____________________
3. Subtracting your earnings, what is the total amount you would need to borrow for your college education? $__________
4. Assuming full-time students graduate in 4 years, how long will it take you to finish going part-time? __________
5. What will be your total cost of attendance over that period of time before you subtract any earnings? $__________
6. How does this compare to the cost of attending full-time for four years? ____________________
7. Do you think this is a reasonable strategy? Why or why not? ____________________

____

Scenario 3

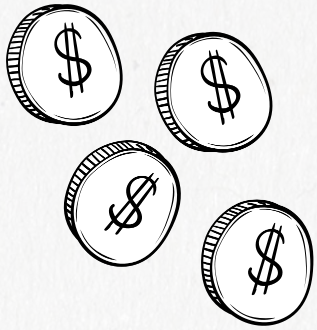
Now use the chart from Part 1 to evaluate a completely different educational scenario.

1. Instead of State College, you decide to attend a 2-year vocational school. Assume that the costs are the same as for State College. What would be your total education cost over two years? $____________________
2. After graduating from vocational school, you land a job earning $34,500 per year. Two years later, a friend who went to State College for four years gets a job earning $42,000 per year. Use the chart below to compare your and your friend's educational ROI after 10 years, assuming that you both keep the same salary for that period.

	Annual Salary	Years of Work	Earnings	Cost of Education	ROI
YOU (VOCATIONAL SCHOOL)	$	x 10	= $ 0.00	– $	= $ 0.00
YOUR FRIEND (4-YEAR COLLEGE)	$	x 10	= $ 0.00	– $	= $ 0.00

Activity 1

PART 3: CHOOSING A LOAN



Evaluating student loans can be complicated. Use this chart to compare the cost of borrowing the same amount of money from three different loan providers.

- Loan A is a subsidized loan in which there is no interest added until you graduate.
- Loan B is unsubsidized so interest begins accruing automatically.
- Loan C is also unsubsidized and the bank charges a 4% origination fee.

Item	Loan A	Loan B	Loan C
Loan balance	$5,500.00	$5,500.00	$5,500.00
Adjusted loan balance	$5,500.00	$5,500.00	$5,729.17
Loan interest rate	5.00%	6.80%	7.90%
Loan fees	0.00%	0.00%	4.00%
Loan term	10 years	10 years	10 years
Minimum payment	$40.00	$50.00	$50.00
Monthly loan payment	$58.34	$63.29	$69.21
Number of payments	120	120	120
Cumulative payments	$________________	$________________	$________________
Total interest paid	$________________	$________________	$________________

How does the interest rate affect the minimum monthly payment?

____

How does it affect the total amount paid for the loan?

____

Key Note: Each payment you make is divided up between the principal (original amount of money loaned) and interest. At the beginning of the repayment process, the portion of each payment that goes toward interest is at its highest, while the amount of principal paid is at its lowest. As you continue making payments, a smaller percentage of each payment is applied to interest while a larger portion goes toward principal.

Activity 2

PART 1: FINANCIAL AID ANALYSIS

Evaluating financial aid packages can be a stressful part of the college application process, especially when different colleges make what look like very different offers. Use this College Comparison Chart to see how your financial management skills can help you make the best choice.

First, look at your college options. The table shows the tuition and fees and the financial aid offered by three colleges where you have been accepted — congratulations! Now use the data for each college to fill in the comparison chart. You'll need a calculator to convert the data into costs and funding for one year.

Next add these important financial details to the chart:

- Housing costs for all three colleges is the same, $400 per month.
- Food and living expenses are also the same for all three, $200 per month.
- Book costs are the same: $250 per course.
- You have $12,000 in college savings thanks to a 529 account your parents set up when you were a baby. You are planning to graduate in four years, so budget $3,000 in savings per year.
- Your family's EFC has been set at $2,700 per year, and your parents have agreed to contribute this money.

After you have filled in the chart, calculate your debt for each college, then answer the questions below.

COLLEGE OPTIONS

	College	Tuition	Fees	Financial Aid Package
A	Small college in your hometown	$325 per credit hour	$400 per semester	$500 Scholarship $3,200 Pell Grant $4,800 Work Study
B	Large state college 200 miles away	$275 per credit hour	$375 per semester	$2,800 Pell Grant $4,200 Work Study
C	Top-ranked private college across the country	$450 per credit hour	$500 per semester	$1,000 Scholarship $4,500 Pell Grant $6,000 Work Study

COLLEGE COMPARISON CHART

COLLEGE COSTS (FOR ONE YEAR)

College	Tuition (15 credit hrs/ semester)	Books (5 courses/ semester)	Fees	Housing (9 months)	Food & Living Expenses (9 months)	Total Cost
A	$	$	$	$	$	$ 0.00
B	$	$	$	$	$	$ 0.00
C	$	$	$	$	$	$ 0.00

COLLEGE FUNDING (FOR ONE YEAR)

College	Your Savings	Scholarship	Pell Grant	Work/Study	EFC	Total Funding
A	$	$	$	$	$	$ 0.00
B	$	$	$	$	$	$ 0.00
C	$	$	$	$	$	$ 0.00

College	TOTAL COST –	TOTAL FUNDING =	COLLEGE DEBT (FOR ONE YEAR)
A	$ 0.00	$ 0.00	$ 0.00
B	$ 0.00	$ 0.00	$ 0.00
C	$ 0.00	$ 0.00	$ 0.00

1. Which college best fits your budget? Why?

____

____

2. In your opinion, which college offers the best value? Why?

____

____

3. All three colleges will cost more than your available funding for the first year. Are you willing to take a loan to cover the extra cost? Why or why not?

____

____

4. What else could you do to reduce your unfunded college costs for the first year?

____

____

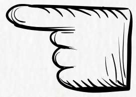
5. Based on your comparison and your personal goals, which college would you choose? Why?

____

____

____

Activity 2



PART 2: THINKING LONG-TERM

So far, we've focused on paying for your first year of college. But you're planning to graduate with a Bachelor's degree after four years. What will your finances look like as the years roll by?

Use the cost section of the comparison chart in Part 1 to calculate how much you'll have to pay for four years at the college you selected. Then answer the questions below to start thinking long-term.

1. How much will the college you selected cost over four years?

   College ____: $ ______________ total cost

2. Assuming that your financial aid package remains the same each year and that your family continues to make its annual EFC contribution, how much debt will you have accumulated after four years?

   College ____: $ ______________ total debt

3. How does your anticipated total debt compare to the national average cited in the factoid at the beginning of this chapter? What might account for the difference?

4. Does this amount of potential debt make you want to reconsider your college choice? Why or why not?

5. Now think about this option. Instead of going to college, you could attend a one-year vocational school, followed by working 2 years as an apprentice. Your $12,000 savings will cover all but $1,000 of your vocational school costs, including tuition, fees, books, and all expenses. Plus, after a year at school, you will earn $1,280 per month for two years as an apprentice. Given what you know about lifetime earnings, and what you've learned about your three college options, would you take this opportunity or go to college? Why?

CHAPTER 3: Entering the Workforce

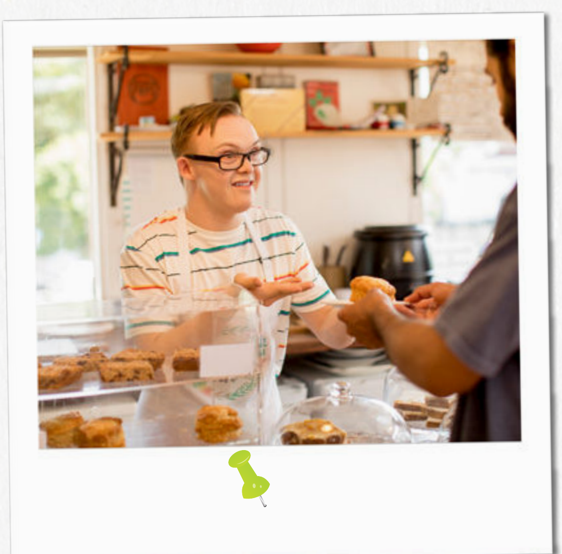
Did You Know?

Employees do not take home every dollar they earn. A percentage of what you earn is deducted as tax to pay for programs such as Social Security and Medicare. It amounts to approximately 7.65% of what you earn. In addition, withholding for income taxes is also automatically deducted from your wages by the federal government and usually by your state as well. Federal taxes range from 10-35% of income, while state taxes can be anywhere from 0-13% (current as of 2018).[6, 7]

When searching for the right job, it's important to consider the entire compensation package offered by a potential employer. By learning to understand various types of compensation and how to calculate the total value of that compensation, you can ensure you are getting the most from the job you choose.

Compensation Basics

Once you have completed your post-secondary education or job training program, you will begin seeking employment. As you look at which jobs to apply for and consider various employment options, understanding the entire **compensation package** being offered and analyzing its value are important parts of the decision-making process.



First, consider employment status:

- **Exempt** employees (also called "salaried") are expected to perform full-time job-related work for a set amount of money, regardless of whether or not they work more than 40 hours.
- **Non-exempt** employees are paid on an hourly basis. In these types of positions, the **hourly wage** can vary greatly, depending on the duties and responsibilities of the job and the policies of that particular company.
- **Contract** or **freelance** workers are generally paid a flat fee for a project or period of time, like a day rate, regardless of the number of hours they work.

Full-time employment is typically considered 40 hours per week, but many salaried workers put in more hours, sometimes many more. On the other hand, federal law requires that non-exempt workers be paid an overtime rate of 1½ times the hourly rate for all time they work in excess of 40 hours each week. While hourly pay may seem to be the better option if one expects to work overtime, the drawback is that exempt employees are often paid for days they are sick or on vacation, whereas non-exempt employees are usually only paid for the hours they actually work.

[6] www.irs.gov/Individuals/Employees/Tax-Withholding
[7] taxfoundation.org/state-individual-income-tax-rates-brackets-2018/

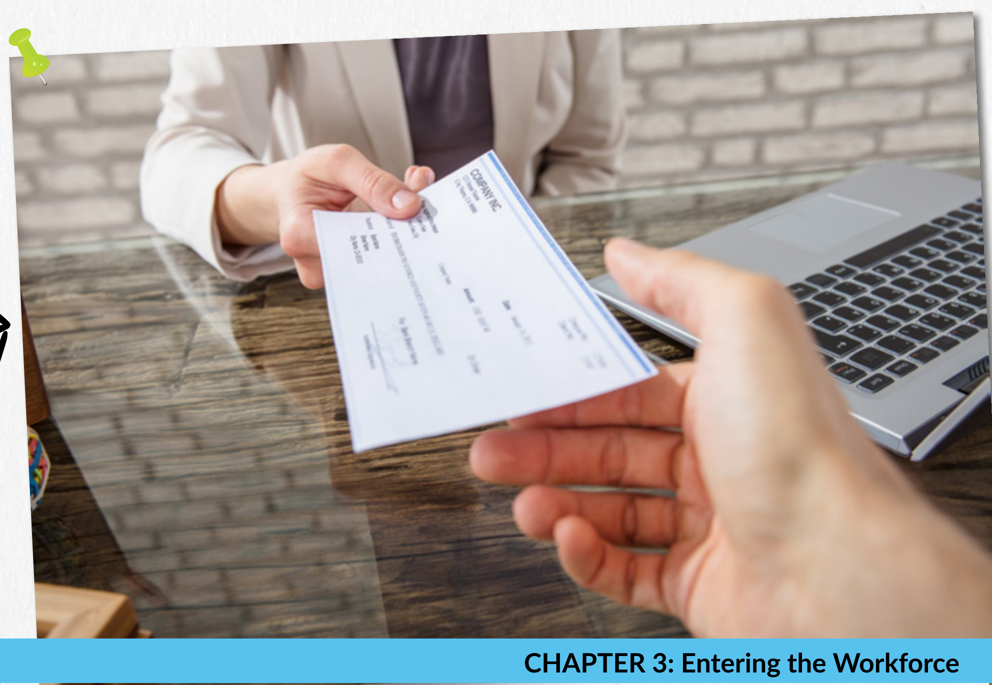
Next, it is important that you clearly understand exactly how you are being paid.

- Your **base pay** rate: For salaried positions, this figure is typically provided as a monthly or annual salary amount. For hourly positions, this amount is provided as an hourly wage. The federal government sets standards for the minimum hourly wage that employers must pay non-exempt employees, but many hourly positions pay well above this minimum.
- Additional earning opportunities are often presented as a **bonus** or **commission**. In both cases, this is money that is offered to the employee in addition to the base pay. Sometimes known as **variable pay**, the employee usually has to earn the bonus or commission by achieving a set objective, like reaching a certain amount of sales, reducing expenses by a specific percentage, boosting department productivity, etc. Bonuses are typically paid as a flat sum, whereas commissions are usually a percentage amount based on the achieved financial goal.

Finally, look at the complete benefits package being offered. This can include:

- **Health insurance** is the primary means that most employers use to assist employees with the costs of medical, dental, and vision care. Employers often pay a part or all of an employee's insurance premiums, sometimes including the cost for their family members' coverage. This means the employee can gain medical, dental, life, vision, and/or disability insurance at a reduced cost or even at no cost. Health care can be expensive, so the types of insurance and amount of money an employer contributes should be carefully considered.

- Another important factor to consider when reviewing a job offer is the amount of **paid time off (PTO)** you will receive. Paid time off can be used for many things — attending to personal business, illness, etc. It can also include set holidays, such as Thanksgiving, where the employee is paid even though the office is closed, or a number of personal vacation days where employees are paid their usual pay even though they are not performing any work.
- Many employers also offer **sick leave**, so that if an employee is ill or temporarily disabled, days may be taken off from work. Some employers offer full or partial payment for a certain number of sick days each year, while others allow employees to take sick days without pay. Some employers will allow staff members to use sick leave to care for a child or relative, as well — this is an important consideration for employees with family responsibilities. Often, companies with a PTO program will combine time allowed for vacation and sick leave.

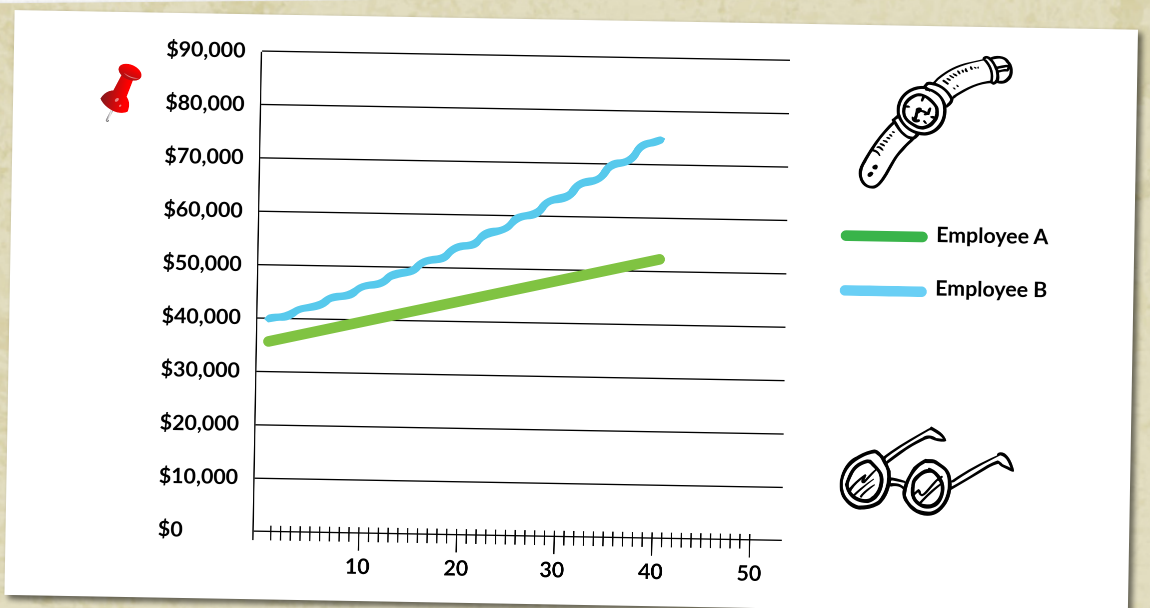


- Some employers will contribute to your retirement savings through a **retirement matching** program. Typically, the employer will provide access for an employee to open and contribute to a retirement account, such as a **401(k)**. Then, for every dollar the employee saves, the employer will contribute a matching percentage, up to a specified maximum benefit. Some programs may be **vested**, meaning that an employee will need to work for the company for a certain amount of time in order to keep the money that the company has contributed. This is a direct monetary benefit that can have a long-lasting impact on retirement savings.
- **Profit sharing** is another popular benefit that some employers offer. By issuing stocks, bonds, or cash, the employer shares some of the company's profits with employees. Most of the time, this is not a guaranteed benefit. The company must reach a certain profit level before profits are shared with employees.

Special Circumstances

Some workers belong to **labor unions** that negotiate benefits on their behalf. Unions are member-based organizations and are prevalent in certain industries including construction, shipping, film and television, and for many public service fields like teaching and police work. Unionized workers typically pay periodic dues to the union and receive a benefits package that may include health care or health insurance, disability and life insurance, and a pension. A **pension** is a retirement account that is funded entirely by the employer and the recipient is guaranteed a set income amount upon retirement.

A growing subset of the workforce is employed as contract, or freelance, workers (also called "independent contractors"). Freelancers are considered self-employed, and as such, they typically don't receive benefits like health insurance or retirement plans, which saves money for employers. They are also required to pay their own Social Security and Medicare taxes. To offset this, freelancers are generally paid a much higher hourly rate. They also have the flexibility to set their own hours, work for multiple companies, and choose many other aspects of their working conditions. Employers often use a freelance model when a project is temporary or if there isn't enough work to pay a full-time employee.



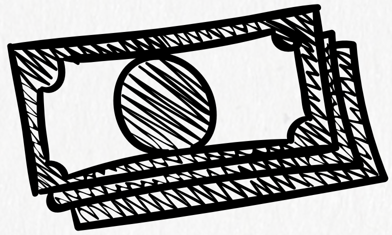
Negotiating

Most workers think they have to accept job offers as they are presented, but you can — and should — negotiate. Your starting salary can have a big impact on lifetime earnings, so it's a critical time to get a boost. In the diagram above, Employee A accepts a job offer of a $35,000 annual salary, and receives a 1% raise each year. Employee B negotiates for a starting annual salary of $40,000. In addition to a 1% raise each year, this employee continues to negotiate and receives a 4% raise every third year. Look at the difference in salary after 40 years, when both employees are ready for retirement. You can also negotiate for increased benefits, like extra PTO, flexible hours, or an additional retirement benefit.

Activity 1

PART 1: COMPENSATION BASICS

Read each of the scenarios below and answer the questions that follow.



SCENARIO 1: Hourly vs. Salary Pay

Job 1: Exempt position, base pay = $2,500/month, average work week = 47 hours

Job 2: Non-exempt position, base pay = $10.25/hour, average work week = 47 hours

- What is the weekly pay for Job 1?

  $______________________________

- What formula did you use for this calculation?

  ____

- What is the weekly pay for Job 2?

  $______________________________

- What formula did you use for this calculation?

  ____

- Which of the two jobs would you rather have? Why?

  ____

SCENARIO 2: Bonus & Commission

Job 1: Your boss offers a monthly bonus of $200 if you obtain five new customers each month.

Job 2: Your boss offers you a 3% commission for every dollar's worth of product you sell.

- Assume you meet the goal of obtaining five new customers per month for 10 of the 12 months of the year. How much would you earn in bonus money for the year?

  $______________________________

- Assume you sell an average of $700 worth of product each week. How much would you earn in commission for the month?

  $______________________________

- How much would that amount to over the course of one year?

  $______________________________

- Based on your calculations, and assuming identical base pay, which of these is a better paying job? Why?

  ____

Activity 1

PART 2: BENEFIT BASICS

Read each of the scenarios below and answer the questions that follow

SCENARIO 1: Insurance Benefits

Job 1: The employer will pay half of the monthly insurance premiums for your medical, dental, and vision insurance. The total cost for these each month is $470. The employer also provides disability insurance at no cost and an amount of life insurance equal to one year's salary at no cost.

Job 2: The employer will pay 75% of the $500 monthly insurance premiums for your medical and dental insurance. Employees can purchase vision insurance for $5 per month and disability insurance for $35 per month, and the employer provides an amount of life insurance equal to the value of 1½ times a year's salary at no cost.

- For Job 1, how much would you have to pay for your half of the medical, dental, and vision insurance and all the other benefits listed?

  $______________________________

- For Job 2, how much would you have to pay for your portion of the medical, dental, and vision insurance and all the other benefits listed?

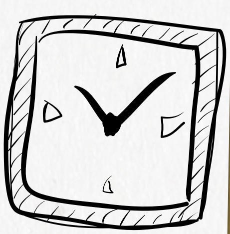
  $______________________________

- All other things being equal, which job would you rather have? Why?

  ____

  ____

SCENARIO 2: Paid Time Off



Job 1: The employer offers you five paid holidays, 40 hours worth of paid time off, and two days of paid sick leave each year. All other days missed from work are unpaid. Your hourly wage is $12.00.

Job 2: The employer offers you three paid holidays and 80 hours worth of paid time off to use as vacation or sick leave if needed. All other days missed from work are unpaid. Your hourly wage is $12.00.

- What is the total value of your paid time off for the year for each job?

  Job 1: $_______________ Job 2: $_______________

- Which of these is the better financial offer? Explain why.

  ____

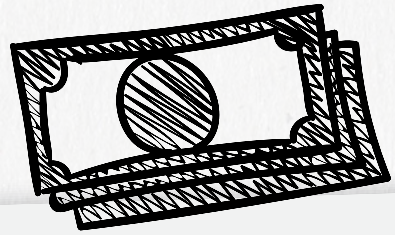
  ____

  ____

Activity 1

PART 3: MORE COMPENSATION OPTIONS

Read each of the scenarios below and answer the questions that follow.



SCENARIO 1: Retirement Matching

Job 1: The employer will match $.50 for every $1 you contribute to your 401k, with a maximum benefit of 8% of your salary per year.

Job 2: The employer matches $.75 for every $1 you contribute to your 401k, with a maximum benefit of $3,000 per year. It is vested over 3 years; if you quit in one year, you can keep 30% of the employer's contribution; 2 years, 60%; after 3 years, you can keep the entire contribution.

Assume that both employers are offering the same salary, $40,000.

- If you are able to contribute $2,000 each year to your retirement, how much will each employer match?

  Job 1: $______________ Job 2: $______________

- How much would you have to contribute to maximize your employer's contribution at Job 1? $______________
- How much money in total will have been contributed? $______________
- How much would you have to contribute to maximize your employer's contribution at Job 2? $______________
- How much money in total will have been contributed? $______________
- Assuming all other benefits are the same, which package would you prefer? Explain why.

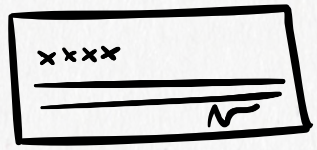
SCENARIO 2: Freelance Compensation

Job 1: You are an exempt employee with a base salary of $30,000 per year. You get 2 weeks PTO in addition to your base salary and the employer pays $300 per month toward your health insurance premium, which totals $500. You have to pay a total of $2,295 per year in Social Security and Medicare taxes.

Job 2: You are a freelancer with a base pay of $800 per week, and you work 50 weeks per year. You have to pay $500 per month for health insurance and your yearly Social Security and Medicare taxes are $4,590.

- Which package has a higher total value? Show the math to explain why.

Activity 2



UNDERSTANDING YOUR PAYCHECK

The amount of money your employer sets as your salary is not the final amount of money you will receive in your paycheck. There are a number of deductions and taxes that are removed from the **gross pay**. The remainder — what you actually receive — is your **net pay**. Take a look at this paycheck stub, then answer the questions below to learn more.

1. On the wages side, you can see that this is a non-exempt employee who is paid by the hour and receives 1.5 times her hourly rate for overtime. She also gets holiday pay and reimbursement for tuition as benefits.

2. On the deductions side, you can see the **withholding taxes** and benefit contributions taken out of the employee's pay each week.

3. Exempt and non-exempt workers have **income taxes** taken out of their pay and sent to the federal government, usually the state government, and sometimes to the city where they live or work. They also have taxes deducted to fund the federal Social Security and Medicare programs. These are called **FICA** taxes and amount to 7.65% of the money earned on the first $128,400 of income (current for 2018).

4. These columns show the total amounts for the "Year to Date." After this first paycheck of the year, these numbers will increase each week.

ABC Corp.
450 Chamber Street
Somewhere, USA 00010

Employee's Name: Mary Smith
Social Security #: 999-99-9999
Period End Date: 01/07/20

1 **WAGES**			CURRENT 4	Y-T-D	2 **DEDUCTIONS**	CURRENT	Y-T-D 4
Description	Hours	Rate	Amount	Amount	Description	Amount	Amount
Regular	40.00	10.00	400.00	400.00	Federal Withholdings	37.29	37.29
Overtime	1.00	15.00	15.00	15.00	Social Security Tax	24.83	24.83
Holiday				0.00	Medicare Tax	5.81	5.81
Tuition Reimb.*			37.43	37.43	State Income Tax 3	8.26	8.26
					City Income Tax	5.72	5.72
					Other:		
					401(k)*	27.15	27.15
					Life Insurance*	2.00	2.00
					Loan	30.00	30.00
					Dental*	2.00	2.00
					Healthcare*	20.00	20.00
Totals			452.43	452.43	Deduction Totals	163.06	163.06
Taxable Gross			363.85	363.85			
					NET PAY	289.37	289.37

* non-taxable

- How many hours did Mary Smith work last week, including overtime? ______________________
- What benefits does this employer offer? ______________________
- What deductions are non-taxable and subtracted from the gross pay before taxes are calculated? ______________________
____
- Does Mary Smith pay taxes on the tuition reimbursement? ______________________
How can you tell? ______________________
____
- How much did Mary Smith put into the 401k? $______________________
- How much did she pay for dental, healthcare, and life insurance? $______________________
- Using the data from the current pay period, how much will be withheld for this employee's annual federal income and FICA taxes? $______________________
- What percentage of the money earned was actually paid to the employee? ______________________%

If you are a freelancer, none of the deductions shown on this paycheck stub will be made for you. You will receive a check for the entire sum of your compensation, whether it is a flat fee or hourly rate, and then *you* will be responsible for filing and paying taxes on your own.

Activity 3

PUTTING IT ALL TOGETHER

Imagine that you currently have a job you enjoy, but have been hoping to find opportunities to increase your income. After interviewing and doing some additional online training, you think you've found the right position. Use what you have learned about making a living to complete the table, and then answer the questions comparing your current job to the new position.

Current Job

- Non-exempt, $14.25 per hour
- Average 44-hour work week
- Up to 5% salary in commission for meeting sales goals
- Currently pay $80 per week for health and dental insurance
- No vision, life, or disability insurance
- PTO is equal to 60 hours annually at your hourly wage
- 5 paid holidays (totaling 40 hours)
- Withholding taxes average $85 per week

Job offer

- Exempt employee, $2,500 monthly salary
- Average 48-hour work week
- Opportunity for a bonus of up to $150 monthly for meeting sales goals
- Would pay $300 per month for health, dental, and vision insurance benefits
- Disability and life insurance of 1.5 times your salary at no cost
- 5 paid holidays and two weeks (10 days) of paid time off for vacation, illness, etc.
- Withholding taxes would average $320 per month

Use a calculator to enter this data into the comparison chart below, then answer the questions. Use these equations to calculate annual gross pay for each job:

Current Job: (Hourly Pay x 40 hours) + (1.5 x Hourly Pay x Hours above 40) x 52 weeks

Job Offer: Monthly Pay x 12 months

1. What is the annual net pay for your current job? $____________________
2. What would be the annual net pay for the job being offered? $____________________
3. At which job could you earn more variable pay? How much more?____________________
4. Aside from salary, which job offers a better benefits package? Explain why.____________________
5. Based on your calculations, which job makes better financial sense, your current job or the job offer? Explain why.____________________

	CURRENT JOB	JOB OFFER
Annual Gross Pay	$	$
Annual Bonuses/Commissions	$	$
Annual Health & Dental Cost	$	$
Disability/Life Insurance	$	$
PTO Per Year (hours)	$	$
Tax Withholding Per Year	$	$
Net Pay	$ 0.00	$ 0.00

Bonus Round: You have decided to take the new job, but plan to negotiate for a better compensation package. Make a list of three areas where you would like to negotiate and explain why you think you should receive more compensation.

1. ____________________

2. ____________________

3. ____________________

CHAPTER 4: Taxes

Did You Know?

In fiscal year 2018, the federal government spent \$4.11 trillion, amounting to 20 percent of the nation's gross domestic product (GDP). Of that \$4.11 trillion, \$3.33 trillion was financed by federal revenues.[7]

Benjamin Franklin once said, "In this world nothing can be said to be certain, except death and **taxes**." Truly, taxes are a part of everyday life. We pay taxes on the things we buy, and on the money we earn. We pay taxes on the property we own and inherit. But what are taxes? It is through taxation that federal, state, and local governments are able to provide programs and services that benefit their citizens and others. These include roads and highways, public education, financial assistance for those affected by natural disasters, police protection, the military, and other services. As you head out into the workforce, it's important to understand how taxes and tax laws can affect your earnings and spending habits.

Types of Taxes

Property Tax: tax paid by people who own items such as homes, land, and vehicles to the city and/or county where the property is located

You are probably already familiar with **sales tax** and **excise tax**, which are paid when you buy things such as clothing and gasoline. Most people who own real estate are also subject to **property taxes**, which are typically paid to a state, town, or county. In general, at least 30% of the money collected from property taxes is used to pay the cost of running public schools in that city or county. Property taxes are based on the **assessed value**, which is often less than the **market value** of a property.

Payroll taxes are the federal, state, and local taxes paid on income and to support the Social Security and Medicare programs. Employees pay a tax rate of 6.2% for **Social Security**, which is matched by their employers, and which is only applied to the first \$128,400 of wages (as of 2018; the cap gradually increases each year). Employees pay an additional tax rate of 1.45% for **Medicare**, which is also matched by employers; there is no income limit on this tax. The two are usually calculated together, at 7.65%. Independent contractors (freelancers) pay both the employee taxes and the employer portions of these taxes, for a total of 15.3%.

Other taxes include **estate taxes**, which are paid when someone inherits property or a large sum of money; licenses and occupational fees paid by certain types of businesses to the state in which they operate; and registration costs for cars, boats, and other vehicles.

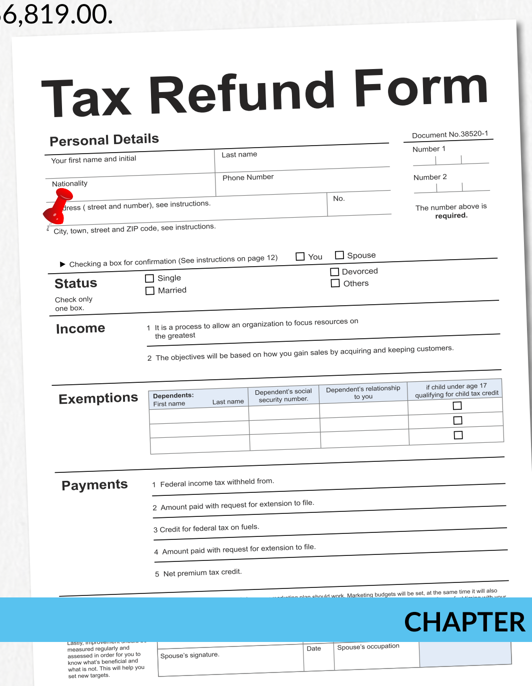
Income Tax

The biggest tax paid by most people is **income tax**. Income taxes are typically charged by federal and some state and local governments and are based on the wages, salaries, tips, and investment income earned by an individual during each calendar year.

When you begin working, you will fill out a **W-4** form that identifies, among other things, the number of **dependents** you are supporting with your income and the state you live and work. Your employer will use this information to take money out of each paycheck, and submit it, as a tax payment, to the **U.S. Treasury** through the **Internal Revenue Service**. At the end of the calendar year, each worker must then file a **tax return** that shows how much income you earned and how much income tax you must pay.

U.S. Treasury: department within the U.S. government

Income tax varies from person to person, calculated as a percentage of earnings. In the U.S. we use a **progressive tax rate**, meaning that the higher the taxable income, the higher the tax rate. Tax rates also depend on whether you are single, married, or widowed. For example, a single adult earning \$60,000 per year would owe \$9,139.50, while a married couple earning the same combined income would owe \$6,819.00.



[7] FY2018 spending: www.usaspending.gov; FY2018 GDP: www.bea.gov/news/2019/gross-domestic-product-4th-quarter-and-annual-2018-third-estimate-corporate-profits-4th; FY2018 revenue: www.thebalance.com/current-u-s-federal-government-tax-revenue-3305762

The amount of tax you owe is also dependent on a number of special circumstances. The government allows people to deduct certain expenses, like student loan interest, from taxable income. Other items, like childcare costs, are subtracted from the amount of tax you owe, after the tax rate is applied.

- A tax **deduction** is an amount of money that is subtracted from your taxable income, before the tax rate is applied. So, if you earn $100,000 and have $30,000 in deductions, your **taxable income** is only $70,000. Federal laws allow taxpayers to deduct what they've paid for:
  - State taxes and property taxes, up to a total of $10,000 (as of 2018)
  - Interest on mortgages and student loans
  - **Charitable donations**
  - Medical expenses that total more than 7.5% of income
  - Certain business expenses, such as work travel and industry memberships
- **Itemized deductions** are expenses that taxpayers list and deduct from their income. When a taxpayer's itemized deductions add up to less than a certain amount, a standard deduction is applied. Currently that amount is $24,000 for married couples filing jointly and $12,000 for single workers (as of 2018).
- A **tax credit** is an amount of money that is subtracted from your tax bill after it is calculated based on your taxable income. Tax credits are often more valuable than deductions because they reduce your taxes dollar-for-dollar, while tax deductions reduce it only by lowering your taxable income.

This can seem complicated, but it comes down to five steps:

1. Add up your gross income. You will receive reports from your employer and any other sources of income that detail how much money you earned:
   - Employment income is reported to you and the IRS on a form called a **W-2**.
   - Income from investments, inheritance, and real estate is reported on a form called a **1099**. Freelance income is also reported with a 1099 form.
2. Determine your taxable income by subtracting any applicable deductions.
3. Multiply taxable income by the applicable tax rate.
4. Subtract any credits from the amount you owe.
5. Remember how you had tax withheld from each paycheck during the year? Once you determine how much money you owe in taxes, the final step is to subtract the amount you already paid through withholding from the amount you owe. If your employer withheld less than you owe, you'll have to pay the difference when you file your tax return. If your employer withheld more than what you owe, you'll get a **refund**.

Activity 1

TACKLING TAXES

Property and Other Taxes

Calculate the taxes for each of these scenarios.

SCENARIO 1:

Your parents own a home with an assessed value of $175,000. The annual property tax rate in your county is 1.2%. Calculate the annual property taxes for the house:

Assessed value $________ x Tax Rate ____% = Annual Taxes $ 0.00

SCENARIO 2:

You live in a home with an assessed value of $115,000. Last year, you paid $1,500 in taxes. This year, the property tax rate is going up to 1.75%. How much more will you pay in annual property taxes for the house?

Taxes at new rate $____________ – $1,500 = $____________

SCENARIO 3:

You own two vehicles, one with an assessed value of $1,500 and another with an assessed value of $9,250. The vehicle tax rate in your county is 2%. How much tax will be due for both vehicles together? $____________

Income Taxes

Use what you've learned about the federal income tax to help the Robinson family figure out what they owe.

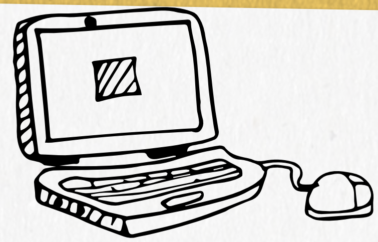
The Robinsons, a family of five with both parents working, earned a total of $125,000 this year and had the following expenses:

- Property taxes paid: $8,000
- Mortgage interest paid: $9,000
- State/city taxes paid: $5,000
- Charitable contributions: $700
- Medical expenses: $1,500
- Childcare: $10,000

1. What are the Robinsons' total deductible expenses? $____________
   How did you calculate this number?____
2. Are the Robinsons' expenses higher or lower than their standard deduction? Calculate their taxable income accordingly:
   $125,000 – $____________ = $____________

Activity 1

TACKLING TAXES (CONTINUED)



3. Use the tax bracket chart below to calculate the amount of tax due on the Robinsons' taxable income before credits are taken:

10% x $19,050 = $________ +12% x ($77,400 – $19,050) = $________ +22% x ($________ – $77,400) = $________

TOTAL = $____0.00____

4. The family discovers that they are eligible for several credits — a $2,000 **child tax credit** for each of their three children, and 25% of childcare costs up to a total of $6,000. What is the total amount of annual tax they now owe? $______________

5. Assume that one of the parents earns an income of $69,000 annually, and receives a paycheck every two weeks. The employer deducts $299 for federal taxes and $109 for state taxes from each paycheck. The employer also deducts $75 for health insurance.

- Determine the amount of each paycheck before taxes are withheld: $69,000 ÷ 26 = $______________
- Calculate the total deductions made from each paycheck, including payroll taxes.
  Federal tax $__________ + State tax $__________ + FICA taxes (.0765 x $__________ =) $____0.00____
  + Health insurance $__________ = Total deductions $____0.00____
- Subtract this number from the gross paycheck amount to find the take-home pay. $______________
- Calculate the amount of federal tax that has been withheld from this parent's paychecks for the year. $______________

6. Suppose that the other parent had $180 withheld for federal taxes from each of 26 paychecks throughout the year. How much total federal tax has already been withheld for the second parent? $______________

7. Add the total federal tax that has been withheld for both parents. Is it more or less than the family owes for annual federal taxes?______________ What will happen to the difference?______________________________

Tax Bracket Chart

Individual Taxpayers		Married Individuals Filing Joint Returns and Surviving Spouses	
If Taxable Income Is Between:	**The Tax Due Is:**	**If Taxable Income Is Between:**	**The Tax Due Is:**
0 - $9,525	10% of taxable income	0 - $19,050	10% of taxable income
$9,526 - $38,700	$952.50 + 12% of the amount over $9,525	$19,051 - $77,400	$1,905 + 12% of the amount over $19,050
$38,701 - $82,500	$4,453.50 + 22% of the amount over $38,700	$77,401 - $165,000	$8,907 + 22% of the amount over $77,400
$82,501 - $157,500	$14,089.50 + 24% of the amount over $82,500	$165,001 - $315,000	$28,179 + 24% of the amount over $165,000
$157,501 - $200.000	$32,089.50 + 32% of the amount over $157,500	$315,001 - $400,000	$64,179 + 32% of the amount over $315,000
$200,001 - $500,000	$45,689.50 + 35% of the amount over $200,000	$400,001 - $600,000	$91,379 + 35% of the amount over $400,000
$500,001 +	$150,689.50 + 37% of the amount over $500,000	$600,001 +	$161,379 + 37% of the amount over $600,000

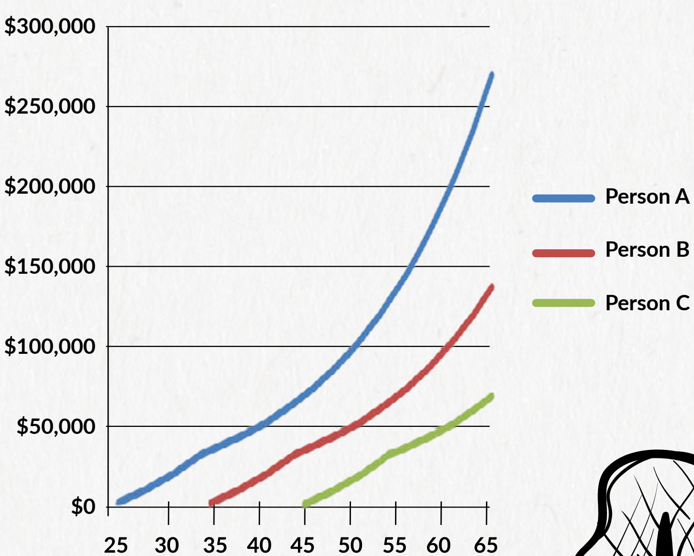
CHAPTER 5: Retirement Readiness

Did You Know?

Only 58% of us are currently saving money for retirement — and 60% of those who are, have saved less than $25,000. Thirty percent have saved less than $1,000. Most financial planners advise their clients to expect to save eight to 10 times their final annual salary for retirement.[8]

As you complete your education and enter the workforce, **retirement** may feel very far away — on average, 40 years away. But most financial planners say that you will need to have 10 times your final annual salary saved in order to retire without having to make major lifestyle changes. The earlier you start toward this goal, the more you can reap the benefits of **compound interest** — but the later you start, the more money you'll have to take out of your monthly budget in order to reach the same result.

The bottom line is that *when* you begin investing may be more important than how or how much you start with. Look at the following graph. Each person invested the same amount of money — $200/month for 10 years. Each earned an average of 7% investment returns per year. The only difference is that Person A began investing at age 25, Person B began at age 35, and Person C waited until age 45.



[8] www.marketwatch.com/story/what-matters-most-in-retirement-planning-2012-12-04

Budgeting for Retirement

Once you decide to start saving for retirement, you'll need to decide how and how much. There are a few things to consider when deciding how much.

- *Budget:* Many people believe that your expenses will be much lower in retirement than while you are working, but this isn't always the case. Your mortgage may or may not be paid off, but property taxes typically go up every few years. Many places offer senior discounts, but if you'd like to travel or pick up a new hobby, that cost will need to be factored in. Medical care is another large expense. Putting this all together, a common rule of thumb is that you will need 70-80% of your pre-retirement income per year during retirement, and that the yearly withdrawals should amount to no more than 4% of the account balance in your investment account.
- *Government benefits:* The U.S. government offers two programs to help retirees cover basic living needs and medical care — Social Security and Medicare. For most people, Social Security benefits do not provide enough income to retire comfortably. In planning your retirement budget, you can subtract your expected government benefits from your total budget to determine the amount you will need to have invested.
- **Inflation:** Ask retirees what a gallon of gas or a candy bar cost when they were your age, and you'll likely get a story about how little things cost "in their day." Costs typically increase over time due to inflation, and you'll need to budget accordingly.
- *Market fluctuation:* It's important to note that most retirement funds don't offer a guaranteed interest rate the way a savings account does. Instead, they are invested in vehicles like stocks and bonds, which fluctuate in value from year to year. It's important to consider the **risk** that you may lose money some years and budget accordingly.

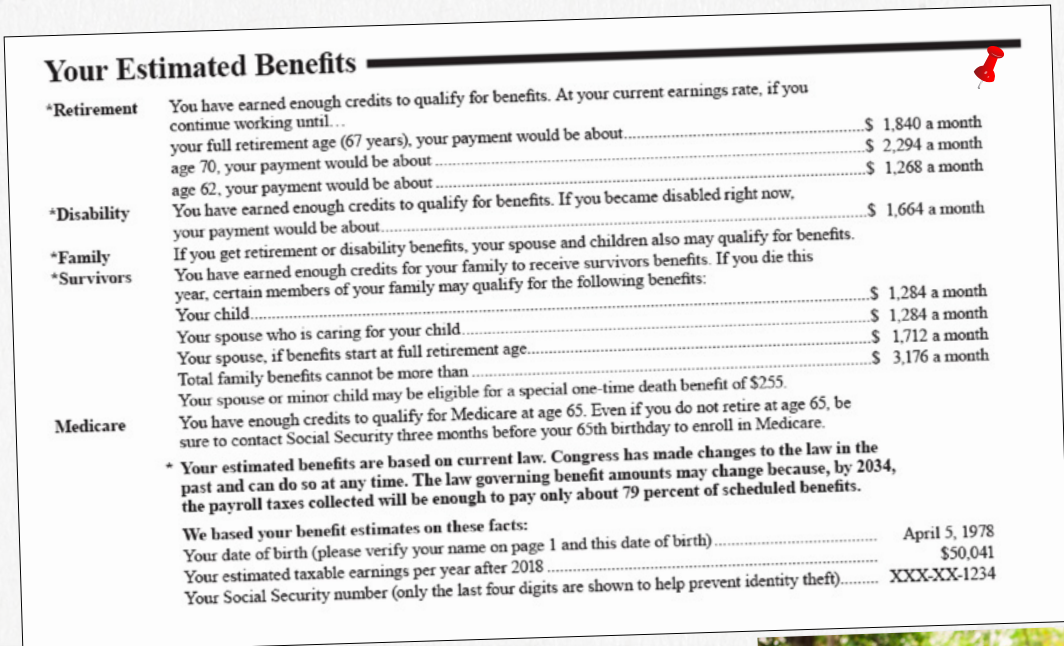
Government Benefits Programs

As you know, Social Security and Medicare are funded through payroll taxes. Each year that you work and pay into these programs, you earn credits: For every $1,320 you earn (as of 2018), one credit is awarded. Workers can earn up to 4 credits per year and must have at least 40 credits in order to receive benefits. These credits are also used to determine the amount of your benefit, up to a maximum amount. For workers retiring in 2018, the maximum benefit is $2,788 for a worker retiring at full retirement age.

Throughout your working years, you will receive an annual statement that lists how much you've earned and paid into Social Security and Medicare, along with an estimate of your future benefit. This estimate is based on the assumption that you will continue to earn a consistent annual income for the rest of your working years.

Workers who are eligible to receive Social Security can begin to do so once they reach age 62 or greater, with full retirement benefits available once you reach age 67. You also have the option to wait until age 70 for an even larger monthly benefit. Look at the chart below and note the difference in monthly benefit based on age of retirement.

It is important to note that these numbers are just an estimate, not a guarantee. Each year, annual benefits are reviewed for a **Cost of Living Adjustment** (COLA) and may be increased based on the **Consumer Price Index**, which is used to measure inflation. But laws governing Social Security can change at any time. As of 2018, the Social Security Administration expects that its funds will be depleted by 2034. Workers who retire after that time will still be eligible, but their total benefit may be greatly reduced, or the management of the program may be altered.



Your Estimated Benefits

***Retirement** You have earned enough credits to qualify for benefits. At your current earnings rate, if you continue working until...
your full retirement age (67 years), your payment would be about .... $ 1,840 a month
age 70, your payment would be about .... $ 2,294 a month
age 62, your payment would be about .... $ 1,268 a month

***Disability** You have earned enough credits to qualify for benefits. If you became disabled right now, your payment would be about .... $ 1,664 a month

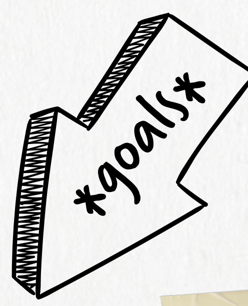
***Family** If you get retirement or disability benefits, your spouse and children also may qualify for benefits.

***Survivors** You have earned enough credits for your family to receive survivors benefits. If you die this year, certain members of your family may qualify for the following benefits:
Your child .... $ 1,284 a month
Your spouse who is caring for your child .... $ 1,284 a month
Your spouse, if benefits start at full retirement age .... $ 1,712 a month
Total family benefits cannot be more than .... $ 3,176 a month
Your spouse or minor child may be eligible for a special one-time death benefit of $255.

Medicare You have enough credits to qualify for Medicare at age 65. Even if you do not retire at age 65, be sure to contact Social Security three months before your 65th birthday to enroll in Medicare.

*** Your estimated benefits are based on current law. Congress has made changes to the law in the past and can do so at any time. The law governing benefit amounts may change because, by 2034, the payroll taxes collected will be enough to pay only about 79 percent of scheduled benefits.**

We based your benefit estimates on these facts:
Your date of birth (please verify your name on page 1 and this date of birth) .... April 5, 1978
Your estimated taxable earnings per year after 2018 .... $50,041
Your Social Security number (only the last four digits are shown to help prevent identity theft) XXX-XX-1234



Social Security is the single largest employee benefit plan in the U.S. The government relies on actuaries to monitor and evaluate the cost impact of proposals related to Social Security in addition to reviewing the soundness of the balance between the benefits obligations being built up and the Social Security taxes being collected. Actuaries spend a great deal of time researching short-term and long-term demographic and economic trends, analyzing mortality and morbidity rates, and preparing reports and special studies on the financial aspects of the Social Security system that are of concern to the Congress and the general public.

Activity 1

PART 1: STARTING EARLY

To avoid playing catch-up, and still have enough money to live comfortably after you stop working, it is critical to put money aside *now*. To see this in action, consider the case of the Three Friends.

Three high school friends each put $200 a month into their retirement investment accounts. Assume that each account has an annual interest rate of 7%, compounded annually, and that each of the friends plans to retire at age 65.

- Friend A starts investing at age 25.
- Friend B starts at age 35.
- Friend C starts at age 45.

1. How much will each of the friends have saved when they are ready to retire at age 65? Use the compound interest calculator at www.investor.gov/additional-resources/free-financial-planning-tools/compound-interest-calculator to find out.

   A: $____________ B: $____________ C: $____________

2. How much would C have to invest each month in order to have the same ending balance as A? Use the savings goal calculator at www.calcxml.com/do/savings-goal-calculator-how-much to find out.

   $____________

3. Assuming C has an after-tax salary of $75,450 per year with monthly fixed expenses totaling $3,000, how much would this high level of retirement saving leave him/her for variable expenses and spending money?

   $____________

4. Imagine that B falls ill at age 60 and decides to retire early. Would he/she have enough in retirement savings to live comfortably? Use the compound interest calculator to find out how much B will have saved up by age 60. Then assume that B will receive an income of $1,300 per month from Social Security and plans to withdraw 4% of the retirement account balance each year.

   B's retirement savings at age 60: $____________

   B's annual income after retirement at age 60: $____________

   Do you think this is enough income to live comfortably? Why or why not?

   ____

   ____

   ____

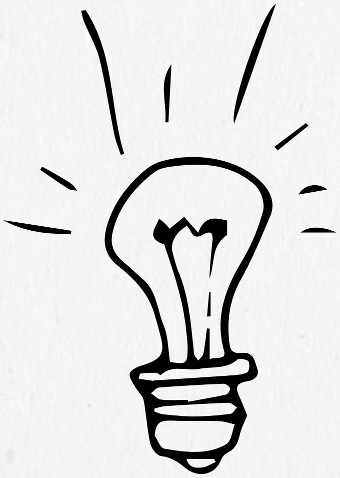
Activity 1

PART 2: ADD IT UP

To determine how much you should start saving today in order to afford the lifestyle you want in retirement, you'll need to create a budget and work backwards. Use this chart to practice.

Retirement Planning Practice	
1. Determine your annual budget. Assume you will need $65,000 per year to live on.	$
2. Calculate what you expect to get annually from Social Security. Assume you will receive the average benefit, which is $1,404 per month.	$
3. Deduct Line 2 from Line 1	$ 0.00
4. Many experts suggest that 4% is a reasonable amount to take out of your retirement account per year. Using this guideline, calculate what your account balance needs to be the year you retire. (Line 3 ÷ .04)	$ 0.00
5. Use a calculator to find out how much you would need to save per year (excluding interest) to reach that total by age 67, if you start saving:	
40 years before retirement	$
30 years before retirement	$
20 years before retirement	$

Once you have begun working and paying into Social Security, you can check your expected benefit on the Social Security Administration's website at www.ssa.gov/benefits/retirement/estimator.html. Keep in mind that this is just an estimate, and can change over time.



Investing for Retirement

Once you've established when and how much to invest for retirement, you'll need to consider *how*. Start by exploring the different types of investment accounts specially designed to encourage retirement saving.

Individual Retirement Accounts (IRA)

Many people select **Individual Retirement Accounts (IRAs)**, which offer valuable tax benefits. There are several types of IRAs, but the most popular are the Traditional and the Roth.

- A traditional IRA is **tax-deferred**, meaning you don't pay taxes on the money you put into it. When you begin withdrawing money from the account during retirement, you will pay taxes on the money that you take out. This can be beneficial if you expect your tax rate to be lower in retirement than while you are working.
- With a **Roth IRA**, you pay taxes on the money you put into it, but the money you take out is not taxed. This can be beneficial if you plan to invest for a long period of time and accrue a large amount of interest, or have a high retirement income.

With both traditional and Roth IRAs, the government limits the amount of money that can be contributed to the account each year. Depending on the age of the investor, this can range from a total annual contribution of $5,500 to $6,500 (as of 2018).

Since IRAs are designed to encourage long-term investing, people with these types of accounts are generally not allowed to withdraw their money until they reach the age of 59½. If funds are withdrawn before this time, significant penalties and taxes are imposed.

Employer-Sponsored Accounts

Many employers offer a **401(k)** or **403(b)** investment option to their employees, which provides another way to save money tax-deferred. Non-profit organizations such as schools, hospitals, and religious groups typically offer the 403(b) option, while traditional, for-profit employers usually offer a 401(k). Both options usually offer a choice of investments, such as mutual funds, stocks, and bonds. Those who want to minimize risk can usually choose a fixed interest rate investment, which allows employees to know exactly how much interest they will earn, although the rate is typically lower than riskier alternatives.

Some companies "match" employee contributions to 401(k)/403(b) accounts. This may be a percentage or dollar match established by company policy. For example, the employer may contribute one dollar for every dollar the employee invests in the plan up to $1,000, or up to a fixed percentage of the employee's salary. Taking advantage of these employer-matching opportunities is an excellent way for employees to build extra money for their retirement.

Pensions

A few employers may offer employees a **pension** plan. These are traditionally found in union-based industries, such as police departments and the shipping industry. A pension plan is not an investment option but a financial commitment the employer makes to its employees as a retirement benefit. The amount paid to the employee from a pension can vary greatly and is usually a percentage of the employee's annual salary. While pensions offer employees guaranteed income for life, the amount can be small and, if the company has financial difficulty meeting its obligations to the pension plan, the pension can be reduced or eliminated. Nonetheless, where available, pension plans offer a valuable retirement benefit.

Activity 2

RETIREMENT READINESS

Practice choosing how to invest in your retirement, whether through an employer-sponsored program or independently, as you read the scenarios below and answer the questions.

Scenario 1: You are investing $4,000 per year in a 401(k) and you have a 30% annual employer match.

- What formula could you use to add up both your deposit and your employer's match?

  ____

- Over the course of 5 years, you invest $20,000. How much does your employer invest?

  $______________

- If your employer offered a match of $1,000 per year instead of 30%, which would be a better option?

  ____

  Would that always be true? ______________________________

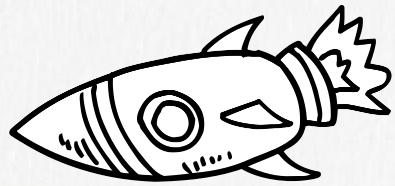
Scenario 2: You have accepted a job offer and are excited to take advantage of compound interest by investing immediately in a retirement fund. You are 25, have an annual starting salary of $31,000, and there are two plans you are considering:

- Your employer offers a 401(k) account that averages 4% annual interest. This account is tax-deferred and your employer will match 50% of your annual contribution to the account.
- You also found a Roth IRA that you really like because its average annual interest rate is 4.25%, but your employer would not match investments in this account. Deposits into this account are taxed, but you would not pay tax on the final distributions.

Use the compound interest calculator at www.investor.gov/additional-resources/free-financial-planning-tools/compound-interest-calculator to calculate how much your account will grow if you contribute $1,200 per year into each of the retirement account options for the next 10 years.

1. What will the total value of each account be at the end of the 10-year period?
   - a. 401(k): $______________
   - b. IRA: $______________
2. If you continue depositing this same amount into each account throughout your working years, what will be the total value of each account when you retire at 65?
   - a. 401(k): $______________
   - b. IRA: $______________

Book 2 Final Assessment Quiz



1. Educational attainment is directly linked to lifetime earnings and unemployment, but has costs of its own.

   ☐ True ☐ False

2. Choosing a career is a decision that should be based exclusively on financial return on investment.

   ☐ True ☐ False

3. Subsidized loans like federal student loans cost more in the long run than unsubsidized private loans.

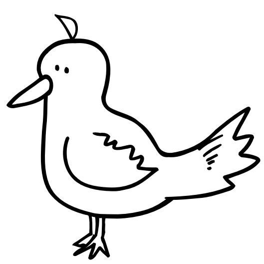
   ☐ True ☐ False

4. In addition to completing a Free Application for Federal Student Aid, or FAFSA, college-bound students should look for private grants and scholarships to help pay for their education.

   ☐ True ☐ False

5. Deductions from a worker's paycheck may include income taxes, payroll taxes for Social Security and Medicare, contributions toward retirement savings, and health, dental, and life insurance.

   ☐ True ☐ False



6. When you accept a new job, it is important to evaluate the entire benefits package, including base pay, additional compensation like tips and commissions, paid time off, and employer contributions toward insurance and retirement.

   ☐ True ☐ False

7. A tax deduction is an amount of money that is subtracted from your final tax liability, after credits are subtracted and the tax rate is applied.

   ☐ True ☐ False

8. When you file your taxes at the end of the year, anything you've paid above what you owe is returned to you as a tax refund.

   ☐ True ☐ False

9. Social Security and Medicare are funded through a payroll tax that totals 7.65% of your income; Social Security tax is only applied up to an annual max earnings ($128,400 in 2018).

   ☐ True ☐ False

10. It is important to start saving early for retirement because compound interest will help you to accumulate enough money to live comfortably in retirement without creating a financial burden during your working years.

    ☐ True ☐ False

GLOSSARY

Chapter 1

Apprenticeship: a combination of on-the-job training and related instruction where workers learn the practical and theoretical aspects of a highly skilled occupation

Associate's Degree: a two-year academic degree awarded by community colleges, junior colleges, technical colleges, and four-year colleges and universities after the completion of a course of study that typically includes at least 60 credit hours

Bachelor's Degree: a four-year academic degree awarded by a college or university after the completion of a course of study that typically includes at least 120 credit hours

Benefits: compensation beyond a salary or hourly wage such as insurance, paid vacation time, retirement plan, or free parking

Career Aptitude: an individual's innate ability, suitability, readiness, disposition, capacity, or potential for a particular occupation

Career Clusters: groupings of occupations in the same field of work that require similar skills

Career Path: a set of steps from an entry level position toward a specific job that progresses as you acquire more education and experience

Diploma: a document issued by an educational institution certifying that the recipient has successfully completed a particular course of study

Doctorate: the highest level of a university degree offered in a range of studies

Earning Potential: the amount of money a person should be able to earn in his/her profession

Employability: a set of achievements, skills, knowledge, and personal attributes that mark a person as competent in a specific type of work

Industries: broad groups of businesses or organizations with similar activities, products, or services

Internship: working, usually for free or a small wage, in your expected career field with supervision from more experienced professionals as a means of gaining the experience needed for an entry-level position

Job Shadowing: accompanying an experienced worker on the job to learn the specific skills and responsibilities associated with the successful performance of a specific career

Lifestyle: a set of work and leisure behavior patterns, attitudes, opinions, and values that reflects a person's self-image or self concept

Lifetime Earnings: the total amount of money one can expect to be paid for work done in a specific career field

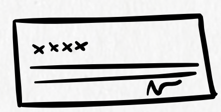
Master's Degree: an advanced university degree offered in a range of studies, beyond a bachelor's but not to the doctorate level

On-the-job Training: hands-on training by an experienced employee or trainer in the workplace to teach an employee the specific skills needed for the position over the course of their working years

Return on Investment (ROI): measures what is gained from an investment after subtracting the cost(s), usually in money and/or time, of the investment

Skills: the ability to do something with competence

Vocational Education: training for a specific industry or trade



Chapter 2

529 Account (ESA): a college savings plan where the funds can be withdrawn tax-free when they are used for educational purposes

ACT: a standardized achievement examination for college admissions

Deferred Payment: loan arrangement in which the borrower is allowed to start making payments at some specified time in the future

Education IRA: an education savings plan that offers tax advantages

Estimated Family Contribution (EFC): the amount of money that a student's family is expected to contribute to college costs for one year

FAFSA: Free Application for Federal Student Aid, a form that must be completed in order to qualify for any type of governmental financial aid for higher education

Financial Aid: grant or scholarship, loan, or paid employment offered to help a student meet his/her college expenses

Grace Period: time in which a debt may be paid without accruing further interest or penalty

Grant: monetary award given by the federal, state, or local government to an eligible student for educational expenses and without the expectation of repayment

Interest Rate: the percentage you pay on the money you have borrowed, or the percentage you earn on an investment

Parent Loan for Undergraduate Students (PLUS): federal loans for parents of undergraduate students to help pay for college or trade school

Pell Grant: money for post-secondary education that does not have to be repaid and is awarded to eligible students based on financial need

Promise Program: government program designed to make college accessible for all responsible students, these are typically grants offered by states once all other financial aid options are exhausted

Reserve Officers' Training Corps (ROTC): a college-based program for training commissioned officers of the U.S. armed forces by providing competitive, merit-based scholarships for tuition in return for an obligation of active military service after graduation

SAT: a standardized achievement examination for college admissions

Scholarship: an award of financial aid for a student to further their education, often based on merit such as academic achievement or athletic skill

Stafford Loan: common name for federal student loans, especially subsidized student loans

Student Loan: loan offered to students which is used to pay education-related expenses including college tuition, room and board, or textbooks

Subsidized Loan: a loan on which the government pays the interest while the student is enrolled in a qualified college/university, essentially erasing the interest that would have been added to the loan during the time of study

Supplemental Educational Opportunity Grant (SEOG): need-based grants awarded to low-income undergraduate students to finance the costs of post-secondary education

Total Cost of Attendance: the price to attend college for a year including tuition, room and board, books, and fees

Tuition: the amount one must pay for educational instruction

Tuition Pre-payment: state program in which families can purchase tuition credits at their present price and use the credits in the future, when tuition costs will have most likely increased

Unsubsidized Loan: a college loan usually taken by students who do not meet financial need standards and still need to fund their post-secondary education. These loans accrue interest while the student is in school and can result in significantly higher debt because of the interest added to the loan over time. The PLUS loan is an example of an unsubsidized loan.

Work-study: program that provides students with part-time jobs while in school in order to subsidize the cost of education

Chapter 3

401(k): a retirement plan that allows an employee to invest a percentage of their wages into a tax-deferred account chosen by the employer

Base Pay: the basic rate of pay for a particular job not including overtime, bonuses, or commissions

Bonus: a sum of money (not guaranteed by the employer) given to an employee in addition to the employee's usual wages

Commission: money, in addition to regular wages, that is paid for work done or products sold

Compensation Package: all of the wages (salary, bonus, commission) and benefits provided by an employer

Exempt: classification of an employee who is paid a salary rather than hourly wages and is not eligible for overtime pay

FICA: stands for Federal Insurance Contributions Act, a federal payroll tax paid by employers and employees to fund government programs that provide benefits to retirees

Freelance: to perform work for a company and receive compensation as an independent contractor, instead of as an employee

Gross Pay: regular pay, overtime pay, and other taxable earnings paid to an employee during a pay period before any obligations, such as taxes, are deducted

Hourly Wage: the amount an employee is paid by an employer for completing an hour of work

Income Taxes: percentage of your income, including wages, salaries, commissions, and bonuses, paid to the government each year

Insurance: promised payment for specific, potential or future costs or losses in exchange for periodic payments

Labor Union: an organized association of workers, often in a trade or profession, formed to protect and further their rights and interests

Net Pay: remaining amount of pay after taxes, retirement contributions, and other deductions are made

Non-exempt: classification of an employee who is paid on an hourly basis and is entitled to overtime pay generally at a rate of 1½ times the hourly wage

Paid Time Off (PTO): time not worked by an employee for which regular pay, or a fixed or prorated amount of pay, is accrued and paid to the employee; may include sick leave but typically separate from corporate holidays

Pension: a type of retirement fund that is typically managed by an employer or labor group and provides a steady monthly income to the worker while in retirement

Profit Sharing: a program in which the employer shares some of its profits with employees through stocks, bonds, or cash

Retirement Matching: when an employer contributes to an employee's retirement account an amount that equals a percentage of how much the employee contributes

Salary: wages an employee receives from the employer on a regular basis, usually weekly, bi-weekly, or monthly

Sick Leave: paid or unpaid time off from work for an employee temporarily unable to perform duties due to illness or disability; caring for a loved one may also qualify

Variable Pay: compensation that must be earned (such as commission) each time in order to be paid to the employee

Vested: some employer benefit programs require that employees stay with the company for a certain amount of time before receiving the full amount of the benefit, such as a contribution to their retirement fund, stock options, or profit sharing

Wages: money paid or received for work or services completed, usually by the hour, day, or week

Withholding Taxes: part of an employee's wages or salary that is withheld by the employer and sent to the government as partial payment of the employee's income taxes

Chapter 4

1099: a special form that is used to report taxable, non-employee income to the IRS, including payment for services as an independent contractor, distributions from retirement accounts or education funds, and interest earned on certain investment accounts, etc.

Assessed Value: amount a property is worth for tax purposes as determined by city or county assessors

Charitable Donations: money that was contributed to charities/non-profit groups and usually tax deductible

Child Tax Credit: a special credit given to joint taxpayers with taxable income less than $110,000 annually in the amount of $2,000 for each child under age 17 (also available to single taxpayers who meet a different income requirement); if taxable income is above $110,000, the child tax credit is reduced or eliminated

Deduction: an amount of money subtracted from taxable income prior to calculating final tax liability

Dependent: someone who relies on the taxpayer for support including food, clothing, and shelter

Estate Taxes: money levied by the government for the transfer of property and assets upon the death of an individual

Excise Tax: a state or federal tax placed on consumer goods such as gasoline

Income Tax: tax paid on the money one earns from working

Internal Revenue Service (IRS): government agency that collects taxes for the U.S. government

Itemized Deductions: a list of expenses and contributions that can be deducted from the total income

Market Value: what you would receive if you sold the property

Medicare: a federal government program funded through payroll taxes; pays for health care expenses for citizens over age 65, or who meet other special criteria

Payroll Taxes: deducted from the wage earner's gross pay by the employer and used to fund federal government programs such as Social Security and Medicare

Progressive Tax Rate: a system in which the tax rate rises as the amount of taxable income increases

Property Tax: tax paid by people who own items such as homes, land, and vehicles to the city and/or county where the property is located

Refund: a check or automatic deposit for the amount by which taxes were overpaid

Sales Tax: tax imposed on purchases by many states, counties, and cities

Social Security: a federal government program funded through payroll taxes; designed to provide retirement and disability income for those meeting the specified criteria

Tax Credit: an amount of money subtracted directly from the amount of taxes owed to the government

Tax Return: report that is submitted to the government that outlines tax liabilities and payments, along with relevant income and financial information used to compute the tax

Taxable Income: the amount of income subject to income tax

Taxes: fees charged by the government on products, activities, or income

U.S. Treasury: department within the U.S. government

W-2: a form that the employer sends to the employee and the federal government that reports the employee's annual wages and the amount of taxes withheld during the year

W-4: a form that the employee fills out to let the employer know his or her tax situation, allowing the employer to figure out the correct amount of tax to withhold from the employee's paycheck

Chapter 5

401(k): a retirement plan that allows an employee to invest a percentage of their wages into a tax-deferred account chosen by the employer

403(b): a retirement plan available to employees of certain non-profit organizations that allows them to invest a percentage of their wages in a tax-deferred account

Compound Interest: when money is earned on the total amount in the account, including the initial deposit and interest that has already been credited to the account

Consumer Price Index (CPI): a measurement of inflation, based on the change in cost of a particular group of consumer goods, compared today with their cost in previous years

Cost of Living Adjustment (COLA): a raise in salary or retirement payout that is based on inflation and used to ensure recipients can maintain spending power

Individual Retirement Account (IRA): a retirement investment account that allows a person to save a specified amount of income each year in a tax-deferred account

Inflation: the annual percentage increase in the prices of goods and services; it is measured based on a group of essentials included in the Consumer Price Index

Pension: a type of retirement fund that is typically managed by an employer or labor group and provides a steady monthly income to the worker while in retirement

Retirement: the point in time when a person chooses to leave the workforce permanently, usually at age 65 or older

Risk: likelihood of suffering losses or earning less than expected on financial investments

Roth IRA: a retirement investment account that allows a person to save a specified amount of income each year. In a Roth IRA, the person pays the taxes on the contribution, but qualified distributions are made tax-free.

Tax-deferred: an investment in which taxes are not paid immediately when interest is earned; instead, they are paid as funds are distributed or withdrawn