



Seniors and Ambassadors Financial Literacy Month 2020

INCOME AND EXPENSES

Step

1 Create or review your own and/or your household's budget

A budget is an estimate of income and expenses for a set period of time with designated categories. Ideally, your income exceeds your expenses. Preparing a budget helps you see where your money is going, areas you can trim if necessary, and how to differentiate needs from wants. Whether you're shopping for things you buy routinely — or saving for that occasional big-ticket item — planning is key.

The first step toward taking control of your financial life is to evaluate how much money you and/or your household take in and how much money you and/or your household spend. Start by listing your income from all sources. Then, list your “fixed” expenses — those that are the same each month — like rent, car payments, and insurance premiums.

Next, list the expenses that vary — like entertainment, recreation, and clothing. Writing down all your expenses, even those that seem insignificant, is a helpful way to track your spending patterns. It will also help you identify necessary expenses and prioritize the rest to get started. Use the [budget worksheet](#) from the Federal Trade Commission website for this activity.

Looking at your budget worksheet: can you identify expenses that are non-discretionary? These are bills that you must pay each month, whether fixed or varied. What are your discretionary expenses?





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Step 2 Understanding Your Paycheck

Getting your first job is always exciting. Getting that first paycheck can often be overwhelming and even disappointing when you see your take-home pay. This is due to payroll deductions. What are these payroll deductions? Watch GUSTO's [How to Read Your Paystub](#) video.

Let's look at a sample paystub (see next page). Please note, all paystubs have the same information, but they can look different. After looking at the sample paystub, answer the following questions.

- What is Geri earning per hour?
- How many regular hours did Geri work?
- How many hours of overtime did Geri work?
- What is Geri's gross income? *Hint: This is the total amount Geri earned.*
- What is Geri's net or take-home pay?
- What pre-tax deductions are taken from Geri's pay? *Hint: These are not taxes.*
- How much is Geri paying in taxes?

Terms you should know:

FICA – Federal Insurance Contributions Act: A tax deducted from your pay to contribute to Social Security and Medicare; your employer contributes the same amount on your behalf.

Medicare: A health insurance program for people who are 65 or older, certain younger people with disabilities, and people with permanent kidney failure requiring dialysis or a transplant; financed by deductions from wages and managed by the federal Social Security Administration.

Payroll tax: Taxes taken from your paycheck, including Social Security and Medicare taxes.

Social Security: Provides benefits for retired workers, people with disabilities, and the dependents of both.



1. When you accept a new job, you will fill out a W-4 form on which you'll determine a withholding allowance (this is how much money will go toward federal taxes from each paycheck). If at the end of the year you've overpaid, you'll receive a tax refund. If you've underpaid, you'll owe taxes.
2. Federal and state income taxes help pay for services like roads, public schools and libraries. Most but not all states have an income tax and some cities and counties do as well.
3. Medicare taxes help pay for health care costs for individuals over 65 and those with a disability.
4. Social Security taxes help pay for retirement costs.
5. Health insurance deductions cover medical costs.
6. Flexible spending accounts (FSAs) allow you to set aside before-tax portions of your pay for things like childcare and medical expenses.
7. Life insurance deductions go toward a life insurance policy.
8. A 401(k) is a retirement savings account. When you put a certain percentage of your paycheck in a traditional 401(k), you don't pay income tax on that money until it is withdrawn.
9. A savings deposit deduction can be set up if you want an after-tax portion of your paycheck to go directly into a savings account.

123 Company
555 Anywhere Rd
Anywhere, USA 11111

Period Ending: 2/01/19
Pay Date: 2/14/19

Scott K Smith
Social Security: XXX-XX-1111
Taxable Gross: \$520.00
Net Pay: \$410.00

Taxable Marital Status: Single
Exemptions/Allowances: (1)
• Federal: 0 • State: 0

Description	Rate	Hours	This Period	Year to Date
Regular	\$12.00	40	\$480.00	\$1,920.00
Overtime	\$18.00	5	\$90.00	\$360.00
Total			\$570.00	\$2,280.00

Deductions	This Period	Year to Date
Federal Income Tax (2)	\$40.00	\$40.00
State Income Tax (2)	\$10.00	\$40.00
Medicare Tax (3)	\$5.00	\$20.00
Social Security Tax (4)	\$20.00	\$80.00
Other		
Health Insurance* (5)	\$20.00	\$80.00
Medical Flexible Spending Account* (6)	\$10.00	\$40.00
Life Insurance (7)	\$5.00	\$20.00
401(k)* (8)	\$20.00	\$80.00
Savings Deposit (9)	\$30.00	\$120.00
Total	\$160.00	\$640.00

*Excluded from federal taxable wages

SOURCE: PracticalMoneySkills.com



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Step

3 Tax Forms

How do employers know how much to withhold from your paycheck for taxes? Your employer will ask you to fill out a [W-4 Form](#).

The **W-4** is an IRS form you complete to let your employer know how much money to withhold from your paycheck for federal taxes based upon your marital status, number of allowances and dependents, and other factors. Accurately completing your **W-4** can help you from having a big balance due at tax time. It can also prevent you from overpaying your taxes which puts more money in your pocket during the year.

Another consideration when filling out your W-4 is understanding what **minimum income** means. This amount depends on your **filing** status and age. In 2019, for example, the **minimum** for single **filing** status if under age 65 was \$12,200. If your **income** was below that **threshold**, you generally

did **not** need to **file** a federal **tax** return, unless you had taxes withheld and then you can file for tax refund.

You can use the [IRS Tax Withholding Estimator](#) to determine the number of deductions you should take each year.

At the end of the year, you will receive a **W-2 Form**. A W-2 reports an entire year's earned income (including all tips and bonuses). Tip income should be tallied daily, reported to employers monthly and included on an annual income tax return, where it's reported as wages. Employees usually receive at least three copies of the W-2: one for filing with the federal tax return, one for filing with the state tax return and one for filing away in their own records.

Step

4 Pay Yourself First

What does it mean to pay yourself first? This phrase refers to the practice of automatically making a savings contribution or investment with your income before it can reach your wallet.

This can be done through payroll savings, participation in retirement programs (for example, a 401K, traditional or ROTH Individual Retirement Accounts), or an automatic monthly transfer to a savings account.

One to way pay yourself first is to maximize pre-tax withholdings. Pre-tax withholdings are taken from your paycheck before your Federal and State taxes. In effect, these lower the amount of taxes you pay. Some examples are health insurance, life insurance, and flexible spending accounts. Be aware that some pre-tax items are just a postponement of tax payments. For example, contributions to retirement programs like a 401(k) are pre-tax deductions but you will

have to pay taxes when you begin to access those retirement funds.

Another way to pay yourself first is to set up an allotment. An allotment automatically transfers funds from your paycheck to another account, usually a savings account.

These payroll deductions might make your paycheck or income look smaller in the short run, but in the long run you will find yourself in a better financial situation.





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Step

5 Be A Savvy Shopper

Understand the Principle of Value Versus Price

Understanding the difference between price and value is a critical skill in becoming a savvy shopper. There are at least three ways to determine value versus price. Let's look at each method.

Gauging Price Per Use—Two Girl Scouts are attending a Girl Scout Destination Trip to the United Nations in New York City. They both decide that they need a briefcase for the trip. Jo shops using price as their guideline and purchases a nylon messenger bag for \$15. Geri purchases a leather briefcase with a lifetime warranty for \$30. Both go on their trip and continue to use their briefcases after the trip. After three years, Jo's messenger bag wears out. Geri continues to use the bag throughout high school and college. Jo uses their bag 200 times a year for three years. The cost per use for Jo's bag is three cents ($\$15$ divided by 200 uses per year \times 3 years). Geri uses their bag 200 times a year for ten years. The cost per use for Geri's bag is two cents ($\$30$ divided by 200 uses per year \times 10 years). Because Geri's bag has a lifetime warranty, the cost per use continues to go down each year they use the bag.

Generic Versus Brand Name—When making a purchase, it can worth your time and effort to compare generic versus brand name items. Brand name items generally come with a higher price tag but may not necessarily mean a higher quality product. Often generic items are made in the same factory as the brand name items. Brand name items often include big advertising budgets or celebrity endorsements that bump up the cost.

Conduct your own experiment. On your next shopping trip purchase a brand name item and a generic version. For example: purchase a can of a brand name soda pop (ie. Coca Cola or Pepsi) and a generic version. Do a blind taste test. Which do you prefer? Talk with the members of your household about the products you choose to pay extra for the brand name and those you are willing to substitute with a generic.

Avoid paying for features you do not need or want—Don't be dazzled by bells and whistles. If you need a basic tablet for school, you don't need super-fast speed or graphics. Before you shop, make a list of the features you need. It is easy to be dazzled by cool colors, gadgets, or gizmos, but try not to take the bait.

Step 5 Be A Savvy Shopper (Continued)

Research, Research, Research

Before making any purchase, you will want to do some research. Fortunately, with today's technology, research has become an easy task. Your goal is finding out if the product will give you the most bang for your buck AND satisfy your demands for quality and safety. It is always a good idea to "Google" the product you are looking to purchase. Then add the word "review" to your search query. This will give you reviews from people who may have purchased the item before you. Please note, not all reviews are legitimate so use your best judgement. Another option is to look at specific websites for reviews.

Let's assume you want to purchase a new tablet. There are lots of choices to choose from including many brand names and many off brands. Go to Amazon.com and type in the word "Tablet" in the search bar.

- How many different tablets came up on your screen?
- You may notice a product highlighted at the top with the words "Sponsored". This doesn't necessarily mean this is a great product, it means that the manufacturer has paid Amazon a fee to be the first item on the list.
- The next thing you will notice is that Amazon products generally come up

first. In this instance, the screen is likely to have many Kindle offers.

- You may also notice a couple of headers above some of the tablets— Amazon Choice or Best Seller. Are these indicators that these items are better than others? Perhaps, but don't stop looking with just those headers.
- Next look at the stars under the brand name of the item. How many are in color. This indicates reviews. Next to the stars is a number. This indicates the number of reviews. It is always a good idea to compare the number of stars and the number of reviews. Click on the stars and you will see a chart of ratings. Click on the number and you will see actual reviews. Be aware that not all reviews are legitimate. Consider paying more attention to "Verified Purchase" reviews.
- Did you decide on which tablet to purchase? How did you come to your decision?

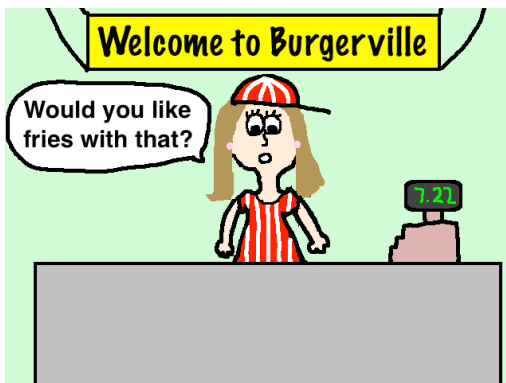


Step 5 Be A Savvy Shopper (Continued)

Buy Nothing Communities-Free Cycle-Yard Sales

Free Cycle and/or Buy Nothing Communities have popped up all over the United States. These are often Facebook Groups. Rather than throwing away items that might still have life, folks are offering them for free. There are also many locally focused Yard Sale Facebook Groups.

Find out if your community has a Buy Nothing or Free-Cycle Facebook Group. Consider joining, with permission of your parent/guardian, of course.



Ignore Up-Sales

Think about the last time you went to a fast food hamburger restaurant. You only wanted a hamburger, but somehow you ended up leaving with the full meal deal. Instead of paying \$1.25 for the hamburger, you paid \$6.00 for fries and a drink too. How often has the cashier asked, "Would you like fries with that?" Or "Would you like to Super-Size your meal?" This is called an up-sale.