

Insurance and Taxes

Taxes Pretest

For the first three questions, determine whether the item would be taxed as income or not. After each item that is taxed write "taxed" on the line. After each item that is not taxed, leave the line blank.

1. Income from a part-time job _____
2. The balance in your savings account _____
3. The interest earned on your savings account _____
4. Depositing money into your qualified IRA is a good way to cut your tax bill for this year.
 - a. True
 - b. False
5. No matter how much money you make it is always a good idea to itemize when you file your taxes.
 - a. True
 - b. False
6. If your car is damaged when it is sitting outside a garage during a hail storm you won't collect anything from your auto insurance unless someone is personally injured.
 - a. True
 - b. False
7. The bank that holds the loan on your home will require you to have homeowners insurance so you must figure the cost of that insurance into your monthly housing cost.
 - a. True
 - b. False
8. Where is probably the best place to buy health insurance?
 - a. At your bank
 - b. Over the internet
 - c. From the sale insurance agent where you buy your auto insurance
 - d. Enroll in the group health insurance plan where you work and pay for it through payroll deduction
9. In the health insurance world what does PCP stand for?
 - a. Pre Certified Planning
 - b. Primary Care Physician
 - c. Proving Cost Pressure
 - d. Poor College Professor
10. Select the situation when the term life insurance provided through your place of work is enough life insurance:
 - a. When you are thinking about changing jobs

- b. When you have small children and a spouse who does not work
- c. When are not married, have no children and have no one else financially dependent upon you
- d. When you are over age 50

Taxes and Insurance Module

Taxes

In this Economic Literacy Education program we don't give tax advice! Instead we talk about the sources and uses of taxes.

- Page 1 gives you an overview of the module, and pages 2, 3 and 4 are informational pages. Please read them. On page 2 you learn who must file income taxes in Arkansas (practically everyone!). On pages 3 and 4 you get a short definition of the types of taxes. This information will help you to complete the exercise for this module. You will need a calculator and pencil.
- Complete the exercise on pages 5, 6, 7 and 8. These activities are similar to the budgeting activities you completed when you were doing our Budgeting unit, but this time you are working with two fictional households instead of your own household. One household is headed by Jim and Amber and the other household is headed by Glenda.
- Doing these exercises will help you see how some taxes, such as sales tax, are really more expensive for lower income households than they are for higher income households?
- Pages 9, 10, and 11 present an activity on household financial management that demonstrates how financial decisions can help lower tax bills. Remember when we talked about Individual Retirement Accounts in the unit on Checking and Savings? In this exercise you will understand how depositing money into qualified savings plans, like IRAs or 401(k)s not only helps you save money for retirement but lowers your tax bill as well.
- Pages 12 and 13 contain useful information for you as a taxpayer. Page 12 you will learn what income can be taxed and on page 13 you will find helpful information on whether you should itemize when you file your taxes.
- Pages 14 and 15 provide you with guidelines on determining who can be considered a dependent on your taxes.
- Page 16 lists the Revenue Offices in Northwest Arkansas.
- Pages 17, 18 and 19 spell out the Taxpayer Bill of Rights. You can find this and much more information about taxes at <http://www.dfa.arkansas.gov/Pages/default.aspx>.

Insurance

Just as we don't give tax advice, we don't sell insurance. But we want you to know that you do need some types of insurance and not others. For example you need automobile

insurance if you own a motor vehicle. It is probably required by law. However, you probably do not ever need credit life insurance. So read on.

Pages 1, 2, and 3 contain a very brief overview of automobile insurance. If you need or want more information call an insurance agent or go on-line and type in “automobile insurance” to begin your research.

Homeowners Insurance is another type of insurance you will probably have to buy. If a financial institution holds a mortgage on your house they will probably require you to have this insurance. Read about it on pages 4 and 5.

Health insurance is discussed on pages 6, 7 and 8. This type of insurance is usually provided through your place of employment and you pay all or a portion of this insurance premium through a deduction from your paycheck. Health insurance can be a really confusing topic, and these three pages will just give you an overview. If you have health insurance through your workplace, you may have HR counselors or a website with more information. If your workplace doesn't provide health insurance, you can research alternatives online.

Life insurance is covered on pages 9 and 10. There are several types of life insurance:

- term life
- cash value life
- credit life

Here again, if you want more information contact a life insurance agent or go online to research products and see what they cover.

We have a word of caution about many types of life insurance. Maybe life insurance should be called death insurance because to get the benefit from many types of life insurance you have to be dead and the money goes not to you but to the beneficiary you name on your insurance policy. If you do not have dependents who would suffer financially if you should die, you do not need much life insurance. However, if you do have dependents you may need a great deal of life insurance. You should review your life insurance needs and life insurance coverage at least every 10 years.

The last two paragraphs on page 10 cover disability insurance. This pays a benefit, not if you die, but if you are disabled and cannot continue to work. You may need disability insurance even more than you need life insurance because your expenses will go on if you become disabled and not able to work. Healthy young people are statistically more likely to need disability insurance than life insurance.

Posttest

Of the first four items on this list, decide which would be taxed as income and which would not. After each item that is taxed write “taxed” on the line. After each item that is not taxed, leave the line blank.

1. Income from a part-time job _____
2. The balance in your savings account _____
3. The interest earned on your savings account _____
4. The amount you have deducted from your pay to contribute to your 401(k)

5. A good way to lower your income tax bill is to purchase an IRA or participate in your employer's retirement plan at work.
 - a. True
 - b. False
6. It is never a good idea to itemize your deductions when you file your taxes. It is hard to do and you have to hire someone to figure your taxes for you.
 - a. True
 - b. False
7. The damage to your car from a tree limb falling on it is covered by the comprehensive coverage on your automobile insurance.
 - a. True
 - b. False
8. Homeowners insurance is the same thing as mortgage insurance or PMI.
 - a. True
 - b. False
9. The best place to buy health insurance is probably through the place you work and you can get into a group health program with your co-workers. Frequently your employer pays a portion of the premium. The amount you pay is deducted from your pay check.
 - a. True
 - b. False
10. In the health insurance world what does HMO stand for?
 - a. Health Maintenance Organization
 - b. Holding Money Out
 - c. Higher Mortgage Overall