

7 Insurance & Taxes

Question 1:

Your auto insurance policy has \$200 monthly premium and \$700 deductible. What is the maximum amount you will have to pay out-of-pocket for a car accident before your insurance covers your cost?

- A. \$200
- B. \$500
- C. \$700
- D. \$900

Question 2:

Which of the following statements about taxes is FALSE?

- A. Taxes are collected at the local, state and federal level
- B. Some states don't collect income tax
- C. Some states don't collect sales tax
- D. Taxes at the local, state and federal level are all equal

Question 3:

- A. Minimize monthly expenses
- B. Financially protect against unexpected accidents
- C. Reduce the chances of getting into an accident
- D. Cover all out-of-pocket cost

Question 4:

When starting a new job, the form you complete to determine how much tax to withhold from your paycheck is called _____.

- A. 1040EZ
- B. 1099
- C. W-2
- D. W-4

Question 5:

In which of the following scenarios will you be entitled to pay the least amount of money out-of-pocket for a medical expense?

- A. You have no insurance
- B. You have health insurance with a \$500 deductible
- C. You have auto insurance with a \$700 deductible
- D. You have health insurance with a \$1,500 deductible

Question 6:

When you purchase an item in a store, you may be charged _____.

- A. Income tax
- B. Capital gains tax
- C. Sales tax
- D. Property tax

Question 7:

Which of the following are NOT deducted on a typical paystub:

- A. Sales tax
- B. Social security tax
- C. State income tax
- D. Medicare tax

QUESTION 8

You have an insurance policy with a \$300 premium and a \$500 deductible. How much should you expect to pay the insurance company each month for coverage?

- A. \$200
- B. \$300
- C. \$500
- D. \$800

QUESTION 9

Jan pays \$70 each month for her auto insurance policy. This regular payment is called a:

- A. Co-pay
- B. Deductible
- C. Premium
- D. Claim

QUESTION 10

Which of the following typically have the highest auto insurance premiums?

- A. Young, inexperienced drivers
- B. Older, experienced drivers
- C. Drivers who have safe driving records
- D. Drivers who travel short distances

What is Insurance?

So you've got your first job. And that means you've also got your first paycheck. But wait a second - what happened to all the money that was supposed to be there? When you're earning a

paycheck, your money goes to a lot of places - not just into your wallet. If you're looking at your paycheck and it's less than you expected, it's probably because a portion of that money was taken out to pay for two very important things: insurance and taxes.

Once you know how insurance and taxes work, you'll not only understand your paycheck better, but you could also save a lot of money in the long run, especially with the protection that insurance can give you from life's unexpected surprises. What kind of surprises? Well, a stray baseball might hit you while cheering on your favorite team. That friendly looking dog you stop to pet might not be so friendly after all. Or your basement floods when a pipe bursts and ruins your valuable graphic novel collection.

Insurance is a way of managing risks like these... and also things like medical problems, car accidents, fires, and the countless other curveballs that might come your way. While insurance can't protect you from bad things happening in the first place, it can protect you from having to spend hundreds, and even thousands, of dollars to recover from a disaster, an unexpected doctor's visit, or other emergencies. It can even protect you from going into debt. A kind of financial shield, insurance works by transferring financial risk onto the insurance company when bad things happen. It costs a little upfront, but it can actually save you a ton of money in the long run. Let's see how.

Imagine that you get into a car accident. No one is hurt, but it's going to cost you \$2,000 dollars to get your car up and running again. If you don't have insurance, you'll have to pay for all the repairs out of your own pocket. This is a huge expense that could quickly put you into debt if you don't have enough money to pay for it, but if you had insurance, your repair bill would look a whole lot different. Depending on your insurance policy, you may only have to pay a small amount of that \$2,000 - or maybe nothing at all! That's one of the reasons why car insurance is required in most states. There isn't just one kind of insurance, either. Many kinds are available to protect you in just about any situation imaginable, which you'll learn about next.

Types of Insurance

Several types of insurance are available to cover different situations in your life. Some of them are actually required by law, such as car insurance, while others, like life insurance, are optional. To learn more about common insurance types, click each button.

AUTO INSURANCE

Auto insurance protects you and other drivers in the case of a car accident. Most states require it by law.

RENTERS AND HOMEOWNERS INSURANCE

Renters and Homeowners insurance can protect you if there is damage to your home. Homeowners insurance covers your home and the items inside it while renters insurance only covers the items in your home.

HEALTH INSURANCE

Health insurance can help cover the cost of medical expenses like doctor visits, prescriptions, emergency medical care, and hospital stays

DISABILITY INSURANCE

If an illness or injury prevents you from working, disability insurance helps cover the lost income.

LIFE INSURANCE

If you pass away, life insurance ensures that another person - called your beneficiary - will be financially protected.

Summary

There are many types of insurance to cover you in case of an accident or emergency. But how do insurance policies work, and how do you know if you'll be covered? The answers are coming up next.

QUESTION 1

Which of the following insurance types will cover the possessions inside your home?

- A. Renter's insurance
- B. Homeowner's insurance
- C. Both A & B
- D. Neither A nor B

Insurance Policy Terms

To help better understand health insurance coverage take a look at the different parts of this typical policy.

COVERAGE

Coverage is the amount of protection you are eligible to receive from your insurance plan. The amount of coverage offered by your insurance plan depends on your policy.

PREMIUM

A premium is the amount you pay to the insurance company for coverage.

CLAIM

A claim is a request for payment that is submitted to your insurance company. For example, if you get into a car accident, you may submit a claim to your auto insurance company to request they pay the repair bill for you

DEDUCTIBLE

The deductible is the amount you must pay "out-of-pocket" toward a claim before your insurance kicks in.

CO-PAY

A co-pay is a fixed fee you pay for specific medical services - like a visit to the doctor's office.

Summary

Now that you know what the most common insurance terms mean, it's time to put your knowledge to the test.

Insurance Policy Terms Practice

Take a look at these different insurance scenarios, and click on the term that best describes what type of payment it represents: co-pay, premium, or deductible.

Joe went to the doctor yesterday and had to pay \$20 for his visit. Joe's \$20 office visit payment is called a:

- A: Co-pay
- B: Premium
- C: Deductible

Joe pays \$100 a month to belong to his employer's health insurance plan. Joe's \$100 monthly payment is called a:

- A: Co-pay
- B: Premium
- C: Deductible

Maggie must pay for \$1,500 worth of medical expenses out-of-pocket before her health insurance policy covers her costs. Maggie's \$1,500 out-of-pocket expenses are called a:

- A: Co-pay
- B: Premium
- C: Deductible

Maggie pays \$50 a month for her health insurance policy. Maggie's \$50 monthly payment is called a:

- A: Co-pay
- B: Premium
- C: Deductible

Summary

Between co-pays, premiums, and deductibles, it does cost money to have an insurance policy, but in the long run it can save you so much more, as you're about to see.

How Insurance Works

It's a beautiful day. The sun is out. It's the weekend. And you have no homework to do. You're on your way to pick up a friend, and then... A dog runs out onto the street. You slam the brakes and skid into a fence. You're not hurt, but your car is damaged and so is the fence. All together,

it's going to cost a whopping \$2,000 dollars in repairs! This bad situation would be worse if you didn't have insurance.

Whether it's insurance to cover a car accident, a medical emergency, or damage to your home, an insurance policy will cover some - or all - of the expenses on your behalf. Insurance policies have two main components you have to pay: a monthly fee called a "premium" and a "deductible" to meet, which is what you need to pay out-of-pocket before your insurance kicks into effect.

Going back to our car accident, let's say you do have insurance. Every month, you pay a \$150 dollar premium and have a \$250-dollar deductible for auto insurance coverage. With this auto insurance policy, you'd only have to pay \$250 for the car repairs - that's your deductible! - and your insurance company would pay the remaining \$1,750. But if insurance companies pay so much on your behalf, how do they stay in business? You'd think if the insurance company keeps writing checks for thousands of dollars they'd soon go broke.

Most insurance companies have a large pool of customers they insure and charge them based on individual risk. The less risky customers balance out the more risky customers. Think about it like this: a 16-year old who is just learning how to drive is probably not as good a driver as a 35-year old who's been driving for years without a problem. From the insurance company's point of view, the 16-year old is more likely to get into a car accident. Because of the increased risk, the company charges a higher premium to the younger driver.

However, just because you may be a new driver doesn't mean there aren't ways to lower your premium. Insurance companies don't just look at your age - they look at your driving record, any tickets you may have received, the type of car you drive, and sometimes even your grades. All of this information is used to predict how risky a driver you will be.

If the insurance company thinks you will be a low-risk driver, they'll probably charge you a lower premium. If they believe you're a high-risk driver, your premium will likely be more. So drive safe, stay in the lanes, and keep your grades up to keep your out-of-pocket costs as low as possible.

QUESTION 2

Which of the following best describes how auto insurance companies manage risk?

- A. High-risk drivers are not able to sign up for insurance
- B. The insurance company balances low-risk drivers with high-risk drivers
- C. The insurance company charges higher rates to higher-risk drivers
- D. Both B & C
- E. All of the above

Calculating Out-of-Pocket Costs

Knowing about deductibles and premiums is great, but you're probably wondering how this can affect you and your wallet. Take a look at some common auto insurance claims, and choose the

policy that will minimize the amount you pay out of pocket! In this activity, just look at your out-of-pocket costs immediately after the claim. You do not have to take your premium payments into account. Choose which policy costs the least out-of-pocket for each scenario.

Scenario 1: You got in a car accident that was your fault.

Damages = \$2,000

A: No insurance
No premium.
Costs \$0 / month

B: Low Deductible Plan
Premium = \$300 / month
Deductible = \$500

C: High Deductible Plan
Premium = \$100 / month
Deductible = \$1500

Summary

If you cause a car accident, it's your insurance company that covers the costs. The lower your deductible, the less you'll have to pay out-of-pocket before your insurance kicks in.

Scenario 2: You get in a car accident that was someone else's fault.

Damages = \$2,000

A: No insurance
No premium.
Costs \$0 / month

B: Low Deductible Plan
Premium = \$300 / month
Deductible = \$500

C: High Deductible Plan
Premium = \$100 / month
Deductible = \$1500

Summary

If the other driver is found to be at fault for the accident, you may not have to pay any costs out-of-pocket... just as long as the other person has insurance.

Scenario 3: You take your car in for regular maintenance.

Repairs = \$200

A: No insurance

No premium.
Costs \$0 / month

B: Low Deductible Plan
Premium = \$300 / month
Deductible = \$500

C: High Deductible Plan
Premium = \$100 / month
Deductible = \$1500

Summary

Typically, auto insurance policies don't cover regular maintenance costs, so insurance won't affect this scenario either way.

Paying Taxes

Taxes - you just can't escape them. Whether you're earning money or buying something at the store, everyone pays taxes in some form or another. While no one really likes shelling out extra money, the government collects taxes for a reason: to help pay for services for its citizens.

Things like:

Police

Fire departments

National parks and wildlife reserves

Highways

Airports

And public schools

There are different types of taxes and different levels of government that collect them. As a citizen, you'll be responsible for paying taxes on the local, state, and federal level to help pay for the services they provide. For instance, if you go to the grocery store or buy a new pair of shoes, you may have to pay a sales tax, which usually goes to the state. When you get a paycheck, you also have to pay tax on the money you earn - this is called an income tax. Income tax is paid both to the federal government and, in most states, to your state government.

Different states have different tax requirements and amounts; some states don't even collect income tax! And if you or your parents own a house, the property tax on that home usually gets collected at the local government level. Just like income tax, property taxes vary depending on which state or county you live in. This tax often goes to supporting local services like education, police, and fire protection. When it comes to taxes, this is just the tip of a very large iceberg. We'll dive a little below the surface next.

Types of Taxes

Though there are many categories of taxes, there are five main ones you should know about. Click on each to learn more.

FEDERAL INCOME TAX

Based on how much money you earn each year. The federal government charges income tax for everyone who earns money.

STATE INCOME TAX

Based on how much money you earn each year. The percentage of your income that is taxed varies from state to state. Some states don't have a state income tax at all.

SALES TAX

Charged on items you purchase. Most states charge sales tax every time you buy something. The sales tax percentage varies across states.

PROPERTY TAX

Based on the value of owned property, like land, buildings, or houses. The property tax rate depends on your state, local jurisdiction, and the value of your property.

CAPITAL GAINS TAX

Charged on any profit you make from selling something at a higher price than you bought it. Capital gains are usually from the sale of stocks, bonds, or property.

Summary

In most instances, federal and state taxes aren't just paid once a year during "tax season." In fact, most people pay some taxes in every paycheck so they pay less tax at the end of the year.

QUESTION 3

Which of the following taxes are charged on items at the time of purchase?

- A. Sales tax
- B. Property tax
- C. Capital gains tax
- D. Income tax

Parts of a Paystub

Taxes can affect different parts of your life, which you can see by analyzing your paystub. Click the parts of this example paystub to see what taxes and other deductions you may see on your paycheck.

YTD

"YTD" stands for "year-to-date". This shows the amount earned or deducted for the year so far.

DEDUCTIONS

Deductions are amounts that are taken out of your paycheck to pay for things like health insurance or retirement.

TAXES WITHHELD

Withholdings are the amounts taken out of your paycheck to pay for taxes.

SOCIAL SECURITY

Social security is a tax that pays for the retirement benefits for the currently retired and the future retired population.

MEDICARE

Medicare is a tax that pays for health care for people aged 65 and over.

STATE INCOME TAX

State income tax is paid to the state that you live or work in. The amount of income tax varies by state, and some states don't have an income tax at all!

401(K)

401(k)s are optional retirement savings plans that are sponsored by your employer.

Summary

Great! Now that you're familiar with paystubs and their common components, let's see if you can answer some questions just by looking at an example paystub.

Paystub Practice

Ready to put your knowledge of payroll deductions and paystubs to the test? Answer the following questions by clicking the correct part of Maria's latest paystub.

of the year. Filling out the W-4 the right way can also keep you from overpaying taxes throughout the year, putting more money in your pocket with each paycheck.

Every year you'll need to file a federal tax return for the previous year by April 15... year in and year out, just like clockwork. The IRS has many different tax forms to help you figure out what you owe them - or if they owe you a refund. But to keep things simple, the forms you really need to know about are the W-2 and the 1040EZ.

The W-2 is simple because you don't actually have to fill it out. At the end of the year, your employers will send you a W-2, which shows how much money you made during the last year and how much you already paid in taxes. Then it's your responsibility to use that information to fill out your end-of-year tax form, which will have sections that directly relate to sections on the W-2.

Most people starting out in the workforce will use the simplest form to calculate and file their annual taxes, the 1040EZ. If your tax situation gets more complicated, like if you start investing in stocks or maybe even buy a home, you'll need to use its cousin, the 1040. But for now, all you really need to understand is the 1040EZ.

Today, doing your taxes is much simpler. While you can still do it the old-fashioned way, with paper and pen, most people can now complete it online or through an e-filing system. These online systems walk you through the process step-by-step - just be wary of any fees to use online tax software. However, the federal government and many states will let you file your taxes online for free if you're making below a certain income amount.

All that probably

Filling out the 1040EZ Form

It's that time of year again and taxes are due next week. The 1040EZ is the form you'll fill out to file your taxes. To begin, you'll need to have your W-2 handy. Your employer should have sent it out to you a while ago, so check your mail and let's get started. The first section of the 1040EZ is where you put your personal information: name, address, Social Security number. Since you know this information in your sleep, we'll skip this and move straight to the fun part. On line one you'll need to enter your income for the year. This information can be found on your W2. Box 1 on your W-2 lists your income for the year. This amount goes on Line 1 of your 1040EZ form.

Calculating Taxable Income

Based on common factors for someone your age, lines two through five have been filled out for you. Click each to learn where these numbers came from.

- Line 2: Unless you make more than \$1,500 in interest from bank accounts and other investments this year, this line will be zero
- Line 3: Unless you have lived in Alaska for over a year and have received unemployment compensation this year, this line will be zero.
- Line 4: This is what you get if you add lines 1, 2, and 3.

- Line 5: Until you get married, you should check the "You" box, and write the amount for a single person. In this case, \$10,000.

The last part of this section asks you to subtract line 5 from line 4 to figure out something called your "taxable income."

Nicely done! Now let's take a look at the third section: Payments, Credits, and Tax. You'll need your W-2 again to fill out line 7.

Payments, Credits, & Tax

Lines 8 and 10 have already been filled out with numbers based on what's most common for someone your age. Click on each line to see where these numbers came from.

- Line 8: Unless you are over 25, or have a child, you should write down "zero" for this line.
- Line 10 This number is found by looking up your taxable income from line 6 in a tax table that comes with the 1040EZ form. For your income, the amount is \$5,560.

That leaves just one more line to figure out - line 9. To get this number, add the values from line 7 and 8a. Click the correct amount when you have the answer.

You're almost there. Let's take a look at the last section where you'll find out if you get a tax refund this year!

Line 11a gets filled out only if the value in line 9 is larger than line 10.

So what is it? Is line 9 larger than line 10?

A: Yes

B: No

Summary

If you want more... you're out of luck... cause that's it! You crossed the finish line. You made it to home base. You filled out a 1040EZ.

Congratulations, you've completed this module. Now it's time to take your end of module quiz. You can take some time to review your notes if you would like. Good luck!

QUESTION 1

Jan pays \$70 each month for her auto insurance policy. This regular payment is called a:

- A. co-pay
- B. deductible
- C. premium
- D. claim

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When starting a new job, the form you complete to determine how much tax to withhold from your paycheck is called the _____.

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Insurance can help you:

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- B. financially protect against unexpected accidents
- C. reduce the chances of getting into an accident
- D. cover all out-of-pocket costs

QUESTION 7

Your auto insurance policy has a \$200 monthly premium and \$700 deductible. What is the maximum amount you will have to pay out-of-pocket for a car accident before your insurance covers your costs?

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