

# Building Your Financial House



Set the Foundation of Your Future

Module 2

## Maximize Earnings

Ex-Offender Reentry  
Participant Guide w/Answer Key

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## Self-Assessment and Track Your Progress

Congratulations! You are on your way to Building Your Financial House! Use this form to identify key ideas, practices, and the progress you have made to **Maximize Earnings**.

PRE-SESSION ASSESSMENT			
<p><b>Statements:</b> <i>(check all that apply)</i></p> <table style="width: 100%;"> <tr> <td style="width: 50%; vertical-align: top;"> <input type="checkbox"/> I checked my pay statement regularly to make sure it was right.  <input type="checkbox"/> I understood the deductions on my pay statement.  <input type="checkbox"/> I reviewed my employer provided benefits before selecting them.  <input type="checkbox"/> I reviewed employee benefits before taking a job.                 </td> <td style="width: 50%; vertical-align: top;"> <input type="checkbox"/> I reviewed my federal withholding allowances periodically.  <input type="checkbox"/> I know how pre-tax deductions affect take-home pay.  <input type="checkbox"/> I have checked PA Compass to see if I qualify for temporary benefits upon release.  <input type="checkbox"/> I know what my income will be upon release.                 </td> </tr> </table>		<input type="checkbox"/> I checked my pay statement regularly to make sure it was right. <input type="checkbox"/> I understood the deductions on my pay statement. <input type="checkbox"/> I reviewed my employer provided benefits before selecting them. <input type="checkbox"/> I reviewed employee benefits before taking a job.	<input type="checkbox"/> I reviewed my federal withholding allowances periodically. <input type="checkbox"/> I know how pre-tax deductions affect take-home pay. <input type="checkbox"/> I have checked PA Compass to see if I qualify for temporary benefits upon release. <input type="checkbox"/> I know what my income will be upon release.
<input type="checkbox"/> I checked my pay statement regularly to make sure it was right. <input type="checkbox"/> I understood the deductions on my pay statement. <input type="checkbox"/> I reviewed my employer provided benefits before selecting them. <input type="checkbox"/> I reviewed employee benefits before taking a job.	<input type="checkbox"/> I reviewed my federal withholding allowances periodically. <input type="checkbox"/> I know how pre-tax deductions affect take-home pay. <input type="checkbox"/> I have checked PA Compass to see if I qualify for temporary benefits upon release. <input type="checkbox"/> I know what my income will be upon release.		
POST-SESSION PROGRESS			
<p style="text-align: center;"><b>My goal to maximize my earnings:</b></p> <p>I want to: <i>(what)</i> _____ My roadblocks are: <i>(if any)</i> _____</p> <p>because: <i>(impact)</i> _____</p> <p>I need to: <i>(how)</i> _____ which I can overcome by: <i>(how)</i> _____</p> <p>by: <i>(when)</i> _____</p>			
<p style="text-align: center;"><b>Worksheets</b> <i>(check if completed)</i></p> <input type="checkbox"/> My Resources <i>(page 5)</i> <input type="checkbox"/> Understanding Your Pay Statement* <i>(page 9)</i> <input type="checkbox"/> Job Benefits Checklist* <i>(page 12)</i> <input type="checkbox"/> Insurance Benefits* <i>(page 13)</i> <input type="checkbox"/> Ten Questions to Ask About Retirement* <i>(page 18)</i> <input type="checkbox"/> What Comes In: Add It Up* <i>(page 22)</i> <input type="checkbox"/> IRS Form W-4 <i>(handout)</i> <p><small>*Use information in the Case Study section - pages 9-15 to complete.</small></p>	<p style="text-align: center;"><b>Actions Taken</b> <i>(check all that apply)</i></p> <input type="checkbox"/> I checked/applied for cash/non-cash assistance. <input type="checkbox"/> I have a plan to maximize earnings upon release. <input type="checkbox"/> I have identified the employee benefits that will be important for me when I secure employment. <input type="checkbox"/> I have calculated the withholding allowances that I will claim upon my release. <input type="checkbox"/> I learned more from the additional resources. <input type="checkbox"/> I shared this information with others.		
<p><b>Please share any additional comments you may have:</b> _____</p> <p>_____</p> <p>_____</p>			

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## My Resources

The first step in maximizing earnings is to take a closer look at the potential resources you may have upon reentry and expecting who gets their cut before it gets to you. Complete boxes one thru three, checking all items that might pertain to *your* situation. Then brainstorm potential options to bring in more and complete question four.

### 1. Check all the sources of **cash** you expect to bring into your household.

- |                                       |  |   |   |
|---------------------------------------|--|---|---|
| <input type="checkbox"/> Wages/Salary | <input type="checkbox"/> Student Loans                 | <input type="checkbox"/> Workers Compensation         | Social Security Benefits:                   |
| <input type="checkbox"/> Overtime     | <input type="checkbox"/> Unemployment                  | <input type="checkbox"/> Veterans Disability Benefits | <input type="checkbox"/> Retirement         |
| <input type="checkbox"/> Tips         | <input type="checkbox"/> Cash Assistance (TANF)        | <input type="checkbox"/> Private Disability Insurance | <input type="checkbox"/> Survivor           |
| <input type="checkbox"/> Commissions  | <input type="checkbox"/> Child Support                 | <input type="checkbox"/> Interest/Dividends           | <input type="checkbox"/> Disability (SSD)   |
| <input type="checkbox"/> Bonuses      | <input type="checkbox"/> Alimony                       | <input type="checkbox"/> Gifts/family                 | <input type="checkbox"/> Supplemental (SSI) |
| <input type="checkbox"/> Hobbies      | <input type="checkbox"/> Retirement (IRA/401k/Pension) | <input type="checkbox"/> Other cash: (list) _____     |   |

### 2. Check all of the **non-cash** resources you expect to bring into your household.

- |   |  |  |
|---|--|--|
| <input type="checkbox"/> Supplemental Nutrition (SNAP/ WIC) | <input type="checkbox"/> Child Care Assistance             | <input type="checkbox"/> Kids Camp/Sports Scholarships |
| <input type="checkbox"/> School Meals                       | <input type="checkbox"/> Housing Assistance                | <input type="checkbox"/> Education Grants/Scholarships |
| <input type="checkbox"/> Food Bank                          | <input type="checkbox"/> Utility Assistance (LIHEAP, etc.) | <input type="checkbox"/> Holiday Gift Program          |
| <input type="checkbox"/> Health Benefits (Medicaid/CHIP)    | <input type="checkbox"/> Transportation Allowance          | <input type="checkbox"/> Health Club Membership        |
| <input type="checkbox"/> Other non-cash: (list) _____       |  |  |

### 3. Check all of the deductions that you expect to be '**taken off the top**,' before you get the cash.

- |   |  |  |
|---|--|--|
| <b>Taxes:</b>   | <b>Insurance Premiums:</b>                       | <input type="checkbox"/> Retirement Savings        |
| <input type="checkbox"/> Federal                        | <input type="checkbox"/> Health/Dental/Vision    | <input type="checkbox"/> Retirement Loan Repayment |
| <input type="checkbox"/> State                          | <input type="checkbox"/> Life State Unemployment | <input type="checkbox"/> Unemployment Insurance    |
| <input type="checkbox"/> Local                          | <input type="checkbox"/> Short-term Disability   | <b>Garnishments:</b>                               |
| <input type="checkbox"/> FICA (OASDI)                   | <input type="checkbox"/> Long-term Disability    | <input type="checkbox"/> Child Support             |
| <input type="checkbox"/> Other deductions: (list) _____ |  | <input type="checkbox"/> Student Loan              |

### 4. What **options** do you have to bring more into your household?

## Reentry Realities

The financial reality of reentry can be scary. Even if you have *invested in yourself*, putting your personal assets to work for financial stability and success is a long-term (but long-lasting) solution. What about immediately upon your release? Let's look at a few resources to assist with your return to the community. Keep in mind that there may be eligibility restrictions depending on your conviction.

### Public Assistance ([www.COMPASS.state.pa.us](http://www.COMPASS.state.pa.us))

- Temporary Assistance for Needy Families (TANF) – cash assistance for low-income people
- Supplemental Nutrition Assistance (SNAP) – food stamps for low-income people
- Women, Infants, and Children (WIC) – supplemental foods to low-income pregnant, breastfeeding, and postpartum women, infants, and children to age 5
- Medicaid and disability waivers – medical assistance for low-income people
- PACE – prescription assistance offering low-cost prescription medication to qualified residents

### Social Security ([www.ssa.gov](http://www.ssa.gov))

- Retirement - benefits for people 62 years or older based on the amount the individual has paid into the system
- Disability - benefits based on work history and disability
- Supplemental security income – cash assistance based on financial need and disability age
- Medicare – health care program, primarily for those ages 65 and over

### Housing

- HUD Public Housing Program providing decent, safe, and low-cost rental housing for low-income families, senior citizens, and individuals with disabilities.
- Housing Choice Voucher Program (Section 8) assists low-income families to afford decent, safe, and sanitary housing
- LIHEAP – energy assistance ([www.compass.state.pa.us](http://www.compass.state.pa.us))

### Veterans

- Reinstatement of pension/disability benefits
- VA Healthcare
- Temporary Financial Assistance (TFA) from The American Legion
- HUD/VASH – Veterans Supported Housing Program with portable housing vouchers

**Discuss possible resources with your re-entry counselor.** There also are many local re-entry coalitions that have been formed across Pennsylvania to assist ex-offenders to re-establish their lives. To find reentry services near you, visit the PA Commission on Crime and Delinquency's Interactive Reentry Services Map: <http://reentrymap.cor.pa.gov>. The map is broken down by county and includes employment, transportation, family services, housing, veteran's services, probation offices, drug and alcohol programs, and many other resources.

[illegible]

Source: Sample pay statements from [www.sampletemplates.com](http://www.sampletemplates.com)



## Sample Pay Statement

<b>Corporate Cleaners</b>				<div style="border: 1px solid black; padding: 2px;"> <div style="display: inline-block; width: 150px; height: 20px; border: 1px solid black; margin-bottom: 2px;"></div> <div style="display: flex; justify-content: space-between; font-size: 0.8em;"> <span>EMPLOYEE</span> <span>ID</span> <span>SOCIAL SECURITY</span> </div> <div style="display: flex; justify-content: space-between;"> <span>Anna R Client</span> <span>4220-0</span> <span>XXX-XX-XXXX</span> </div> </div>		
<div style="border: 1px solid black; padding: 2px;">B</div> PAY PERIOD ENDING	<div style="border: 1px solid black; padding: 2px;">C</div> GROSS	<div style="border: 1px solid black; padding: 2px;">E</div> TAXABLE GROSS	<div style="border: 1px solid black; padding: 2px;">F</div> TAXES	<div style="border: 1px solid black; padding: 2px;">F</div> OTHER	<div style="border: 1px solid black; padding: 2px;">H</div> NET PAY	
9/30/2015	\$876.67	\$823.34	\$167.14	\$80.91	\$628.62	
<b>YEAR-TO-DATE</b>	\$15,780.06	\$14,820.06	\$3,008.52	\$1,456.38	\$11,315.16	
PAY CLASS	RATE	HOURS	GROSS	DEDUCTIONS	CURRENT	YEAR-TO-DATE
Regular	\$10.00	86.67	\$866.67	ABC	\$43.33	\$780.00
Overtime				FICA	\$51.05	\$918.84
Annual				Medicare	\$11.94	\$214.89
Sick				Federal	\$64.90	\$1,168.20
Holiday				State	\$24.70	\$444.60
Uniform			\$10.00	Local	\$11.94	\$214.89
				Uniforms	\$15.00	\$270.00
				Opt Life	\$20.36	\$366.48
				LTD	\$2.22	\$39.96
<b>TOTAL</b>			\$876.67	<b>TOTAL</b>		\$245.44
Tax Code Federal: S01 Tax Code State: S01 Check No: 213456			<div style="border: 1px solid black; padding: 10px; font-size: 1.2em;">             This area intentionally left blank.           </div>			

- A.** Employee information. This section includes name, employee ID number, and social security number; your statement may also contain other information such as employee address, department, location, etc.
- B.** Pay Period Ending. This is the date upon which the current payroll period ends. This statement reflects all compensation earned during the *bimonthly* period ending on this date.
- C.** Gross - This is the total of all earnings types paid which are broken down in **D**.
- D.** Pay details - This section shows the types of pay and the hourly rate, number of hours, and gross amount of compensation for each earnings type; examples of types of earnings include regular pay, overtime, vacation/annual leave, sick time, etc.
- E.** Taxable Gross – This is the total amount of gross pay that is taxable for federal income tax purposes. Generally, this amount is equal to your gross pay less deductions for health insurance, contributions to a medical or dependent care spending account and contributions made to a retirement plan.
- F.** Taxes and Other: These boxes show total taxes and other deductions which are detailed in **G**.
- G.** Deduction details – This section lists each deduction that has been withheld from pay, including Social Security/Medicare (FICA/Medicare), federal, state, and local income taxes, health and other insurance deductions, retirement plan contributions, union dues, wage garnishments, etc.
- H.** Net Pay – This is the net amount of pay that you receive after all tax and deduction amounts are subtracted from your total gross pay.
- I.** Other notes - This statement shows the federal and state withholding status as submitted on your (W4 Form) which determines the amount of federal and state income taxes withheld, as well as, a notes section. Many formats separate tax status and the check number or direct deposit information.

Your pay statement may also include leave balances and activity, the total amount of the employer's contributions for benefits, links to resources or contact information, etc.

Source: Adapted from *Your Payroll Check Explained* (Montgomery County Maryland)



## Understanding Your Pay Statement

Did you know also know that that there are no standard descriptions or abbreviations that have to be used? For example, social security taxes might be listed as FICA (Federal Insurance Contribution Act) or OASDI (Old-Age, Survivor, and Disability Insurance). It's important to understand all of the specific items on your paystatement. **Use information from the Case Study (page 13) to complete the worksheet.**

Earnings:		Description or Abbreviation Used	Current Pay Period Amount	Year-to-Date (YTD) Amount
Wages				
	Regular	Regular	\$1,213.38	\$2,426.76
	Overtime			
	Commission/tips			
	Bonus			
	Other	Mass Trans (transportation allowance)	\$ 60.00	\$ 120.00
Paid time off				
Other				
Total Gross Pay:			<b>\$1,273.38</b>	<b>\$2,546.76</b>
Deductions:				
Taxes				
	Federal	Federal	\$ 59.79	\$ 119.58
	State	State	\$ 34.73	\$ 69.46
	Local	Local	\$ 16.35	\$ 32.70
	Social Security	OASDI	\$ 86.27	\$ 172.54
	Medicare			
	Unemployment			
	Other			
Insurances				
	Health insurance	XYZ Health Plan	\$ 60.67	\$ 121.34
	Flexible spending	FSA	\$ 25.00	\$ 50.00
	Health savings			
	Other	Life-Optional (group life insurance)	\$ 0.35	\$ 0.70
Retirement savings				
Garnishments				
Other				
Total Deductions:			<b>\$283.16</b>	<b>\$566.32</b>
Net Pay			<b>\$990.21</b>	<b>\$1,980.44</b>

Source: Adapted from *Managing Your Money* (Career Publishing Solutions)

## Job Benefits Game

Think of all of the reasons you would want to work for a company, other than the pay check. What kind of 'perks' or benefits might a company offer to attract you as a new employee. See how many you can write down in two minutes!

Job Benefits – More Than Just a Paycheck!			
1	2	3	4
5	6	7	8
9	10	11	12
13	14	15	16
17	18	19	20
21	22	23	24

## More Than Just a Paycheck

**One of the most important steps you can take to build a bright future is to land and keep a good job.** The right job will allow you to challenge yourself, learn new skills, develop self-confidence and, of course, earn a good wage. Your paycheck gives you economic power—not just to buy “things,” but to provide a strong financial foundation for you and your family. You can also use your economic power to contribute to your community and help others.

When you apply for a job, one of the first things you think about is how much the job pays. But it's not just about the paycheck; you also need to think about what **employee benefits** it offers. The purpose of employee benefits-- also known as **‘fringes’ or ‘perks’**--is to:

- **Make people want to work for the company**
- **Help workers learn more job skills**
- **Keep workers healthy and hard working**



Benefits may include a health insurance plan, life or disability insurance (or both), paid time off, retirement savings plans, and education benefits. The value of benefits offered is often 25% or more of your pay! For example, if your wages are \$40,000 per year, your benefits may cost your employer \$10,000. That may make us look differently at our employer or even future job offers.

Not all jobs offer benefits and others may only offer a few. You may have to work a certain length of time, such as three to six months or maybe one year, before you can start using these benefits. This ‘waiting period’ is common with retirement plans, training, promotions, etc.

When seeking work, try to compare benefits as a way of comparing potential employers. For example, two jobs may pay the same wages but offer very different benefits. One employer may even pay more but offer fewer benefits. You may also be interested in specific benefits, such as flex time, if you have family obligations or an active schedule outside of work. It's a lot to consider when comparing employers.

Source: Adapted from *Making the Most of Job Benefits* (National Urban League)

## Job Benefits Checklist

Did you know that an employer will spend an additional 38 cents\* on employee benefits for every dollar they pay in wages? Knowing what your employer offers is the first step to maximizing the resources already available to you. **Use information from the Case Study (pages 14&15) to complete the worksheet.**

Benefit	Description	Does your company offer?			Are you using?	
		Yes	No	Unsure	Yes	No
Health Insurance	Health Maintenance Organization (HMO)		✓			
	Preferred Provider Organization (PPO)		✓			
	Major Medical (Indemnity Plan)	✓			✓	
	Prescription Drug Plan	✓			✓	
	Dental	✓				(v)
	Vision		✓			
	Other:					
Other Insurance	Life	✓				(v)
	Dependent Life	✓			✓	
	Disability	✓			✓	
	Long-term Care		✓			
	Property (Auto/Home, etc)		✓			
	Other: <b>Dependent Life</b>	✓			✓	
Paid Time Off	Annual/Vacation/Personal	✓			✓	
	Holidays	✓			✓	
	Sick Leave	✓			✓	
	Family Leave	✓				(v)
	Other:					
Retirement	Traditional Pension Plan		✓			
	401(k), 403(b), or 457 Savings Plan	✓				(v)
	Matched Savings Incentives		✓			
	Profit-Sharing Plan (or ESOP)		✓			
	Retiree Health Insurance		✓			
	Other:					
Other	Flexible Spending Account (FSA)	✓			✓	
	Health Savings Account (HSA)		✓			
	Tuition Reimbursement	✓				(v)
	In-house Training Programs	✓				(v)
	Employee Assistance Program (EAP)			✓		
	Child Care			✓		
	Adoption Assistance			✓		
	Wellness Program	✓				(v)
	Legal Assistance		✓			
	Housing Assistance		✓			
	Other: <b>Credit Union</b>	✓				(v)
	Other: <b>Flexible Work Hours</b>	✓				✓

\*Source: The Pew Charitable Trusts (7/21/2016)

## Insurance Benefits

Use information from the Case Study (pages 13-15) to complete the following chart to record what insurance and related benefits are available to Anna *and* at what cost.

Insurance Option	Coverage/Benefit/Limitations	My Cost Per Pay
Dental	<i>Optional coverage</i>	<i>Unsure, must ask HR department</i>
Disability	<i>65% of employee pay (\$1,655/month) beginning 180 days from date of disability to maximum of three benefit years.</i>	<i>Company pays premiums</i>
Health (HMO, PPO, Major Medical, etc.)	<i>Major medical including prescription drugs</i>	<i>5% of base pay = \$60.67</i>
Life	<i>\$10,000 term life with accidental death and dismemberment benefits</i>	<i>Company pays premiums</i>
Long-Term Care	<i>N/A</i>	
Vision	<i>N/A</i>	
Other	<i>Optional life insurance at \$1.40 per month for additional \$10,000 coverage; dependent life \$0.70 per month for maximum of \$5,000 per dependent.</i>	<i>\$0.35 (Note: Anna has two children; perhaps she needs to revisit to cover both children?)</i>
Related Benefits	Qualified Expenses/Limitations	My Contribution Per Pay
Flexible Spending Account (FSA) - Health Care	<i>Out of pocket medical expenses</i>	<i>\$25</i>
Health Savings Account (HSA)	<i>N/A</i>	

Source: Adapted from *DollarWorks 2* (University of Minnesota)

## Flexible Spending Accounts – Health Care

**Would you like to get a ‘discount’ on what you pay for health care?** You can if your employer offers a “flexible spending account” (FSA). FSAs are used to pay for health care costs not covered by your insurance plan, like deductibles, co-payments, etc. Rather than getting money in your paycheck, your employer puts it into an FSA. When you have a qualifying expense, you can use the benefit card provided or turn in the receipt to get the money back from the account.

**How does this help you?** The money set aside in a health care FSA is **never taxed** and that means more money in your pocket! For example, for every \$100 you put into an FSA, you might save \$15 in taxes. That’s \$15 more you could use for other things!

**How much should you put into an FSA?** Here are four steps to help you decide.

**Step 1. Enter your health care plan’s annual deductible (A).** \$ \_\_\_\_\_

**Step 2. Estimate costs not paid by your health care plan.**

Name of Family Member	Doctor Visits Co-payments	Prescription Co-payments	Dental Care	Eye Exams and Glasses	Other Health Care Costs
<i>Yourself</i>					
<b>Totals</b>	<b>(B)</b>	<b>(C)</b>	<b>(D)</b>	<b>(E)</b>	<b>(F)</b>

**Step 3. Add together the totals for A through F.**

(A) Health care plan annual deductible: \$ \_\_\_\_\_  
 (B) Doctor’s visits co-payments: \$ \_\_\_\_\_  
 (C) Prescription co-payments: \$ \_\_\_\_\_  
 (D) Dental care: \$ \_\_\_\_\_  
 (E) Eye exams and glasses: \$ \_\_\_\_\_  
 (F) Other health care costs: \$ \_\_\_\_\_

**Total estimate of health care costs:** \$ \_\_\_\_\_

**Step 4. Divide** the total estimated amount by the number of paychecks received during the year to calculate the amount to be deducted from each paycheck and deposited into the FSA.\*

$$\frac{\$ \text{_____}}{\text{total estimate of annual costs}} \div \frac{\text{_____}}{\text{\# of paychecks received per year}} = \$ \text{_____}$$

$$\text{amount deducted from each paycheck}$$

*\*An FSA is a helpful benefit but keep in mind not to overestimate your out-of-pocket expenses. Unclaimed or unused money will not be returned. Health Savings Accounts (HSA’s) are different. Money not used may be carried over into the next year. (You may also have access to a separate FSA for child or dependent care expenses.)*

Source: Adapted from *DollarWorks 2* (University of Minnesota)

## What About Retirement Benefits?

**All Retirement benefit plans are not created equally.** There are pensions, savings plans, profit sharing, etc. So what's the difference, and how do you know if your employer's plan is a good one? Here are the most common types of employee retirement plans and how they can work for you.

**Defined benefit plan:** Better known as a pension plan. Your employer promises to pay you a set monthly amount when you retire and has to make sure they can meet that promise. The plan 'defines the benefit you receive,' but it's usually based on how many years you have worked at the company and your wages. Your employer may pay for the entire plan, but some require you to contribute part of your wages into the plan as well. These plans are not so common anymore. In fact, only 20% of employers offered pension plans as of 2010.

**Defined contribution plan:** This is a savings plan and does not promise to pay you a set monthly amount when you retire. The amount you get depends upon how much you put in and how much the money grows. In other words, your 'contribution defines the benefit you receive.' You usually have to elect to participate and, of course, how much to put into it. Federal law limits how much you can put in every year. You will not be taxed on it until you withdraw the money when you retire. There is a 10% penalty if you withdraw the money **before 59 ½ or after 70 ½**. Here are some common types of defined contribution plans:

**401(k) and 403(b) plans:** are probably the most recognized types of retirement savings plans. (The names simply come from the section of the income tax law that allows tax-deferral of the contributions.) These plans have pre-selected investment options\* (usually a variety of mutual funds) so you can choose what's right for you. If your employer matches your contribution, you may have to wait up to six years to 'vest' (have legal access to that money). [Some 401(k) and 403(b) plans now offer a **Roth** election. The major difference with a Roth election is that you will pay income taxes *now* on the money you put into the plan. However, when you take it out at retirement, it will be tax-free!]

**Simplified Employee Pension plan (SEP-IRA):** is a plan used for small businesses or people who are self-employed. These accounts are completely self-directed, meaning the employee decides where to open the account and how to invest the money (no pre-selected options\*). The main difference with this plan is that only employers can contribute to the account.

**Profit-sharing plan:** This is a plan where your employer shares the company profits with you! Your employer contributes money to a retirement account on your behalf. While a great benefit and work incentive, profit-sharing plans are not a reliable retirement savings because if company profits go down, so will the contribution. [The company can also decide to give you an outright cash bonus or stock ownership in the company, commonly known as an ESOP-employee stock ownership plan.]

*\*Learn as much as you can about each kind of investment option before choosing. See the Make Money Work module to learn more about investing.*

Source: Adapted from *Building Native Communities: Investing for Your Future* (First Nations Development Institute) and *Making the Most of Job Benefits* (National Urban League)



## Where Does an IRA Fit?

An **IRA** or **Individual Retirement Account** is a retirement savings account not associated with an employer plan. (The SEP-IRA is the exception and has its own contribution rules.) An IRA is a self-directed account, meaning you choose where (financial institution) to open the account and choose the investments inside of the account.\* This tax-deferred account can be opened by any person with earned wages or self-employment income. (A spouse without earned wages can open an IRA as well!)

An IRA can be opened at a bank, credit union, mutual fund company, or other financial services company. Federal law sets the contribution limit which is significantly less than a 401(k) or 403(b). You can put money into a traditional IRA, Roth IRA, or a combination of the two.

- A **traditional** IRA may allow you to deduct your contribution or take a credit on your federal income taxes. You will not pay taxes on the earning in the account until you take money out at retirement. There is a 10% penalty if you withdraw the money **before 59 ½** or **after 70 ½**.
- A **Roth** IRA is different from a traditional IRA because you cannot take a deduction or credit for your contributions. However, the earnings on your account are completely tax free and you may be able to withdraw the *contributions* you've made without paying a penalty. If you withdraw the *earnings* before 59 ½, they will be subject to a 10% penalty. Also, you don't have to take the money out, so the 70 ½ rule does not apply!

*\*Learn as much as you can about each kind of investment option before choosing. See the Make Money Work module to learn more about investing.*

Source: Adapted from *Building Native Communities: Investing for Your Future* (First Nations Development Institute) and *Making the Most of Job Benefits* (National Urban League)

## Why Should I Save for Retirement?

Saving money can be difficult when you are also trying to keep your family fed, clothed, and housed. However, there are some really good reasons to consider contributing to your employer's retirement savings plan, and *no amount is too small*. Here are five good reasons:



### Tax-Deferred

You don't pay federal income tax on money put in your retirement savings plan until you take it out when you retire. Less tax now means **more money in your pocket!**



### Employer Match

For example, for every \$2 you put into the retirement savings plan, your company may offer to put in \$1. That's **free money** you're losing out on if you don't participate! You may need to work a certain number of years to become 'vested' (have legal right to the employer match and its earnings).



### Automatic Deductions

Your contributions are deducted directly from your pay, just like income taxes. **No need** to worry about **making a separate deposit** after cashing your check; it's done for you-automatically!



### Compound Interest

In simple terms, the interest you earn, earns interest. When you contribute to a retirement savings plan and keep it there, your interest earns interest and can add up to a large stash of cash over time! **You work hard** to make the money to contribute to the plan, and from that point on, **your money works hard** to make money for you! See the Make Money Work modules for to learn more on compound interest.



### Choose Your Future

By making contributions into your employer retirement savings plan, you are making an important commitment to your future. You are taking control of its direction and are choosing a promising path.

Source: Adapted from *Building Native Communities: Investing for Your Future* (First Nations Development Institute)

## Ten Questions to Ask About Retirement Benefits

Here are ten questions to ask about your (or potential) employer's retirement plan. Use information from the Case Study (pages 14&15) to complete the worksheet.

- 1.) Is it a defined benefit (pension) plan or a define contribution (savings) plan? *The plan is a defined contribution – 401(k) savings plan.*
- 2.) Am I automatically enrolled in the program or do I need to tell my employer that I want to participate? *An enrollment is provided by the HR department and must be completed in order to enroll.*
- 3.) Is there a waiting period before I can enroll? *There is a 90 day wait period*
- 4.) Is the retirement plan mandatory? Do I have to participate? *Enrollment is optional.*
- 5.) Is there a minimum contribution that has to be made from each paycheck? *\$5*
- 6.) Does the employer add any money to my account or match my deposits? *There is no employer match.*
- 7.) If the employer does make contributions, how long do I have to work to be vested and have a legal right to employer contributions and earnings? *N/A*
- 8.) Can I access my money in the event of a financial hardship? *There are no hardship loans available.*
- 9.) What are the investment choices in the plan? *The plan includes a guaranteed value fund and ten other mutual fund options.*
- 10.) Are there people I can talk to who can help me understand my choices? *Anna needs to ask her HR department about educational or counseling opportunities available through the plan.*

Source: Adapted from *DollarWorks 2* (University of Minnesota)

## What Does Pre-Tax Really Mean?

**'Pre-tax'** is used to describe wages earned but not taxed. **The IRS has special rules for pre-tax earnings.** The IRS allows taxes to be **deferred**, or put off until a later time, on some of your wages and **tax free** on others, depending on how you use that money. For example, if you use 'pre-tax' money to pay for health insurance or for a healthcare flexible spending account (FSA), those wages are not taxed at all, including FICA. If you contribute to an employer retirement plan, those wages won't be taxed (federal) until you withdraw the money when you retire. [The exception is a **Roth** 401(k) plan.]

Want to see what pre-tax will mean to you? Here is a quick calculation to help you see how you can benefit from using pre-tax dollars.\*

1. Enter your gross wages: \_\_\_\_\_
2. Enter the annual amount of your following (FICA exempt) contributions:
  - Health insurance premiums: \_\_\_\_\_
  - Health Savings Account (HSA): \_\_\_\_\_
  - Flexible Spending Account (FSA) – Healthcare: \_\_\_\_\_
  - Flexible Spending Account (FSA) – Dependent Care: \_\_\_\_\_
  - Total (FICA exempt) Contributions:** \_\_\_\_\_
3. Calculate FICA **taxes saved**:
  - [multiply total FICA exempt contributions (line #2) x 7.65%] = \_\_\_\_\_
4. Calculate PA income **taxes saved**:
  - [multiply total FICA exempt contributions (line #2) x 3.07%] = \_\_\_\_\_
5. Calculate local income **taxes saved**:
  - Enter local income tax rate: \_\_\_\_\_
  - [multiply total FICA exempt contributions (line #2) x local income tax rate] = \_\_\_\_\_
6. Enter your annual retirement plan contributions: \_\_\_\_\_
7. Total pre-tax contributions: [add lines (#2) and (#6)] = \_\_\_\_\_
8. Calculate federal income **taxes saved**:
  - Enter federal income tax rate: \_\_\_\_\_ \*\*
  - [multiply total pre-tax contributions (line #7) x federal tax rate] = \_\_\_\_\_
  - Total Taxes Saved:** [add lines (#3, 4, 5, and 8)] = \_\_\_\_\_

*\*Note this calculation is for illustrative purposes only; see you tax preparer for confirmation of actual dollars saved. Maximum dollars amounts are valid for 2017.*

*\*\*Use your current federal tax bracket. See [www.irs.gov](http://www.irs.gov).*

## Before You Jump Ship

A job making higher wages is always better, right? You know that a job is more than just a paycheck. Use this worksheet to compare some basic economic factors before you decide on a new job or company. A higher wage job may not be the best option in the long run.

Factors	Job/Company 1	Job/Company 2
Hourly wages		
Work hours per week		
Annual pay		
Less: Other annual cash income		
<b>Annual Gross Compensation</b>		
<b>Pre-Tax Deductions: (annual)</b>		
Health insurance /FSA contributions		
Retirement savings contributions		
Other pre-tax deductions		
<b>Tax Deductions: (annual)</b>		
*FICA taxes (7.65%)		
**Federal income taxes (____% effective rate )		
*State/Local income taxes (____% rate)		
<b>Net Take Home</b>		
<b>Subtract Comparable Costs: (annual)</b>		
Transportation/parking		
Uniform/clothing		
Other expenses		
<b>"Really Feels Like"</b>		
<b>Add Employee Benefit Use: (annual)</b>		
Retirement contributions		
Tuition Reimbursement		
Retirement savings employer match		
Other benefits		
<b>"Net" Economic Benefit</b>		
<b>Other considerations:</b>		
Commute time/total hours away from home		
Paid holidays		
Annual leave/vacation		
Sick leave		
Advancement potential		
Other		

\*FICA and State/Local wages = Gross Compensation – Health insurance/FSA contributions.

\*\* Federal wages = Gross Compensation – (total) Pre-tax Deductions.

## Completing the IRS Form W-4

When you start a new job, your employer will ask you to complete a **IRS Form W-4 Employee's Withholding Allowance Certificate**. The Form W-4 tells your employer how much of federal income taxes to withhold for you.

It's important to note that withholding allowances are not the same as exemptions or dependents you actually claim on your federal income tax return. Allowances determines how much of your income will *not* be used for the *withholding calculation*. It's complicated but the important thing to know is the **greater the number of allowances** claimed, the **less federal tax withholding**. Many people automatically want the most withheld from their pay, i.e. claiming zero or one allowance, so they will not owe any federal tax when they actually file their return. They get a tax refund, sometimes very large, due to this decision. However, it's their own money that is being returned.\*

So how can you navigate the complex Form W-4? You can use the worksheet included on the form; this worksheet asks about your family status, income, and tax credits and deductions in order to determine the number of allowances to claim. Or, the IRS has an online withholding calculator that you can use to find out the right number of allowances to claim. The goal of the calculator is to determine the right number of allowances claimed which results in a very little refund or very little owed at the end of the year.

### To Use the Calculator:

- Have your most recent pay stubs handy.
- Have your most recent income tax return handy.
- Estimate values, if necessary, but the results can only be as accurate as the input you provide.

[www.irs.gov/Individuals/IRS-  
Withholding-Calculator](http://www.irs.gov/Individuals/IRS-Withholding-Calculator)



### To Change Your Withholding:

1. Use your results from the calculator to help you complete a new Form W-4
2. Submit the completed form to your employer.

Separate here and give Form W-4 to your employer. Keep the top part for your records.

<b>W-4</b> Form Department of the Treasury Internal Revenue Service		<b>Employee's Withholding Allowance Certificate</b>		OMB No. 1545-0074 <b>2016</b>
<small>► Whether you are entitled to claim a certain number of allowances or exemption from withholding is subject to review by the IRS. Your employer may be required to send a copy of this form to the IRS.</small>				
1 Your first name and middle initial		Last name		2 Your social security number
Home address (number and street or rural route)		3 <input type="checkbox"/> Single <input type="checkbox"/> Married <input type="checkbox"/> Married, but withhold at higher Single rate. <small>Note: If married, but legally separated, or spouse is a nonresident alien, check the "Single" box.</small>		
City or town, state, and ZIP code		4 If your last name differs from that shown on your social security card, check here. You must call 1-800-772-1213 for a replacement card. <input type="checkbox"/>		
5 Total number of allowances you are claiming (from line H above or from the applicable worksheet on page 2)		5		
6 Additional amount, if any, you want withheld from each paycheck		6 \$		
7 I claim exemption from withholding for 2016, and I certify that I meet both of the following conditions for exemption. • Last year I had a right to a refund of all federal income tax withheld because I had no tax liability, and • This year I expect a refund of all federal income tax withheld because I expect to have no tax liability. If you meet both conditions, write "Exempt" here		7		
<small>Under penalties of perjury, I declare that I have examined this certificate and, to the best of my knowledge and belief, it is true, correct, and complete.</small>				
Employee's signature (This form is not valid unless you sign it.) ►		Date ►		
8 Employer's name and address (Employer: Complete lines 8 and 10 only if sending to the IRS.)		9 Office code (optional)	10 Employer identification number (EIN)	
<small>For Privacy Act and Paperwork Reduction Act Notice, see page 2.</small>				
<small>Cat. No. 10220Q</small>			<small>Form <b>W-4</b> (2016)</small>	

\*Not including any refundable credits. This will be covered in more detail in the Check Taxes module.

## What Comes In: Add It Up

Use information from the Case Study (pages 9-15) to complete the worksheet.

### Cash Coming In

Wages/Salary (before deductions)	\$2,426
Wages/Salary (before deductions)	
Commission/Tips/Overtime Pay	
Temp Assistance for Needy Families (TANF)	
Child Support/Alimony Received	
Unemployment Compensation	
Social Security Benefits	
Pension	
Veteran's Benefit	\$ 210
Worker's Disability Compensation	
Other Cash: (specify) <i>transportation allowance</i>	\$ 120
<b>Total Cash In:</b>	<b>\$2,756</b>

### Non-Cash Assistance

Supplemental Nutrition Assistance (SNAP)	
Women, Infants & Children Program (WIC)	
Child Care Assistance	
Housing Assistance	\$ 400
School Lunch	\$ 115
Energy Assistance	
Other Non-Cash: _____	
<b>Total Non-Cash In:</b>	<b>\$ 515</b>

**What Comes In: Cash In + Non-Cash In**  
(Also called *gross monthly income*)

**\$3,271**

### Off the Top Deductions

Federal Taxes	\$ 119
State/Local Taxes	\$ 102
FICA Taxes	\$ 172
Unemployment Insurance	
Retirement Savings	
Health/Dental Insurance	\$ 121
Life/Disability Insurance	\$ 1
Child Support/Garnishments	\$ 50
Other: <i>FSA</i>	
<b>Total Off the Top:</b>	<b>\$ 565</b>

**What Comes In – Off the Top = Take Home Pay**  
(Also called *net monthly income*)

**\$2,706**

Source: Adapted from *DollarWorks 2* (University of Minnesota)



## Additional Resources to: *Maximize Earnings*

### **Action Without Borders: [www.Idealist.org](http://www.Idealist.org)**

#### Benefits Glossary

This link provides easy to understand definitions of common employee benefits.

### **Department Of Homeland Security: [www.dhs.gov](http://www.dhs.gov)**

#### Form I-9, Employment Eligibility Verification

This form verifies that you are eligible to work in the United States.

### **Family Economics & Financial Education: [www.takechargetoday.arizona.edu](http://www.takechargetoday.arizona.edu)**

#### Understanding Your Paycheck

This article provides everything you need to know about your paycheck.

### **Internal Revenue Service: [www.IRS.gov](http://www.IRS.gov)**

#### Withholding Calculator

This online calculator can help you determine whether you need to give your employer a new Form W-4, Employee's Withholding Allowance Certificate to avoid having too much or too little Federal income tax withheld from your pay. You can use your results from the calculator to help fill out the form.

### **Montgomery County Maryland: [www.montgomerycountymd.gov](http://www.montgomerycountymd.gov)**

#### Your Payroll Check Explained

This passage gives a detailed description along with a picture of a check to help you understand things you should know about your check

### **National Endowment for Financial Educational: [www.nefe.org](http://www.nefe.org)**

#### Making The Most of job Benefits

This book describes all the different types of benefits. The book tells you how to get these benefits, and what to do if your job doesn't provide employee benefits.

### **PA Department of Human Services: [www.dhs.state.pa.us](http://www.dhs.state.pa.us)**

#### Compass: Click.Apply.Benefit.

COMPASS provides complete information on the specific health and human service programs or benefits available in Pennsylvania. You can also apply for new benefits, finish your application or check your status right from this site.

### **PA Housing Finance Agency (PHFA): [www.buildingyourfinancialhouse.org](http://www.buildingyourfinancialhouse.org)**

Building Your Financial House is a commercial free financial resource for Pennsylvanians. Mirroring PHFA's flagship financial education program, the site provides comprehensive information on general financial topics and major milestones in life. The site also has over 40 worksheets, including those found in this module, to help build your own financial house.

### **Work Place Basics: [www.learnfree.org](http://www.learnfree.org)**

#### Understanding Your Pay, Benefits, and Paycheck

This article helps you differentiate between gross income and net income, recognize commonly-offered employee benefits, and it helps you understand your paycheck.

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## Session Evaluation

We hope you found today's session engaging and of value to your situation. Please share your opinions and comments so we may continue to improve the program. Thank you!

	<i>Excellent</i>	<i>Very Good</i>	<i>Good</i>	<i>Fair</i>	<i>Poor</i>
<b>Overall, I feel the session was:</b>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
The location of the session was:	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
The meeting room and facilities were:	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>Before the session:</b>					
My knowledge and skills about the topic were:	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>After the session:</b>					
My knowledge and skills about the topic are:	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
My confidence to apply what I have learned today is:	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	<i>Strongly Agree</i>	<i>Agree</i>	<i>Not Sure</i>	<i>Disagree</i>	<i>Strongly Disagree</i>
<b>During the Session:</b>					
The instructions were clear and easy to follow.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
The time allocated was right for the topic.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
There was ample opportunity to share experiences/ideas.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
The overhead slides were clear and helped my learning.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
The activities and examples helped my learning.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
The activities and examples were relevant to my situation.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>The instructor:</b>					
Was knowledgeable about the topic.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Delivered lessons in a clear and understandable manner.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Was engaging and encouraged interaction.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Was well-prepared.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Was approachable and open to questions.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>The session:</b>					
Met my expectations.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Was of value to me.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Has motivated me to take action.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>Final Questions</b>					
The most valuable thing I learned today was:	What was the least valuable part of the session and how could it be improved?				
Additional comments:					

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