Making the Most of Job Benefits

Book 2

RAGLAND

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PLANNING FOR SUCCESS

MAKING THE MOST OF JOB BENEFITS

BOOK 2

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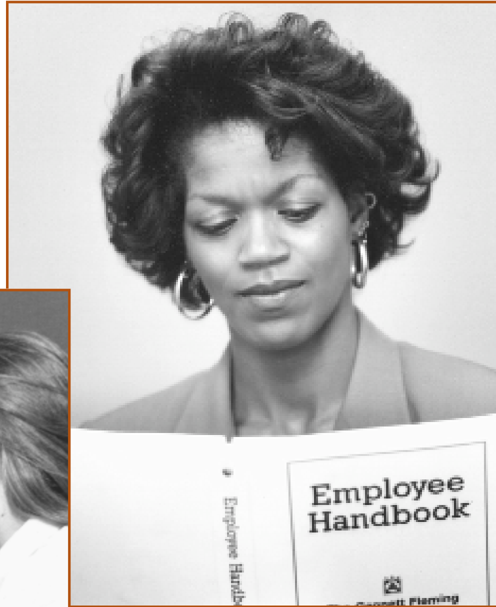
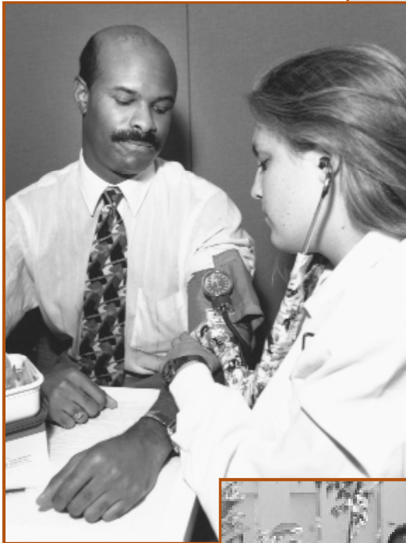




Preface

Investing in your future

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 income. Your paycheck gives you economic power—not just to buy "things," but to provide a strong financial foundation for you and your family. You also can use your economic power to contribute to your community and ensure that others also find their way up the ladder to success.

Getting the right job will not be easy. That is why the National Urban League and the National Endowment for Financial Education have joined together to develop Planning for Success, *a series of three booklets. The* Planning for Success *series will give you tips for landing a good job, understanding and using your employee benefits, and making wise choices with your money.*

Planning for your own success means that you must always think about your future. You will need to continually expand your knowledge and your work skills. You also must be able to show on your resume and in your employer interviews that you have the skills as well as commitment to get the job done. Being prepared to succeed in the 21st century means embracing lifelong learning, becoming an active problem-solver, and developing the discipline to manage your income wisely.

The National Urban League and the National Endowment for Financial Education hope you will use Planning for Success *to assist you in making sound decisions about your financial future.*

Hugh B. Price
President
National Urban League

William L. Anthes, Ph.D.
President
National Endowment for
Financial Education

The Value of Benefits

When you apply for a job, one of the first things you think about is how much the job pays. But you also need to think about what employee benefits it offers. Most employers offer their full-time workers benefits in addition to a paycheck. Some employers may offer their part-time workers some benefits, as well.

Benefits may include a health plan, life or disability insurance (maybe both), paid time off, retirement or savings plans, and education benefits. The value of benefits often is equal to about a quarter of your total pay.

The purpose of employee benefits—also known as "fringes" or "perks"—is to:

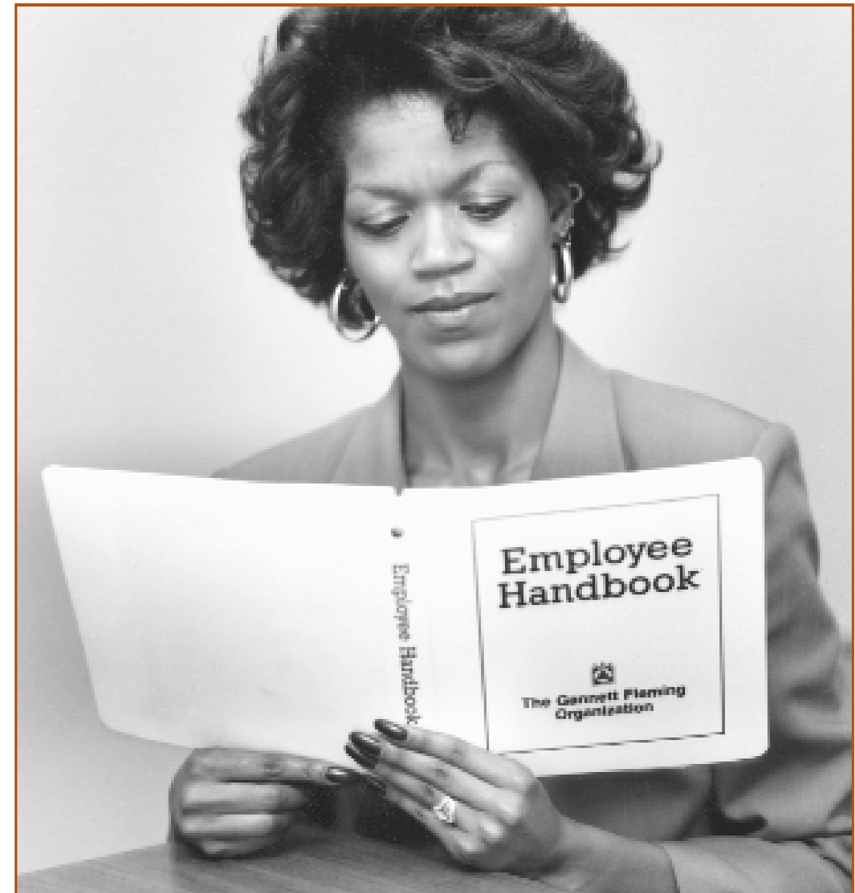
- make people want to work for the company
- help workers learn more job skills
- keep workers healthy and hard-working

You may have to work a certain length of time, such as three or six months, before you can receive these benefits. This waiting period is common with health care plans and some types of retirement plans.

Not all jobs offer benefits. Others may offer only a few. When seeking work, try to compare benefits as a way of comparing potential employers. For example, two jobs may pay the same, but offer very different benefits. One employer may even pay more than another but offer fewer benefits. Before taking a job, be sure you know what benefits the employer offers.

This guide explains many of the types of benefits an employer may offer, why they are important, and what you can do if your employer does not offer them.

Understanding your benefits



Always read any material your employer has about job benefits.

The Employee Benefits Office

Understanding job benefits usually starts with a visit to your employer's benefits office. (It may be called the "human resources" or "personnel" office.) First, you will need to fill out a lot of forms. To do that, you may need to make up your mind about the benefits that you want. If possible, first read the company's employee handbook. Most companies with 50 employees or more will have an employee handbook. Smaller companies may only have copies of information stapled together. Whatever they give you, take the time to read it. It may answer many of your questions about benefits. It also may list responsibilities for employees. Some employers also hold meetings from time to time to talk about benefits.

Paperwork you will need to fill out

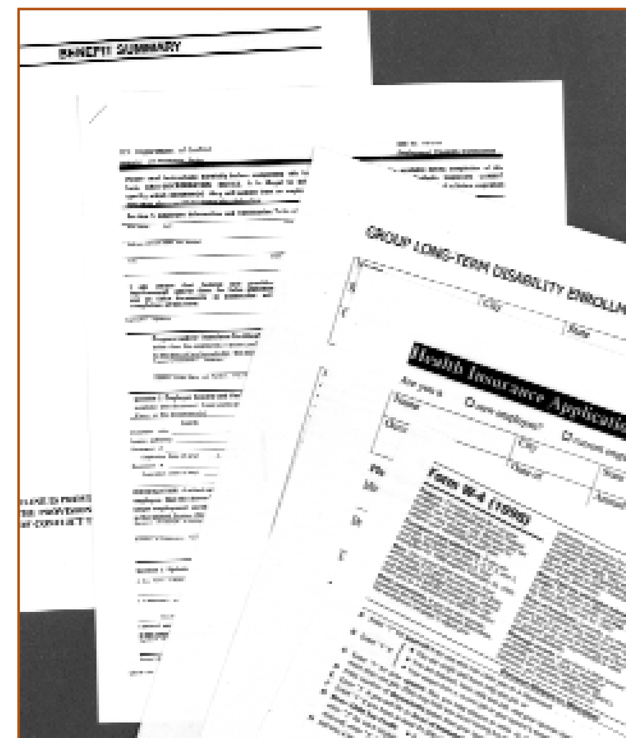
During your first week of work, you will fill out a lot of forms. Some will be needed for the government; others will be for your employer. Photocopy each form that you sign and keep the copies at home. That way, you will have your own record of what you told your employer.

Here are some of the forms that you will fill out:

W-4 Form. This form tells your employer how much income tax to take out of your paycheck. How much income tax is taken out ("deducted") depends on how many dependents you have. The more dependents you name, the less money is taken out. Dependents are any people who rely on you to pay most or all of their living expenses: your spouse, your children, or perhaps other relatives, such as your elderly parents. On the W-4 form, dependents are called "allowances."

Many people write down the same number of allowances that they write down on their yearly tax return. Do you take the standard deduction on your income tax form, and have little interest on savings to report? If so, it is likely that you can write down the same number of allowances on your W-4 form. If this does not sound like you, answer the questions on the worksheet attached to the W-4 form. The worksheet will help you calculate the correct number of allowances. Someone in the benefits office at your job can help you with the worksheet.

Completing the necessary forms



When starting a new job, there are usually a lot of forms to complete.

If you take too many allowances, you probably will owe money and may face a tax penalty or fine when you figure your taxes for the year. If you take too few allowances, you probably will get a large refund from the government when you file your tax return.

I-9 Form. All workers must prove that they can legally work in the United States. You will be asked to show two of the following: a driver's license, Social Security card, passport, or "green card" (your permanent residency card if you are not a US citizen).

Insurance Forms. Some companies offer insurance to workers and their families. Common types of insurance offered cover health, life, and disability. Workers may pay part of the cost of these benefits. You will sign insurance forms that let the company take money out of your paycheck to pay for your share of the cost.

Retirement Forms. You may be able to sign up for a retirement program, such as a 401(k) plan. For most plans, you'll need to complete forms to do the following:

- allow your employer to take a fixed amount (or percentage) of money out of each paycheck
- choose where to invest this money
- name beneficiaries to receive retirement funds if you die

Picking a beneficiary for your benefits

When you sign up for life insurance or a retirement plan, you will need to name a beneficiary: the person who is paid money if you die. If married, you usually name your spouse as your beneficiary.

You also may be asked to name a second person to receive your benefits. This person would be the secondary beneficiary. If the first, or primary, beneficiary dies before you do, money will go to the second person you name.

Other forms you may need to fill out

You also might need to complete forms to make these things happen:

- Allow union dues to be taken out of your paycheck—if you are joining a union.
- Give emergency contact information. You will probably need to write down who should be called if you become sick or hurt at work.
- Show that you have received work-related documents. Many employers give their new workers an employee handbook or guide. It is common to have new workers sign a receipt showing that they have received a copy of the guide.

Paycheck deductions

Your take-home pay (or "net" pay) is the money left over after all payroll deductions have been taken out. Some money is taken out of everyone's paycheck to pay taxes and other costs. You may ask the company to take out other money. For example, you may choose to put money into a retirement plan. Some common deductions are on the next page:

Your paycheck after deductions

Earnings	rate	hours	this period	year to date
Regular	13.02	80	1,041.60	
	Gross Pay		**$1,041.60**	$12,323.81
Deductions	**Statutory**			
	Federal Income Tax		-109.50	1,295.01
	Social Security Tax		-64.59	764.08
	Medicare Tax		-15.11	178.70
	State Income Tax		-34.27	402.34
	City Income Tax		-3.14	34.50
Net Pay			**$814.99**	$9,649.18

The money you have to live on is the amount left after taxes and other deductions are taken out.

Income Tax Withholding. Federal income tax often is the largest "bite" out of your paycheck. State income tax also is withheld in most states. These tax dollars pay for the military, for roads and schools, and for fire and police departments.

Federal Insurance Contributions Act (FICA). This tax pays for half of your Social Security benefits and half of your Medicare benefits. Your employer pays the other half. About $8 out of every $100 that you earn (about 8%) goes to pay the FICA tax.

Other Taxes and Deductions. In some states, you will pay special taxes to the state for disability insurance or for unemployment insurance. Where you live, people also may pay city or county taxes.

Other deductions also are common. You may request some of these, and the courts may order others:

- loan payments
- money for charity, such as United Way or Community Shares
- uniforms you need at work
- paying for parking at work
- savings or retirement plans
- health or dental insurance
- disability insurance
- life insurance
- buying U.S. savings bonds
- union dues
- child support ordered by the courts
- paying other debts, as ordered by the courts

Kinds of Benefits

Now let's look at the choice of benefits you may have. Benefits are important, so choose carefully. Think about what you need *and* what you can afford. (See the job benefits checklist on page 41 to help you.)

Benefits ordered by the government

Unemployment insurance

This benefit provides payments to workers who have lost a job through no fault of their own. Each state has its own rules about unemployment insurance—who can get it, how much they can get, and for how long.

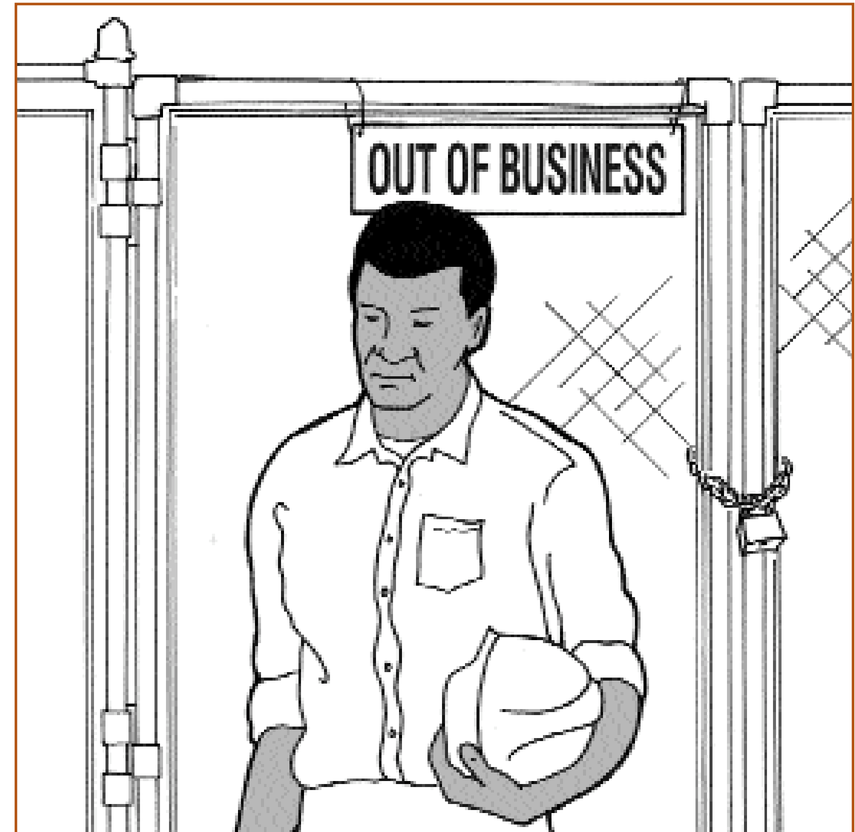
Worker's compensation

This program makes payments to workers who are hurt on the job. Employers contribute to a fund that pays injured workers. Not all jobs are covered.

Cafeteria plans

When you eat at a cafeteria, you pick what you want to eat. Some companies treat benefits in the same way. For example, your employer might offer you $150 each month to pay for your benefits. You might choose life insurance and disability insurance. If your spouse has a better health plan at his or her job, and you can sign up on that plan, you may skip over your company's health coverage. If you want to sign up for more than $150 each month in benefits (say for dental or other benefits), you will pay for the extra out of your paycheck.

Losing your job



Unemployment insurance benefits help some workers who lose their jobs.

Health coverage

Your employer may offer several kinds of health plans, or maybe just one. Some employers, especially smaller companies, offer no group health plan.

Employers often use health care plans called "managed-care plans." Managed-care plans cut their costs by controlling the services they offer. They cost the employer less, and they may cost you less, too. "Health maintenance organizations," "preferred provider organizations," and "point-of-service plans" are types of managed-care plans.

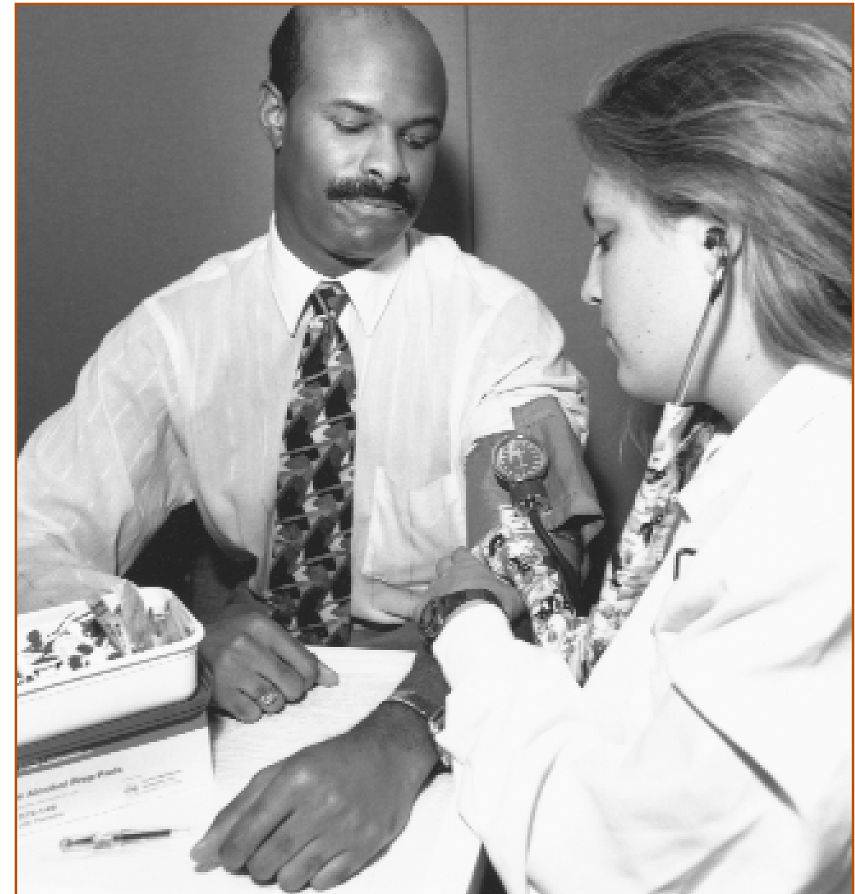
Each plan has good and bad points. Each plan will cost you a different amount. Look carefully to see which plan best fits your needs.

Health maintenance organization

If you join a health maintenance organization (an HMO), you must use the doctors and hospitals that belong to that HMO. You must choose a "primary care physician." When you get sick, you usually will see your primary care physician first. He or she then will send you to other doctors in the HMO if you need to see them. If you visit a doctor who is not a part of the HMO, you must pay any costs.

One good feature of an HMO is that you pay only a small amount ($5 or $10) for each doctor's visit. You also pay only a small amount for prescription drugs. The HMO will pay all other costs.

HMOs try to prevent an illness, not just cure it. They often will pay for things like physical exams, mammograms, flu shots, children's immunization shots, and tests to monitor high blood pressure and cholesterol levels.



Health coverage is one of the most important benefits you can have.

Preferred provider organization

A preferred provider organization (PPO) has many doctors and hospitals in its network. You can use any of them that you like. Usually you must choose a primary care physician. You can use a doctor who is not in the PPO network, but you will pay more if you do. PPO plans usually pay for care to prevent illness.

As long as you go to your primary care physician or another PPO doctor, you will pay only a small fee for each doctor's visit (called a "copayment," or "co-pay"). You also may have to pay a yearly "deductible." The deductible is paid out of your own pocket. After you have paid for your deductible (if you have one), the medical plan will pay its share or percentage of your covered medical expenses.

Indemnity plan

"Indemnity" means "fee for service." With this type of plan, you might pay for a doctor's visit out of your own pocket, and then the indemnity plan pays you back. Or, the doctor sends a bill to the insurance company. Then, after insurance pays, the doctor bills you directly for any unpaid amount. In this kind of plan, you can go to any doctor you choose. Indemnity plans usually pay you back only when you are sick or hurt. They usually do not pay for health care that keeps you from getting sick.

You will pay part of the costs out of your own pocket. Indemnity plans usually repay you $8 for every $10 that you spend. Like the preferred provider plan, you must spend a certain amount each year before the indemnity plan begins to repay you. That amount (called your deductible) can be anywhere from $100 to $1,000 or more.

Point-of-service plan

A point-of-service plan looks a little like an HMO, a little like a PPO, and a little like an indemnity plan. If you use the HMO-type medical care, it costs you the least. It costs a little more if you use the PPO caregivers, and it costs the most if you use doctors who are not part of the plan. You get to choose, but your choice will affect how much it costs you. This plan usually pays for care to prevent illness.

Things to think about

You probably will pay part of the cost of any health plan that you sign up for at work. The cost of health-care coverage is called the "premium." Your portion of the premium will be taken out of your paycheck automatically. If you add a spouse or child to the plan, you will pay part or all of their premiums, too.

You need to think about cost, but other aspects are important, too. A plan with low premiums may have a very high deductible. Or maybe it does not give you the kind of health care coverage you or your family need. For each plan, think about these aspects:

- How much is the deductible?
- What doctors can you use? What hospitals will you be sent to?
- What are the limits on benefits?
- If you already have an illness (say diabetes or high blood pressure), will the health plan pay for it right away?

If you have a spouse who works at another company that offers benefits, compare the two plans. Perhaps your spouse's plan is better for the whole family (lower premiums or more kinds of care). Then it makes sense to sign up on your spouse's plan.

A medical benefits checklist

Here are some of the services offered by most health plans. Your plan may offer all of these, or just some of them. After each feature is a note of what above-average to good plans offer.

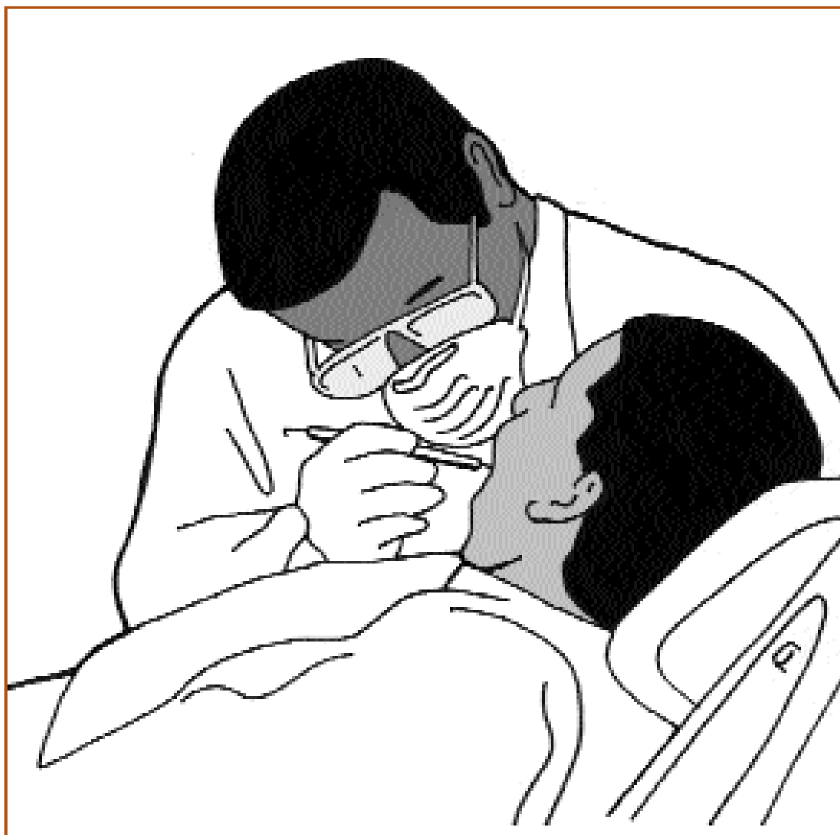
Medical Plan Features	Above-Average to Good Plans
Yearly deductible. How much of your own money must you spend on doctor bills before the insurance begins to pay?	$100 to $300 per person
Annual coinsurance limit. (This has many names. Ask questions so you understand how it works for your plan.) The coinsurance limit is the cumulative amount of your 20% payments for covered expenses beyond the deductible. How much in total must you chip in on the cost of each doctor visit before the policy pays it all?	$2,000
Copayment. How much would you pay each time you visit an HMO's or PPO's health care provider? Copayment often is called "co-pay."	$5 to $15 per visit
Choice of medical service provider. Can you pick your own doctor from anyone in town, or must you use someone who belongs to the plan's group?	Any provider or a wide choice within a network
Pre-existing condition exclusion period. Sometimes people have an illness—high blood pressure or diabetes, for instance—when they sign up for health coverage. Will you have to wait before the health plan would pay for that illness?	None (May depend on whether you had a health plan before this one. See page 20.)
Specific illness excluded. Are there any illnesses (such as cancer) that the policy will not cover?	None

Medical Plan Features	Above-Average to Good Plans
Specific treatments excluded or limited. Are there any treatments, such as organ transplants, treatment for infertility, chiropractic care, or physical therapy, that the policy will not cover?	Few or none
Hospital costs covered. What share of hospital costs will the policy cover?	All (after deductible and co-pay)
Days of hospital coverage in a year. If you need to be hospitalized, how many days will the insurance pay for each year?	365
Prescription drugs. How much do you have to pay for prescription drugs?	Usually $5 or $10 (a copayment) or 80% of cost (after deductible)
Lifetime maximum payment. If you are sick or injured several times during your life, what is the cap on total payments the policy will make?	Unlimited or $1 million
Home care visits. If a nurse needs to see you at your home, how many visits will the policy pay for?	As many as you need (unlimited)
Mental health therapy. How many outpatient mental health visits will the policy cover in a year?	As many as you need (unlimited)
Drug/alcohol treatment. What kind of drug and alcohol treatment will the policy pay for?	Rehabilitation

Dental plans

Many large employers offer dental insurance plans. Many smaller employers do not. Dental insurance usually pays the full cost of a dentist to clean and check your teeth once or twice each year. Then, the insurance pays part of the cost for any dental repair that you need. Some employers offer HMO-type dental plans.

Using your dental plan



A good dental plan can help pay the cost of most dental work.

Life insurance

Large companies often pay for life insurance on their workers. The benefit usually is equal to the worker's yearly pay. Or, the amount may be a fixed amount, such as $10,000 or $50,000.

Disability insurance

If you are sick or hurt and cannot work for a long time, disability insurance will help to make up for lost wages. It's an important type of insurance. You are more likely to be unable to work for more than 90 days than you are likely to die before you turn age 65.

Most disability plans begin to pay you after you have been unable to work for 90 days. They pay about $2 for every $3 dollars that you would have earned. Some companies do not offer disability insurance. If your employer does, it can be a good thing for you to buy.

Government programs, such as worker's compensation, cover only injuries that happen while you are at work. Social Security makes disability payments only to people who have total, long-term disability. Neither of these kinds of insurance replaces the "disability insurance" talked about here.

What if I need more insurance?

If you were seriously injured and could not work, how long could you live on the amount paid by disability insurance? Or if you died, how long could your family live on the amount paid by your life insurance? It may not be very long. Now what? You may need to buy more insurance now, while you are an able-bodied worker. Some workers buy extra insurance through their company. Others find it cheaper to buy more insurance on their own.

Working just to get health benefits?

Many workers stay in jobs that they do not like because they feel they must keep their health care coverage. This happens most often when workers have an expensive health problem that a future employer's insurance might not cover right away. This waiting period is called a "pre-existing condition exclusion period."

There are new rules about exclusion periods—and they help the employee.

If you have met the following, then an exclusion period *does not* apply to you:

- You have had medical coverage for 18 months.
- You have already met a pre-existing condition exclusion period.
- You have not been without health coverage for more than 62 days.

In addition, the new employer cannot charge you higher prices, even if you have a long-term health problem. Your family can still be covered by the new health plan, too.

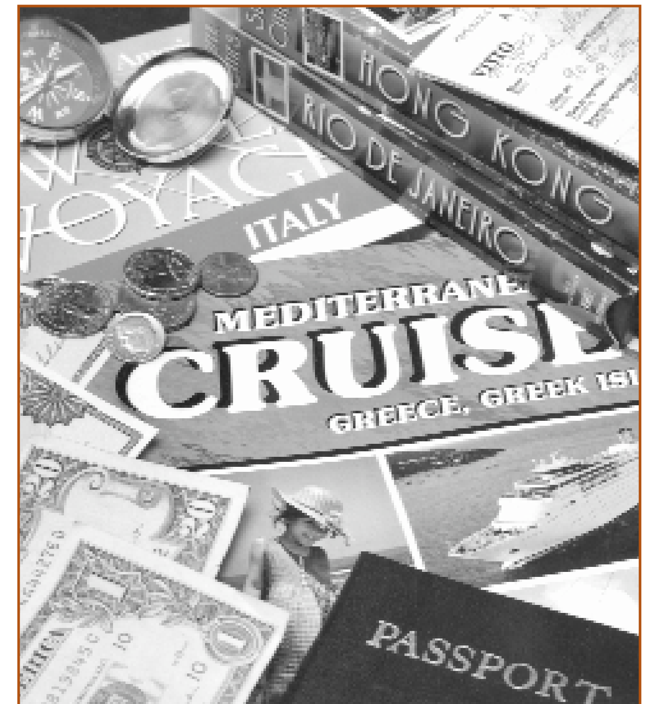
Vacation, holidays, and leave

Vacation

Most employers give their full-time workers some paid vacation days. The number of days off usually depends on how long a person has worked for that company. People who have worked for a company for many years often get more vacation days than new workers. Your employee handbook will tell you how many vacation days you get. The Internal Revenue Service (the IRS—the income tax people) counts vacation pay as part of your income, and you must pay taxes on it.

Taking a vacation

After you have worked for a while, a vacation is a well-deserved break.



Holidays

Most employers give workers some paid holidays, such as the Fourth of July, Thanksgiving, and Christmas. You must pay taxes on holiday pay, too.

Sick leave

Many employers will pay for a few days if you are too sick to come to work. Some employers will pay you if you stay home with a spouse or child who is sick. The longer you work for a company, the more sick leave days you will be granted. Often, a company offers one sick day for each month you work. In some companies you can save up sick leave that you do not use and carry it into the next year; in others, you cannot. Check your employee handbook for the rules in your company.

"Comp" time

Some employers pay overtime for working extra hours. Others choose to give workers time off instead of pay. This is called "comp" time (or compensatory time). You will usually get the same number of hours off that you worked in overtime.

Personal days

Some employers give workers a few days a year to take care of family or personal business. Typical uses for personal days include time off to move or to appear in court.

Caring for the family

You may be able to take unpaid time off from your job to care for a newborn, a newly adopted, or a foster child.

Family leave

Family leave allows time off to care for a newborn, a newly adopted, or a foster child, or a seriously ill family member. It also provides unpaid leave when workers are too sick to work.

The Family and Medical Leave Act (FMLA) says that employers with 50 or more workers must provide up to 12 weeks of *unpaid* leave. Employers must continue to provide health benefits to workers on leave. When the leave ends, workers return to the same job or a similar one. To qualify, employees must have worked at least one year and at least 1,250 hours in that year.

Unpaid leave

At some companies, workers can ask for unpaid leave for reasons other than family or medical problems. Companies decide on a case-by-case basis if unpaid leave will be granted. If you have worked for a company for many years, and if you are known to be a good, hard worker, you are more likely to be given unpaid leave.

Retirement and savings programs

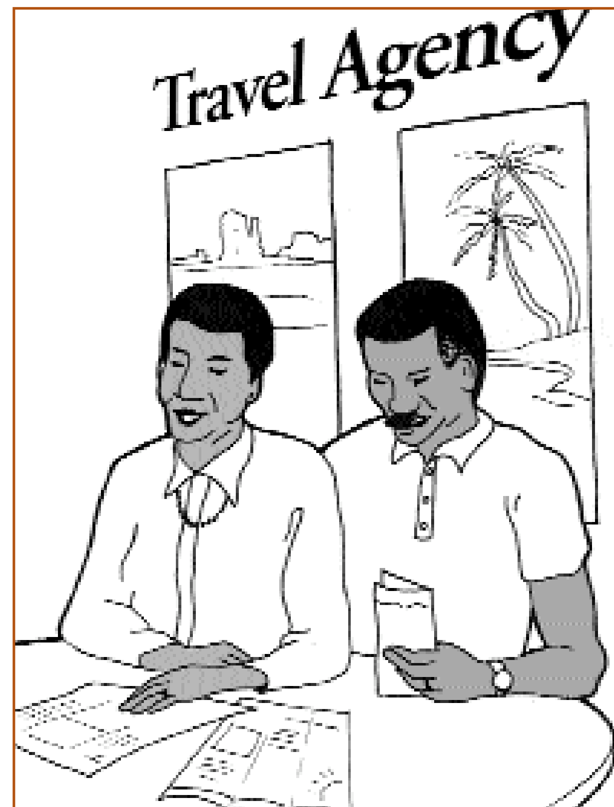
In the old days, many companies paid all of the costs of a pension plan (a retirement income) for their workers. One kind of pension plan is a "defined benefit" plan. If your company offers a defined benefit pension plan, great. This plan will pay you a fixed amount each month after you retire. The amount you will get depends on how long you worked for the company and how much you earned before you retired.

More likely, your company will offer a "defined contribution" plan instead. In this kind of retirement plan, the employer puts a certain amount of money into the plan. This type of plan does not promise a fixed amount for you each month after you retire. The amount you get at retirement depends on how much the money in the plan grows.

Many of these plans have rules you must meet before you can join. Typical rules say that you must:

- be a permanent employee
- be at least 21 years old
- work at least 36 hours a week for the company
- have worked for the company for at least 12 months

Enjoying retirement



Putting money away for retirement can help you enjoy your non-working years.

Some types of company-sponsored retirement plans allow workers to put their own money away for retirement. These are the most popular types of retirement plans today, and here are a few:

401(k) plan

A 401(k) plan is a popular type of retirement plan. (The name comes from the section of the income tax law that set up this kind of plan.) Usually, you tell your company how much to take out of each paycheck to put into your 401(k) plan. This type of plan is good for two reasons. First, you are saving for retirement. Second, you typically do not pay taxes on the money that you put into the plan. You pay taxes on the money only after you take it out of the plan—usually after you retire. Federal law limits how much you can put in each year.

The money you put into a 401(k) plan can be invested (not just put into a savings account). Investments usually will earn more money for you in the long run. You tell your company what kind of investment to make with your money from among the investment options that are available in your plan. For your investment, you might be able to choose from:

- money market funds
- bond mutual funds
- stock mutual funds
- company stock

Learn as much as you can about each kind of investment. Which is best for you and your family? What are the risks? What are the rewards? How long will it be before you retire and need to use this money?

Many employers "sweeten the pot" by matching the amount you put in. For example, an employer might put 25 cents, 50 cents, or a dollar into your retirement account for each dollar you put in (up to 6% of your pay). This is like getting a bonus. So it pays to put in as much as you can afford. Remember, you will need this money after you retire.

After you put money in a 401(k) plan, leave it there. It's true that you can borrow from many 401(k) accounts, but borrowing really slows down how fast the account grows. If you borrow, you will have less money to retire on. Also, if you leave your job and cannot repay the loan within a short time period, you will pay taxes on the balance. And, if you're younger than 59½, you will also pay a penalty of $1 for every $10 of the loan balance (or 10%).

403(b) plan

People who work for schools, hospitals, and nonprofit groups or companies have their own type of retirement plan: a 403(b) plan. These plans sometimes are called "tax-sheltered annuities." A 403(b) is very much like a 401(k) plan.

Like a 401(k), you do not pay taxes on the amount you put in or on the amount that the money earns. (You do not pay taxes until you take the money out—after you retire.) You direct how the money is invested. There are limits on how much you can put in each year.

Taking money out of a 403(b) account before you retire has the same 10% tax penalty that applies to a 401(k) plan.

SIMPLE plan

Some employers offer a retirement plan called a “SIMPLE” plan. (The word stands for “Savings Incentive Match Plan for Employees.”) If your company offers a SIMPLE plan, you can put in as much as $8,000 of your earnings each year. Note—this amount is scheduled to increase to $9,000 in 2004, and $10,000 in 2005. Usually, the employer also must contribute a certain amount. With this plan, you are “vested” right away. This means you own the money that the employer has put into your plan. But, if you take money out before age 59½, you will pay a 10% penalty. The penalty jumps to 25% ($25 for each $100) if you take the money out in the first two years after joining the plan.

There’s another type of savings plan that some employers offer. This plan, called a “profit-sharing” plan, should not be thought of as a retirement plan. The following will explain why:

Profit-sharing plans

Some companies share profits with their workers, often by giving them stock or a cash bonus. Another way is for the money to be put into a tax-deferred account. You do not pay taxes on the money until it is withdrawn. A well-known type of profit-sharing plan is called an “employee stock ownership plan” (ESOP). With this plan, the workers get company stock. However, they cannot trade or sell the stock for a set period of time.

Don’t think that a profit-sharing plan will pay for your retirement. It probably won’t. It is a little bonus. If your company’s profits drop, so will your profit-sharing bonus. Also, your company may share profits one year, but not the next.

The government has its own retirement program: Social Security. The following explains how Social Security works and why you will need other types of retirement savings:

Social Security

The government pays some money to workers who are retired from their jobs. This money is called Social Security. But Social Security payments are too small for most people to live on. And the payments may be smaller in the future.

It is wise to think of Social Security payments as only a part of your retirement income. That is why you need to put as much money as possible into your retirement plan.

It is a good idea to check your Social Security work records occasionally. Sometimes the computers mishandle names and you may not get credit for all of your working years. Social Security automatically mails out a social security statement to each employee aged 25 and older each year. If you are under 25, here is how to check your Social Security records.

- Call (800) 772-1213. (This call is free.)
- Ask for Form SSA-7004, named the Personal Earnings and Benefit Estimates Statement.
- The Social Security people will mail you the form.
- Fill out Form SSA-7004 and send it back.
- Then the Social Security people will mail you a copy of their record of your earnings.
- Check to see if the record is correct. If it is not, the form will tell you how to fix it.

Saving for retirement on your own

There are some types of retirement plans you can set up on your own. These plans are listed starting on page 37.

Education benefits

Most employers want workers to learn new skills. If you take a college class or other training, such as a computer or welding class that helps you do your job better, your employer may pay back most or all of the cost. Any time an employer will pay for your education, it is good for you. The more you know, the more valuable a worker you are.

Your employee handbook may have information on education benefits. New employees often need to wait six months or a year before they can use this benefit. Usually, you must pay for the class up front and make a passing grade. Then the employer will pay you back. The employer may limit how much tuition money you can be paid each year.

Increasing your skills

Taking classes is one way to expand your work skills.

Flexible spending accounts

Would you like a “discount” on what you pay for child care? You can get that discount if your employer offers a “flexible spending account” (FSA).

Here’s how an FSA works. Figure out the amount you think you will have to pay for child care in the coming year. Fill out the FSA form. Your employer then takes that amount of money out of your paycheck, divided in equal parts over the year. The money is put into an FSA account. Each time you pay for child care, you turn in the receipt and you are paid back from the money in the account.

How does this help you? The money set aside in the FSA is never taxed. That gives you more money to spend. For example, for every $100 you have set aside in the FSA, you may save at least $15 in taxes. That’s more money you can use to pay for child care.

An FSA also may be used for medical expenses that you pay for out of your pocket.

An FSA is a helpful benefit, but keep in mind the following:

- Any money left over in the account at the end of the year is lost. Say you have $2,000 set aside from your paycheck during the year for child care, but you spend only $1,800. You lose the remaining $200. You can’t use it next year.

- If your income is low enough and you use child care, it may be better to take the federal tax credit for dependent care on your income tax return. You cannot set aside money in an FSA and also claim the tax credit on your income tax in the same year.
- The money in an FSA is not taxed for Medicare and Social Security. That leaves you more money in your pocket, but it also means you are not receiving income credit for Social Security and Medicare.

Using a flexible spending account

A flexible spending account can help pay the cost of child care.

Other fringe benefits

There may be benefits you haven't thought about or didn't know that your employer offered. Take time to read all the information on benefits or talk with the benefits expert. These "perks" could be worth thousands of dollars. For example, employers may offer some of these things:

- financial planning assistance
- maternity leave
- adoption benefits
- legal services, such as helping to create a simple will
- group auto or group home insurance
- sick-child care
- on-site, low-cost child care
- wellness benefits, such as exercise facilities
- marital or stress counseling

What If Your Job Does Not Provide Employee Benefits?

Some employers offer no benefits except for a paycheck. If this is the case, try to get some benefits—the important ones—on your own. If you have a spouse who works and has benefits, try to sign up on his or her plan. Doing so may cost extra money, but the cost is likely to be less than buying benefits on your own. Also, consider these options.

Buy health coverage on your own

A serious illness or accident could wipe out all your savings and keep you from being able to work for a long time. Going without a health plan can put you at great risk. Many insurance companies and HMOs do sell policies to individuals.

Look for a policy with a high maximum annual payout (try to find one that is $500,000 or more). Take as large a deductible as possible. That's the part you pay each year before the insurance starts to pay for services. Try to cover smaller medical costs out of pocket. That will reduce the cost of your premiums. Be sure the policy CANNOT be canceled if you start having health problems.

Association group coverage

You might be able to buy insurance if you belong to a group or association. Some trade, professional, or veterans' groups offer their own group health policies to their members. Check to make sure that these types of policies are allowed in your state. Also, make sure that the group policy is cheaper than getting coverage on your own.

COBRA

COBRA (which stands for Consolidated Omnibus Budget Reconciliation Act) lets you keep a former employer's health coverage for up to 18 months after you leave a job. Of course, if your old employer did not offer health coverage, COBRA cannot help you. COBRA also cannot help you if you were fired for gross misconduct.

With COBRA, you keep your old health plan while you are looking for a new job. COBRA also helps if you have a new job but must wait to join your new health plan.

The catch is this: you must pay the full cost of coverage, plus 2% to pay the cost of running the program. However, because you pay the group rate, you may pay less than if you bought health coverage on your own.

Buying your own benefits

If your employer does not offer health coverage, it is better to buy your own policy than go without.

Your employer must tell you about COBRA before you leave (or when your hours are cut, which can make you ineligible for continued coverage). Then, within 60 days after you leave a job (or after your hours are cut), you must sign a form saying that you want to pay for COBRA insurance.

Short-term medical coverage

Another option is to buy a short-term medical policy. The policy may cover you for up to six months. During that time, a better job with better benefits may come along. This coverage may be relatively low cost. It is better than having no medical coverage at all. Typically, these plans do not cover anything that you have ever been treated for before.

Life insurance

If group life insurance is not offered at your job, look into buying life insurance on your own. This kind of insurance pays an amount of money to a family if the insured dies. If you have people who rely on your income, it is wise to have life insurance.

Disability insurance

Buying disability insurance on your own is not always easy. Much depends on what type of work you do. Retail sales with no heavy lifting generally is considered a "good" job. Being an entertainer without a steady income, even if it is a high income, generally is considered a "bad" job for getting disability income insurance. But, it's worth pursuing. Again, some insurance companies sell disability policies to individuals.

Disability insurance can help protect your income if you become injured.

Retirement plans

If no retirement plan is available at work, save something for retirement on your own. Even a little bit helps … and "a little bit," put away every paycheck, can add up to a lot.

Saving on your own is not as easy or as effective as saving through a plan at work, but it can be done. You have four basic options for funding your own retirement.

Individual Retirement Account

An Individual Retirement Account (IRA) is a way to save money for retirement. If you are single, you can put away as much as $3,000 each year. Note—this is scheduled to increase to $4,000 in 2005, and $5,000 in 2008. If you are married, you and your spouse can put away as much as $4,000 each year. The money you put into an IRA often can be deducted from your taxable income. The money an IRA earns is not taxed until withdrawn. Funds can be withdrawn from the IRA after age 59 1/2 without paying a penalty. Under certain conditions, such as buying a first home, you may be able to take funds out of an IRA without paying a penalty. If you take money out early and do not meet the conditions, you will face a large penalty. You will have to pay $1 for every $10 that you withdraw. You will pay income taxes on the money as well.

Roth IRA

You *will* pay taxes on the money you put into a Roth IRA. However, you will not pay taxes on the money, including its earnings, when you take it out after age 59 1/2. The amount of money you can put into a Roth IRA is the same as a traditional IRA—up to $3,000 a year.

You can withdraw the original money you put into a Roth IRA without paying a penalty or taxes. For example, say you are 30 years old and have contributed $4,000 into your Roth IRA. In time, the account earns $500; now you have $4,500 in the account. An emergency happens and you need money. You can withdraw the $4,000 without paying taxes or penalties. If you withdraw $4,500, you will have to pay a 10% penalty and taxes on the $500 since you are younger than age 59 1/2.

Roth IRAs are still new and the rules about them are changing. It is best to talk with a tax advisor to get the latest information about a Roth IRA.

Annuities

An annuity is an investment made with an insurance company. When you retire, the annuity pays you an income. The money you put in (called premium payments) can come from wages or savings. All annuities share one main feature: the interest that grows in the annuity is not taxed until you withdraw the money. Like IRAs, withdrawals to annuities are subject to a 10% penalty prior to age 59 1/2. However, this penalty only applies to the interest earned.

Some annuities pay back a fixed amount of interest. Others have an interest rate that varies. The fixed type means that you will always earn a set amount of interest. A variable annuity is not quite so simple. The money you put into this type of account is invested, say in stock mutual funds. The amount you will have at retirement depends on whether your investment goes up or down.

Personal savings and investments

Investing on your own may mean putting money into a savings account, a money market fund, or a certificate of deposit (CD). However, financial experts say that it is wise to invest some money in stocks, bonds, or mutual funds. Over time, these investments usually will make more money than savings accounts or CDs.

Most of these investments will be taxed each year. That means your nest egg won't grow as fast as it would inside a 401(k), SIMPLE, or other tax-deferred retirement plan. Still, investing on your own for retirement is better than not investing at all.

Tax breaks

You are usually better off receiving benefits through your employer. But you can take advantage of some income tax breaks if you have to pay for them yourself.

For example, you may be able to deduct some of the cost of a health plan from your income taxes. You will not be able to deduct the amount you pay for life or disability insurance.

Job Benefits Checklist

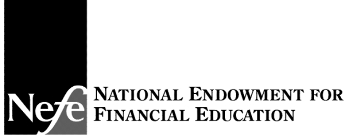
Use the following job benefits checklist to help you learn what your employer offers in the way of benefits. If the employer offers many benefits, you can use the checklist to help you pick which benefits are best for you.

Job Benefits Checklist

Employer____

____ Health coverage	____ Holidays
__ __Health maintenance organization (HMO)	____ Sick leave
__ __Preferred provider organization (PPO)	____ Personal days
___Point-of-service plan (POS)	____ Family leave
___Indemnity plan	____ Unpaid leave
___Other _______________	____ Flexible spending account (FSA)
____ Dental coverage	____ Education benefits
____ Life insurance	____ Employee assistance program
____ Disability insurance	____ Child care
____ Retirement plan	____ Other, such as adoption assistance, wellness programs, legal assistance
___Traditional pension plan	
___401(k) or 403(b) plan	
___Profit-sharing plan	
__ __Simplified employee pension plan (SEP)	
___SIMPLE plan	
___Other _______________	
____ Vacation	

NOTES



Partnering for Financial Well-Being

Planning for Success: Making the Most of Job Benefits was written and prepared as a public service by the Denver-based National Endowment for Financial Education®, or NEFE®; William L. Anthes, Ph.D., *President;* Brent A. Neiser, CFP, *Director of Collaborative Programs;* and Jeannette Herreria, *Project Coordinator.*

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About the Cover: Bob Ragland created this acrylic painting as a homage to the renowned painter, Jacob Lawrence, with whom he shared an art exhibit several years earlier. Ragland, a Denver-based artist, is listed in *Who's Who in American Art*. His art is in many public and private art collections.

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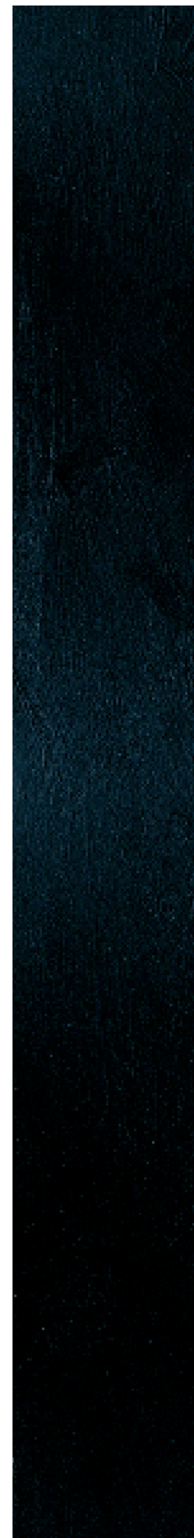

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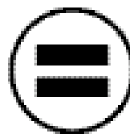

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