

Building Your Financial House

Set the Foundation of Your Future



Module 2 Maximize Earnings Participant Guide

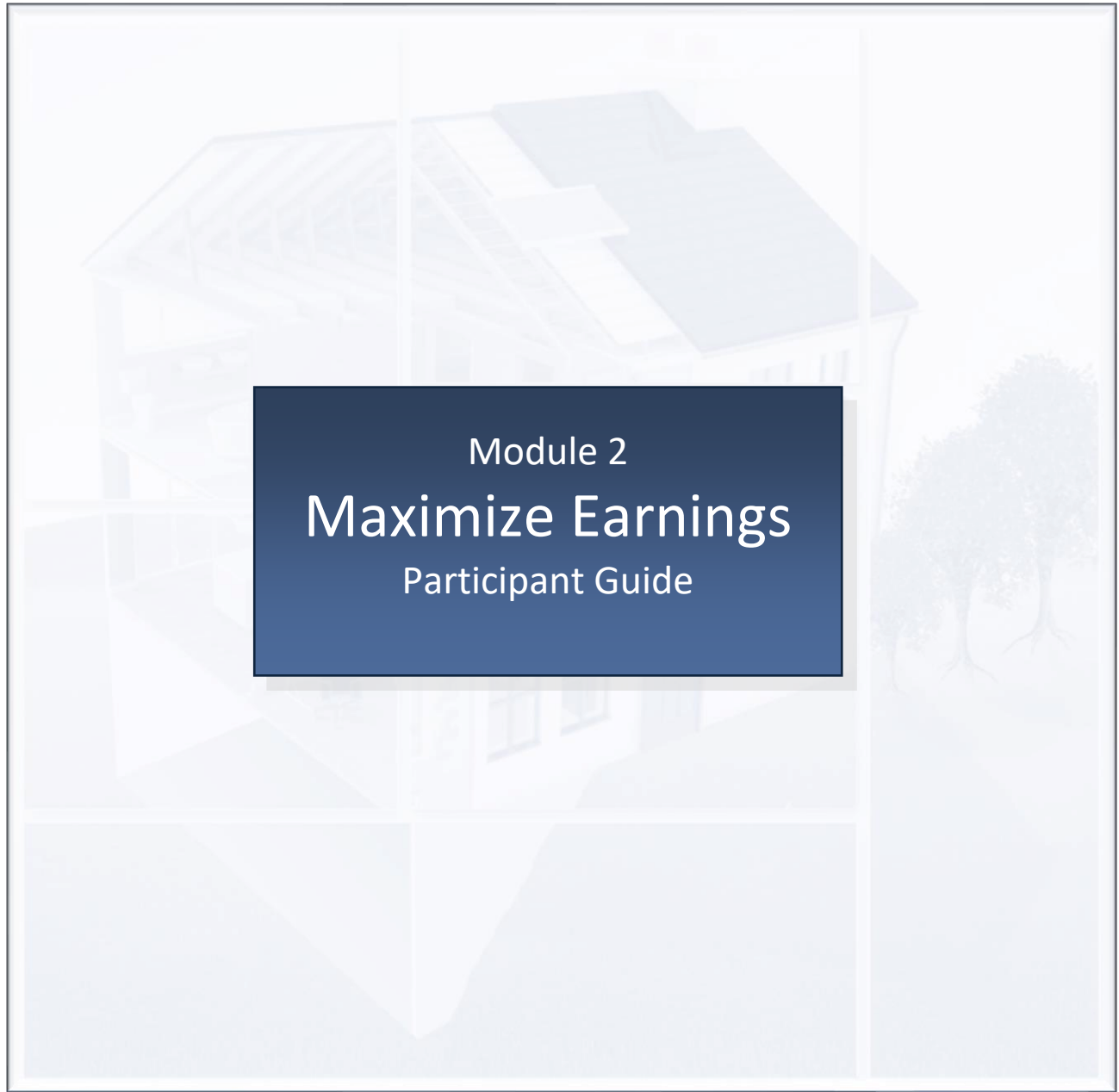


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Self-Assessment and Track Your Progress

ID
(email address)

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**.

<p>Current Practices <i>(check all that apply)</i></p> <table style="width: 100%; border: none;"> <tr> <td style="width: 50%; vertical-align: top; padding-right: 20px;"> <input type="checkbox"/> I check my pay statement regularly to make sure it is right. <input type="checkbox"/> I understand all of the deductions on my pay statement. <input type="checkbox"/> I know how pre-tax deductions affect my take-home pay. <input type="checkbox"/> I reviewed my federal withholding allowances within the past year. </td> <td style="width: 50%; vertical-align: top;"> <input type="checkbox"/> I reviewed my employer provided benefits within the past year. <input type="checkbox"/> I have reviewed employee benefits in detail before taking a job. <input type="checkbox"/> I have checked PA Compass to see if I qualify for temporary benefits. </td> </tr> </table>		<input type="checkbox"/> I check my pay statement regularly to make sure it is right. <input type="checkbox"/> I understand all of the deductions on my pay statement. <input type="checkbox"/> I know how pre-tax deductions affect my take-home pay. <input type="checkbox"/> I reviewed my federal withholding allowances within the past year.	<input type="checkbox"/> I reviewed my employer provided benefits within the past year. <input type="checkbox"/> I have reviewed employee benefits in detail before taking a job. <input type="checkbox"/> I have checked PA Compass to see if I qualify for temporary benefits.
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<p>Post-Session Progress</p> <p><input type="checkbox"/> I set a goal to <i>maximize my earnings</i>.</p> <p>I want to _____ by: <i>(when)</i> _____</p> <p>because: <i>(impact)</i> _____</p> <p>I need to: <i>(how)</i> _____</p> <p>My roadblocks are: <i>(if any)</i> _____</p> <p>which I can overcome by: <i>(how)</i> _____</p>			
<p>Worksheets <i>(check if completed)</i></p> <input type="checkbox"/> My Resources <i>(page 6)</i> <input type="checkbox"/> Understanding Your Pay Statement* <i>(page 10)</i> <input type="checkbox"/> Job Benefits Checklist* <i>(page 13)</i> <input type="checkbox"/> Insurance Benefits* <i>(page 14)</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 23)</i> <input type="checkbox"/> IRS Form W-4 <i>(handout)</i>	<p>Actions Taken <i>(check all that apply)</i></p> <input type="checkbox"/> I check my pay statement on a regular basis. <input type="checkbox"/> I checked PA Compass to see if I qualify for temporary benefits. <input type="checkbox"/> I reviewed my employee benefits <input type="checkbox"/> I am using a new employee benefit. <input type="checkbox"/> I changed my tax withholding allowance. <input type="checkbox"/> I learned more from the additional resources. <input type="checkbox"/> I shared this information with others.		
<p style="background-color: yellow; border: 1px solid black; margin: 0;">* If you are currently unemployed, use information from your most recent job or from the Case Study section – pages 9, 14-16 to complete.</p>			
<p>Please share any additional comments you may have:</p> <div style="border: 1px solid black; height: 40px; margin-top: 5px;"></div>			

Introduction and Objectives

Welcome back to Building Your Financial House! Remember that each module will introduce money concepts (knowledge) and then the actions you can take to build your own financial house. As a result of Maximize Earnings,

<p>You will know:</p> <ul style="list-style-type: none"> • Cash and non-cash sources of income • The difference between gross and net pay • Employer provided benefits • The actual dollar value of pre-tax benefits • Factors which affect the net economic benefit of a job 	<p>Actions to take:</p> <ul style="list-style-type: none"> • Review your pay statement • Calculate gross and net monthly income • Ask questions, compare options, and select the employee benefits that are right for you • Review your W-4 withholding allowances and adjust if necessary • Evaluate net economic benefit before accepting a new job offer
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Forging your path to financial stability and growth will not be easy, nor will it be in a straight line. Your financial success is achievable if you are willing to make the commitment. Keep the following in mind as you continue your journey:

Unless you think about, choose, say, and do what you really want, you risk getting stuck with circumstances you do not desire.

My Resources

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

1. Cash

(√) Earned <input type="checkbox"/> Wages/Salary <input type="checkbox"/> Overtime <input type="checkbox"/> Tips/Commissions <input type="checkbox"/> Odd Jobs/Hobbies <input type="checkbox"/> Veteran's Benefits <input type="checkbox"/> Social Security (Disability) <input type="checkbox"/> Social Security (Retirement) <input type="checkbox"/> Retirement (IRA/Pension/401(k)) <input type="checkbox"/> _____ <input type="checkbox"/> _____	(√) Unearned <input type="checkbox"/> Cash Assistance (TANF) <input type="checkbox"/> Supplemental (SSI) <input type="checkbox"/> Interest/Dividends <input type="checkbox"/> Unemployment <input type="checkbox"/> _____ <input type="checkbox"/> _____	(√) Other <input type="checkbox"/> Family/Gifts <input type="checkbox"/> Student Loans <input type="checkbox"/> Child Support <input type="checkbox"/> Alimony <input type="checkbox"/> _____ <input type="checkbox"/> _____
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2. Non-Cash

(√) <input type="checkbox"/> Supplemental Nutrition (SNAP/WIC) <input type="checkbox"/> Food Bank <input type="checkbox"/> School Meals <input type="checkbox"/> _____ <input type="checkbox"/> _____	(√) <input type="checkbox"/> Child Care Assistance <input type="checkbox"/> Health (Medicaid/CHIP) <input type="checkbox"/> _____ <input type="checkbox"/> _____	(√) <input type="checkbox"/> Housing Assistance <input type="checkbox"/> Utility Assistance <input type="checkbox"/> _____ <input type="checkbox"/> _____
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3. Off-the-Top Deductions

(√) Taxes <input type="checkbox"/> Federal <input type="checkbox"/> State <input type="checkbox"/> Local <input type="checkbox"/> FICA (OASDI) <input type="checkbox"/> MediCare <input type="checkbox"/> _____ <input type="checkbox"/> _____	(√) Insurance <input type="checkbox"/> Health <input type="checkbox"/> Dental/Vision <input type="checkbox"/> Life <input type="checkbox"/> Disability <input type="checkbox"/> Dependent Life <input type="checkbox"/> PA Unemployment <input type="checkbox"/> _____ <input type="checkbox"/> _____	(√) Savings <input type="checkbox"/> Retirement <input type="checkbox"/> Cash Reserve <input type="checkbox"/> _____ <input type="checkbox"/> _____ <input type="checkbox"/> _____	(√) Garnishments <input type="checkbox"/> Child Support <input type="checkbox"/> Student Loans <input type="checkbox"/> Retirement Loan <input type="checkbox"/> _____ <input type="checkbox"/> _____
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4. What options do you have to bring in more?

Bringing in More

Remember during Invest in Yourself, putting your personal assets to work is key to increasing your income and financial stability. Realistically, it's a long-term, but long-lasting solution. What about right now though? Let's look at some other ideas that may bring more immediate help.

- Check current withholding allowances to make sure you're not having too much federal tax withheld from your pay. This is something that can be adjusted fairly quickly, usually within a pay cycle or two. See the Adjust Withhold section to learn more.
- Ask for a raise. You never know unless you ask, but be prepared with reasons why you believe an increase is warranted, i.e., job performance, developed new personal assets, etc.
- Ask for more hours at your job or get a second, part-time job; dedicate the income towards your financial goals.
- Ask non-contributing (and able) adults living in your home to contribute to the household expenses.

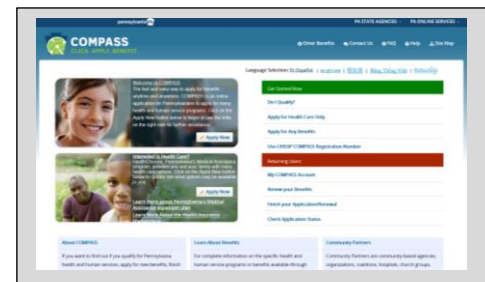
Assistance Programs

There are a number of cash and non-cash government assistance and benefit programs designed to help individuals and families get through financial challenges. Some of the cash programs include:

- Temporary Assistance for Needy Families (TANF)
- Supplemental security income
- Unemployment compensation
- Social security retirement and disability benefits
- Veteran's disability benefits

Some of the non-cash programs include:

- Supplemental Nutrition Assistance (SNAP)
- Women, Infants, and Children (WIC)
- Medicaid and disability waivers
- Medicare (primarily for those ages 65 and over)
- Public health clinics for free screenings and preventive services
- Housing and energy assistance



To see if you qualify for benefits, the PA Department of Human Services has a dedicated website, COMPASS (www.compass.state.pa.us) at which you can learn more and apply for benefits directly online. Note that there is income and asset (savings) limits to many of the assistance programs, but it's still a good idea to check your status.

Understanding Pay Statements

Did you know that there is no standard format that has to be used? In Pennsylvania, employers are required to give employees a pay statement each pay period. The statement must contain the number of hours actually worked, rate of pay, gross wages, deductions for taxes and others you have authorized, and the beginning and end dates of the pay period. Here are some examples of various formats of pay statements.

As you can see, understanding a pay statement can be confusing. The example on the next page highlights and describes the important information which we should all check on a regular basis.

Source: Sample pay statements from www.sampletemplates.com

Sample Pay Statement

B			C		E		A		
PAY PERIOD		GROSS		TAXABLE GROSS		TAXES		OTHER	NET PAY
9/15-30/2021		\$1,396.72		\$1,317.38		\$281.59		\$106.92	\$1,008.21
YTD		\$25,140.96		\$23,712.91		\$5,068.60		\$1,924.49	\$18,147.87
PAY CLASS		RATE	HOURS	GROSS		DEDUCTIONS		CURRENT	YEAR-TO-DATE
Regular		\$16.00	86.67	\$1,386.72		ABC		\$69.34	\$1,248.05
Overtime						OASDI		\$81.68	\$1,470.20
Annual						Medicare		\$19.10	\$343.84
Sick						Federal		\$121.00	\$2,178.00
Holiday						State		\$40.71	\$732.73
Uniforms				\$10.00		Local		\$19.10	\$343.84
						Uniforms		\$15.00	\$270.00
						Opt Life		\$20.36	\$366.48
						LTD		\$2.22	\$39.96
TOTAL				\$1,396.72		TOTAL		\$388.51	\$6,993.09
Tax Code Federal: Single									
Check No: 213456				This area intentionally left blank.					

- 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. If you have questions about any of the items on your pay statement, contact your payroll or human resources departments to clarify. If you are unemployed, use information from your most recent job or from the Case Study (page 14) to complete the worksheet.

How often do you get paid? Weekly Bi-weekly Bi-monthly Monthly			
Earnings:	Description or Abbreviation Used	Current Pay Period (\$)	(Year-to-Date (YTD))
Wages			
Regular			
Overtime			
Commission/tips			
Bonus			
Other			
Paid time off			
Other			
Total Gross Pay:			
Deductions:			
Taxes			
Federal			
State			
Local			
Social Security			
Medicare			
Unemployment			
Other			
Insurances			
Health insurance			
Flexible spending			
Health savings			
Other			
Retirement savings			
Garnishments			
Other			
Total Deductions:			
Net Pay			

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.

**According to The Pew Charitable Trusts (7/21/2016), employers will spend an additional 38 cents* on employee benefits for every dollar they pay in wages.*

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

Job Benefits Checklist

Knowing what your employer offers is the first step to maximizing the resources already available to you. Look at your employee benefits manual or ask your human resources department which of the following your employer offers.

If you are currently unemployed, use information from your most recent job or from the Case Study (pages 15 & 16) to complete the worksheet.

Benefit	Description	Offered			Using	
		Yes	No	Unsure	Yes	No
Health Insurance	Preferred Provider Organization (PPO)					
	Major Medical (Indemnity Plan)					
	Prescription Drug Plan					
	Dental					
	Vision					
	Long-term Care					
	Other:					
Other Insurance	Life					
	Dependent Life					
	Disability					
	Property (Auto/Home, etc)					
	Other					
Paid Time Off (PTO)	Annual/Vacation/Personal					
	Holidays					
	Sick Leave					
	Family Leave					
	Other:					
Retirement	Traditional Pension Plan					
	401(k), 403(b), or 457 Savings Plan					
	Matched Savings Incentives					
	Profit-Sharing Plan (or ESOP)					
	Retiree Health Insurance					
	Other:					
Other	Flexible Spending Account (FSA)					
	Health Savings Account (HSA)					
	Tuition Reimbursement					
	In-house Training Programs					
	Employee Assistance Program (EAP)					
	Child Care					
	Adoption Assistance					
	Wellness Program					
	Legal Assistance					
	Housing Assistance					
Other:						

Insurance Benefits

Use the following chart to record what *general* insurance and related benefits are available from your employer *and* at what cost to you.

If you are currently unemployed, use information from your most recent job or from the Case Study (pages 14-16) to complete the worksheet.

Insurance Option	Coverage/Benefit/Limitations	My Cost Per Pay
Dental		
Disability		
Health (HMO, PPO, Major Medical, etc.)		
Life		
Long-Term Care		
Vision		
Other		
Related Benefits	Qualified Expenses/Limitations	My Contribution Per Pay
Flexible Spending Account (FSA) - Health Care		
Health Savings Account (HSA)		

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

OPTIONAL!

Flexible Spending Arrangement

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.

	Co-payments				
Family Member	Doctor Visits	Prescriptions	Dental	Eye Care	Other
<i>Yourself</i>					
Totals	(B)\$	(C)\$	(D)\$	(E)\$	(F)\$

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.*

$$\begin{array}{ccccccc}
 \$ \underline{\hspace{2cm}} & \div & \underline{\hspace{2cm}} & = & \$ \underline{\hspace{2cm}} \\
 \text{total estimate} & & \text{\# of paychecks} & & \text{amount deducted} \\
 \text{of costs} & & \text{received per year} & & \text{from each paycheck}
 \end{array}$$

**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: is 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. Pension plans are not so common anymore; in fact, as of 2010, only 20% of employers offered them.

Defined contribution plan: 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 when you reach the age of 72** (70 ½ if you reach 70½ before January 1, 2020). 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 normally have pre-selected investment options* from which to choose. 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 key difference is only *employers* can contribute to the account.

Profit-sharing plan: 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 **when you reach the age of 72** (70 ½ if you reach 70½ before January 1, 2020).
- 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 72 (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)

10 Questions to Ask

Here are ten questions to ask about your (or potential) employer's retirement plan.

If you are currently unemployed, use information from your most recent job or from the Case Study (pages 15 & 16) to complete the worksheet

- 1.) Is it a defined benefit (pension) plan or a define contribution (savings) plan?
- 2.) Am I automatically enrolled in the program or do I need to tell my employer that I want to participate?
- 3.) Is there a waiting period before I can enroll?
- 4.) Is the retirement plan mandatory? Do I have to participate?
- 5.) Is there a minimum contribution that has to be made from each paycheck?
- 6.) Does the employer add any money to my account or match my deposits?
- 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?
- 8.) Can I access my money in the event of a financial hardship?
- 9.) What are the investment choices in the plan?
- 10.) Are there people I can talk to who can help me understand my choices?

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

OPTIONAL!

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 annual 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:
[subtract FSA Dependent Care from Line #2 and multiply x 3.07%] = _____
5. Calculate local income taxes saved:
Enter local income tax rate: _____%
[subtract FSA Dependent Care from Line #2 and multiply x local 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.

**Use your current federal tax bracket. See www.irs.gov.

OPTIONAL!

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.

	Job/Company 1	Job/Company 2
1. Enter the <i>annual</i> salary offered -or- calculate hourly wages \$___ x ___ hours per week x 52 weeks	\$ _____	\$ _____
2. Enter any other <i>annual</i> income/benefits available i.e., reliable overtime, parking/uniform allowances, etc.	\$ _____	\$ _____
3. Add: lines (1) + (2) for Gross Compensation	\$ _____	\$ _____
4. Enter the annual amount of FICA-exempt benefits, i.e. health insurance premiums/FSA contributions	\$ _____	\$ _____
5. Subtract: lines (3) – (4) for FICA wages	\$ _____	\$ _____
6. Enter your planned annual retirement contributions and any non-taxable de minimis benefits	\$ _____	\$ _____
7. Subtract: lines (5) – (6) for Federal taxable wages	\$ _____	\$ _____
8. Calculate tax deductions:		
FICA taxes withheld: line (5) x 7.65% (0.0765)	\$ _____	\$ _____
State income taxes withheld: line (5) x 3.07% (0.0307)	\$ _____	\$ _____
Local income taxes withheld: line (5) x _____ % rate	\$ _____	\$ _____
Federal income taxes (net): line (7) x _____% rate	\$ _____	\$ _____
9. Add: all entries in Step 8 for total taxes	\$ _____	\$ _____
10. Subtract: line (7) – (9) for Net Take Home Pay	\$ _____	\$ _____
11. List annual comparable costs of working:		
Transportation/parking/uniforms/clothing	\$ _____	\$ _____
Child care or other expenses	\$ _____	\$ _____
12. Add: all entries in Step 11 for total comparable costs	\$ _____	\$ _____
13. Subtract: line (10) – (12) for “Really Feels Like”	\$ _____	\$ _____
14. Enter the annual amount of other benefits used/earned:		
Tuition Reimbursement	\$ _____	\$ _____
Retirement savings- employer match	\$ _____	\$ _____
Other benefits	\$ _____	\$ _____
15. Add: all entries in Step 14 for total other benefits	\$ _____	\$ _____
16. Add lines (13) + (16) for “Net” Economic Benefit	\$ _____	\$ _____
Other considerations:		
Commute time/total hours away	_____	_____
Paid time off (vacation/annual/sick)	_____	_____
Advancement potential	_____	_____
Other	_____	_____

Completing the IRS Form W-4

If you are getting a large tax refund, consider adjusting your withholding. The Form W-4 tells your employer how much federal income taxes to withhold for you. *Note that the Form W-4 for 2020 is significantly different from prior years. Employees no longer claim withholding allowances in order to reduce the form's complexity and make it easier to have your withholding match your actual tax liability.*

So how can you navigate the new Form W-4? Let's take a look at the five steps on the form, but note that only Step 1 and Step 5 are required for all employees. Completing Steps 2 thru 4 are only necessary if they apply to you.

Step 1: Enter Your Personal Information-(a) and (b)

Form W-4 Department of the Treasury Internal Revenue Service	Employee's Withholding Certificate		OMB No. 1545-0074	
	<p>▶ Complete Form W-4 so that your employer can withhold the correct federal income tax from your pay. ▶ Give Form W-4 to your employer. ▶ Your withholding is subject to review by the IRS.</p>			2022
Step 1: Enter Personal Information	(a) First name and middle initial	Last name		
	Address			▶ Does your name match the name on your social security card? If not, to ensure you get credit for your earnings, contact SSA at 800-772-1213 or go to www.ssa.gov .
	City or town, state, and ZIP code			
	(c) <input type="checkbox"/> Single or Married filing separately <input type="checkbox"/> Married filing jointly or Qualifying widow(er) <input type="checkbox"/> Head of household (Check only if you're unmarried and pay more than half the costs of keeping up a home for yourself and a qualifying individual.)			(b) Social security number

Enter your filing status in area (c). Your withholding will be computed based on your filing status's standard deduction and tax rates, unless adjustments are made in Steps 2 thru 4.

Step 2: Multiple Jobs or Working Spouse

Step 2: Multiple Jobs or Spouse Works	Complete this step if you (1) hold more than one job at a time, or (2) are married filing jointly and your spouse also works. The correct amount of withholding depends on income earned from all of these jobs.
	Do only one of the following. (a) Use the estimator at www.irs.gov/W4App for most accurate withholding for this step (and Steps 3-4); or (b) Use the Multiple Jobs Worksheet on page 3 and enter the result in Step 4(c) below for roughly accurate withholding; or (c) If there are only two jobs total, you may check this box. Do the same on Form W-4 for the other job. This option is accurate for jobs with similar pay; otherwise, more tax than necessary may be withheld . . . ▶ <input type="checkbox"/>

Complete this step if you have more than one job at a time or if you are married filing jointly and your spouse also works. There are three options for completing this step, but you can **only choose one**.

Step 2: Multiple Jobs or Working Spouse (continued)

Choose one of the following:

- (a) Use the IRS's online estimator @ www.irs.gov/W4App. Have your most recent pay statement available, follow the instructions on How to Adjust Your Withholding, and enter the result in Step 4(c).* This will provide the most accurate withholding; **or**
- (b) Use the Multiple Jobs Worksheet on page three of the form and enter the result in Step 4(c), noting that using the worksheet is more tedious and less accurate than (a); **or**
- (c) Check the box if there are only two jobs total, and do the same on Form W-4 for the other job. This option is accurate for jobs with similar pay, otherwise more tax than necessary may be withheld.

Note that you should complete Steps 3 thru 4(b) for only ONE of these jobs; the IRS suggests the highest paying job. Leave those steps blank for the other jobs.

**To use the online calculator, have your most recent pay statement handy.*

Step 3: Claim Dependents

Step 3:	If your total income will be \$200,000 or less (\$400,000 or less if married filing jointly):		
Claim Dependents	Multiply the number of qualifying children under age 17 by \$2,000 ▶ \$ _____		
	Multiply the number of other dependents by \$500 ▶ \$ _____		
	Add the amounts above and enter the total here	3	\$

Step 4: Other Adjustments

Step 4 (optional):	(a) Other income (not from jobs). If you want tax withheld for other income you expect this year that won't have withholding, enter the amount of other income here. This may include interest, dividends, and retirement income	4(a)	\$
Other Adjustments	(b) Deductions. If you expect to claim deductions other than the standard deduction and want to reduce your withholding, use the Deductions Worksheet on page 3 and enter the result here	4(b)	\$
	(c) Extra withholding. Enter any additional tax you want withheld each pay period . .	4(c)	\$

Step 5: Sign Here (and submit to your employer)

Step 5: Sign Here	Under penalties of perjury, I declare that this certificate, to the best of my knowledge and belief, is true, correct, and complete.		
	▶ _____ ▶ Employee's signature (This form is not valid unless you sign it.)		▶ _____ ▶ Date
Employers Only	Employer's name and address	First date of employment	Employer identification number (EIN)

Many people automatically want the most withheld from their pay so they will not owe any federal tax when they 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.**

*** Not including refundable credits such as the Earned Income or Child Tax credits.*

What Comes In: Add It Up

Cash Coming In	
Wages/Salary (before deductions)	_____
Commission/Tips/Overtime Pay	_____
Temp Assistance for Needy Families (TANF)	_____
Child Support/Alimony Received	_____
Unemployment Compensation	_____
Social Security Benefits	_____
Pension/Retirement Benefits	_____
Veteran's Benefits	_____
Worker's Disability Compensation	_____
Other Cash: (specify) _____	_____
Total Cash In:	_____
Non-Cash Assistance	
Supplemental Nutrition Assistance (SNAP)	_____
Women, Infants & Children Program (WIC)	_____
Child Care Assistance	_____
Housing Assistance	_____
School Lunch	_____
Energy Assistance	_____
Other Non-Cash: _____	_____
Total Non-Cash In:	_____
Gross Monthly Income: Cash In + Non-Cash In	
Off the Top Deductions	
Federal Taxes	_____
State/Local Taxes	_____
FICA Taxes	_____
Unemployment Insurance	_____
Retirement Savings	_____
Health/Dental Insurance	_____
Flexible Spending/Health Savings Account(s)	_____
Child Support/Garnishments	_____
Other: _____	_____
Total Off the Top:	_____
Net Monthly Income: Gross – Off the Top (also called <i>Take Home Pay</i>)	

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

Maximize Earnings Glossary

Automatic Deductions – saving contributions that are deducted directly from wages

Catch-up Contributions – additional contributions allowed to an employee retirement savings plan or individual retirement account for those age 50 and older.

Compound Interest – the interest earned on a deposit and previous interest earned.

Defined benefit plan – an employee retirement income plan defined by the employer, based on the number of years worked at the company, wages, and sometimes a multiplier. It's better known as a pension.

Defined contribution plan – an employee retirement savings plan whose contribution, and ultimately retirement income, is defined by the employee. Contributions are made prior to federal taxes being withheld. Contribution limits are set annually by the IRS and allows additional amounts for those age 50 and older. See Catch-up Contributions.

Employee Benefits – also known as perks or fringe benefits, offered to employees over and above salaries and wages. Employee benefits may include bonuses, health insurance, paid time off, retirement benefits, etc.

Employer Match – a contribution made to an employee's retirement saving account by an employer based on the amount of the employee's annual contribution.

Federal Insurance Contribution Act (FICA) – a law enacted in 1935 creating a payroll tax to fund Social Security income and Medicare programs. The tax is paid by both employers and employees. Each pay 6.2% towards Social Security and 1.45% for Medicare of their wages. The IRS sets an annual cap on Social Security wages taxed; there is no cap on wages subject to the Medicare tax. Self-employed individuals are responsible for both the employer and employee amounts.

Flexible Spending Arrangement (FSA) Healthcare – an employee benefit program that allows employee contributions to pay for eligible, out-of-pocket medical expenses. Contributions made to a Healthcare FSA are not subject to federal, state, local income taxes or FICA payroll taxes. The IRS sets the maximum annual contribution limit. FSA's also have a use it or lose it provision.

Flexible Spending Arrangement (FSA) Dependent Care – an employee benefit program that allows employee contributions to pay for out-of-pocket dependent care expenses. Contributions made to a Dependent Care FSA are not subject to federal income taxes or FICA payroll taxes. The IRS sets the maximum annual contribution limit. FSA's also have a use it or lose it provision.

401(k), 403(b), and 457 plans – defined contribution plans named after the section of the income tax law that allows tax-deferral of contributions. Generally, 401(k)'s are offered by for-profit organizations, 403(b)'s are for non-profit organizations, and 457's are for government entities. The plans usually have pre-selected investment options from which to choose. The IRS sets the maximum annual contribution limit.

Garnishment – a creditor takes a part of wages or from a bank account as a means of resolving debt. Garnishment typically occur with a court order after a judgement; federal debts such as delinquent income taxes or federally backed student loans can occur without a judgement.

Gross Monthly Income – total income, both cash and non-cash, received before off-the-top deductions.

Health Savings Account (HSA) – an employee-owned savings account to pay for eligible out-of-pocket medical expenses and can only be used with high-deductible health plans. The IRS sets the maximum annual contribution limit. Contributions not subject to federal, state, local, or FICA payroll taxes. HSA contribution may be carried over from year-to-year and into retirement to pay for healthcare expenses.

Individual Retirement Account (IRA)– a retirement savings account not associated with an employer plan. It can be opened by any person with earned wages or self-employment income. IRAs are self-directed accounts, meaning the individual chooses where (financial institution) to open the account and the investments inside of the account.

- **Traditional IRA** – may allow contributions to be deductible from taxable income or as credit against federal income taxes. Earnings grow tax-deferred until withdrawal at retirement. There is a 10% penalty for withdrawals prior to the age of 59 1/2; there is a 50% penalty for not withdrawing the minimum required distribution (RMD) after age 72.
- **Roth IRA** – all contributions are made with after-tax dollars; no deductions or credits allowed. Earnings grow tax free and contributions can be withdrawn if the account has been opened for five years. There is a 10% penalty if earnings are withdrawn before age 59 ½. There are no required minimum distributions.

IRS Form W-4 Withholding Allowance Certificate – the form that tells employers how much federal tax to withhold from an employee’s pay based on filing status, other household income, deductions, and credits to be claimed.

Medicare Wages – wages that are subject to the 1.45% Medicare portion of the FICA tax. There is no annual cap on wages subject to the Medicare tax, and high-wage earners may be subject to a 0.9% Additional Medicare Tax.

Net Monthly Income – total income, including cash and non-cash sources, after off-the-top deductions.

Net Pay – the amount of pay received after all the tax withholding and payroll deductions are subtracted from total gross pay.

Non-Cash – benefits received that are not in monetary form such as food, energy or rental assistance, scholarships, etc.

OASDI – the abbreviation for Old Age, Survivors, and Disability Insurance and is another name for Social Security.

Off-the-Top deduction – an expense that is subtracted directly from wages, such as federal, state, and local taxes, health insurance, retirement savings, garnishments, etc. See Payroll Deduction.

Pay Statement – outlines the details of an employee’s earned income each pay period and year-to-date.

Pay Period – the time frame in which wages are earned.

Payroll Deduction – an expense that is subtracted from wages. See Off-the-Top Deductions.

Pre-tax – any money redirected from an employee’s wages for a specific purpose that is not subject to taxes.

Profit-Sharing Plan – an employer-sponsored retirement savings plan whose contributions are based on company profits. Employers have full discretion as to whether or not contributions are made.

PTO (Paid Time Off) – an employee benefit which may include holidays, vacation, personal days, bereavement, etc.

Resource – a source of supply or financial support.

Simplified Employee Pension (SEP-IRA) – a employer sponsored retirement income plan used for small businesses or people who are self-employed. SEP-IRAs are self-directed, meaning the employee chooses where (financial institution) to open the account and the investments within the account. Only employers can contribute to the account.

Social Security Wages – wages that are subject to the 6.2% Social Security portion of the FICA tax; the IRS sets an annual cap on wages subject to the Social Security tax.

Taxable Gross – the total amount of gross pay that is taxable for federal income tax purposes.

Tax Deferred – a provision that allows federal income taxes to be deferred to a later date.

Unemployment – an income support program for displaced employees funded mostly by employers. Pennsylvania is only one of three states that impose an unemployment tax on employees.

Additional Resources to *Maximize Earnings*

Action Without Borders: www.Idealist.org

[Benefits Glossary](#)

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

Department of Homeland Security: www.dhs.gov

[Form I-9, Employment Eligibility Verification](#)

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

Internal Revenue Service: 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.

National Endowment for Financial Educational: 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

[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

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.

Workplace Basics: 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.

Pre-session Questionnaire

ID _____

Circle the answer that you believe is correct.

1. Which of the following websites can you apply online for public benefits?
 - A. PA Compass (www.pacompass.state.pa.us)
 - B. FileUnemployment.org
 - C. Healthcare.gov
 - D. PA Insurance Department (www.insurance.pa.gov)

2. Which of the following is an item that Pennsylvania employers are required to report on a pay statement?
 - A. Employee ID number
 - B. Employer paid FICA taxes
 - C. Full or part time status
 - D. Rate of pay

3. Which of the following is an employee benefit deduction from pay?
 - A. FICA
 - B. Federal withholding
 - C. Health insurance premiums
 - D. Child support

4. Which of the following is a tax-free employee benefit?
 - A. Employer match to a 401(k) retirement savings plan
 - B. Flexible Spending Account (FSA) for healthcare
 - C. Paid bereavement leave
 - D. Adoption assistance

5. Which of the following forms tells employers how much money to withhold for taxes?
 - A. W-2
 - B. W-4
 - C. W-9
 - D. I-9

6. What is FICA?
 - A. Federal Income Credit Account
 - B. Federal Insurance Contribution Act
 - C. Federal Income Credit Act
 - D. Federal Insurance Calculation Account

Post-session Questionnaire

ID _____

Circle the answer that you believe is correct.

1. Which of the following websites can you apply online for public benefits?
 - A. PA Compass (www.pacompass.state.pa.us)
 - B. FileUnemployment.org
 - C. Healthcare.gov
 - D. PA Insurance Department (www.insurance.pa.gov)

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 - A. Federal Income Credit Account
 - B. Federal Insurance Contribution Act
 - C. Federal Income Credit Act
 - D. Federal Insurance Calculation Account

ID _____

Location _____

Date _____

Session Evaluation

We hope you found today's session engaging and of value to you. 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>
Overall , I feel the session was:					
Before the session statement:					
My knowledge and skills about the topic were:					
After the session statement:					
My knowledge and skills about the topic are:					
My confidence to apply what I have learned today is:					
	<i>Strongly Agree</i>	<i>Agree</i>	<i>Not Sure</i>	<i>Disagree</i>	<i>Strongly Disagree</i>
During the session statements					
The instructions were clear and easy to follow.					
The time allocated was right for the topic.					
The slides were clear and helped my learning.					
The examples helped my learning.					
The examples were relevant to my situation.					
The instructor:					
was knowledgeable about the topic.					
delivered lesson in a clear and understandable manner.					
was engaging and encouraged interaction.					
was well-prepared.					
was approachable and open to questions.					
The session:					
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"/>
Final Questions					
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:					