9 Things Every College Student Should Know About Money
Thing 6 Presentation Transcript

APPEARANCES CAN BE DECEIVING

Thing Six. Appearances Can Be Deceiving.

BUCKY'S EMPLOYMENT

Dixon: Have you heard back from the coffee shop? Do you think you got the job?

Bucky: Nope--I hope I hear something today. I Think I nailed the interview.

Dixon: They all know you love coffee--that's for sure!

Bucky: Yeah...I guess there is no use in denying that!

Dixon: With the money you make working there you think you can save enough to go with us on spring break?

Bucky: I double-checked my savings plan, figuring on a modest 12-hour work week--I will definitely have enough...if they hire me!

TOPICS

1. YOUR PAYCHECK

Your paycheck.

FIRST PAY CHECK REALITY

Bucky thinking: This can't be right. 30 hrs x $9.00 = $270.00

Where is my money?

ARRGH! I've got to get to class!

STATEMENT OF EARNINGS

So let's take a look at Bucky's paycheck and see if we can figure out what's going on here. First of all, let's look at Bucky's earnings. Now when Bucky took the job, he agreed to an hourly rate with his employer. The way you determine the total amount paid to Bucky during any given pay period is; you take the number of hours worked, times the rate and that gives you your gross pay. Then on the other side of the paycheck you have to look at withholdings. Typically they're going to take out federal taxes, state tax, Social Security tax, and Medicare tax. There could be some local taxes, but those are the main ones. Then typically you'll have some other deductions. If you have health insurance or a retirement plan those will also be deducted out. Then you take the gross pay minus the deductions or withholdings and that equals your net pay. Your net pay is what's going to be on your paycheck and what you should build your budget from. We've used a few estimates to calculate Bucky's Medicare and State Income Tax in this example, and we'll talk more about these subjects later.

OTHER TYPES OF EARNINGS

One of the first things you have to understand is that there's different types of earnings. We're all basically exposed to earned income. Which is where you go to work, you have a job, and you get paid either by the hour or you're a salaried employee that gets paid by the month. With that income you do work, and in return you get paid. That is called earned income.

Investment income is when you take money and you invest it--say in the stock market, or in real estate, or in other investments that are out there. And those investments make you money. That money has to be reported as investment income on your tax return and it is treated differently than is earned income.

Passive income is income that you are making that you don't actively participate in the earning of that money, but you enjoy the benefit of it. So let's say you own an apartment house and you don't live at the apartment house. You have a manager that actually manages it—collects the rent and handles the maintenance. You don't take an active role in the management of the apartment house, but you derive income from it. *That* is considered passive income because you don't materially participate in the running of the business which is owning this apartment house, but you earn income from it. That is treated differently from a tax perspective as well.

Tax exempt income is income that is not subjected to taxes. Most of the time you'll see this in some type of a bond offering where the state or the municipality will offer a bond, and in return for buying that bond you will be exempt from state or municipal taxes. That's tax exempt income. It's fairly rare, but it is still out there. People who are getting ready for retirement often use tax exempt income as a strategy so that they don't get hit with heavy tax burdens as they move into their retirement years, when their income is typically less because they are not working.

Now, tax-deferred income is very common especially with retirement planning, such as the 401(k) or the 403(b). It's where you invest money into an investment vehicle, such as stocks, and that investment earns money, and that money is tax-deferred. In other words, that interest that you earn compounds through those investments and is tax-deferred until you start to pull money out in the future. So as the 401(k) interest compounds, it grows exponentially. Once you're through putting money into it—for example, when you retire, then when you begin to withdraw money, which is also called taking distributions. Those withdrawn funds are then taxed. So it is considered tax-deferred income as you are earning and saving it, and then you pay the tax later when it is distributed to you. The big upside to tax deferral is that it allows your money to grow from a compounding perspective much, much quicker. There's lots other types of earnings, and most of those have some type of relationship with the tax code as well, so you want to make sure when you're getting ready to do your taxes each year between Jan. 1 and April 15th that you understand just what types of earnings you are reporting.

SELF-ASSESSMENT Matching

Match the example to the type of earnings.

TYPES OF BANKS AND SERVICES

Let's talk about some of the different types of banks and services. I've found that some students aren't really sure what the differences are between these so let's clarify that. First of all, credit unions. Credit unions have a unique relationship in that they basically build up their capital through their members. The membership puts their money into the credit union and then the credit union loans that money out to other members. It's sort of this circular financial institution that is usually very positive and typically will offer better rates and services for their members.

Full service banks are your larger banking institutions, I guess not necessarily large, they can be local as well. They offer brick and mortar locations, online services, and they typically will have home mortgages, car loans, in other words a full suite of services that are available to their customers.

A newer type of banking is online-only banking. These are banks that only exist in cyberspace and their appeal is to a techno-savvy audience. One of the advantages they have over both the credit union and the full-service bank is that they don't have the expenses of maintaining brick and mortar operations. On the downside, they won't have a banking representative like Yelana that you can go in and visit to discuss your banking needs.

You really have to decide what types of banking services you'll need over time, then do your research and decide what type of banking service will best meet your needs. It might even be more than one!

OTHER FINANCIAL SERVICES

There are also companies that focus on a specific niche in the financial market whereas your full service banks try to do everything for the customer. There are niches where you have specific mortgages companies that help you with mortgaging your house or buying a home. There are brokerage firms that will help you invest your money in the stock market or wherever you are looking to invest. And there are finance companies that handle large scale financing typically for companies, they basically manage other peoples' money. A typical example would be a finance company that's available through car dealerships to help the sellers provide financing options and the buyers to finance car loans. So when shopping for a loan to purchase a big ticket item, you may have several options to choose from, such as your bank, your credit union and a finance company, so use common sense and shop around to find the best deal for you before making your final decision.

2. TAXES

Taxes.

WITHHOLDINGS

Now, about those tax-withholdings from your paycheck. Federal income tax. Federal income tax is determined by what bracket you're in. So the lowest income bracket would pay about ten percent in taxes. The highest income bracket would pay about thirty-nine percent in taxes. So it is very important to figure out where you fall in these tax brackets so you can manipulate your income is such a way that you can actually get into a lower tax bracket.

Social Security. Social Security tax for wage earners i.e. those who are employed by an employer and earn wages is 6.2% up to $118,500 in earnings in 2015. Now if you're self-employed, in other words, you aren't earning wages but you're earning self-employment income, then it's double--it's 12.4%. So basically the wage-earner shares this cost with their employer. If you're self-employed you pick up the entire cost or 12.4% and that is what is deducted out of your paycheck.

Medicare tax. Medicare tax is 1.45% in 2015 on all earnings up to $200,000 if you're single.

And again, that is for employees that have an employer and they are earning wages versus the self-employed where their rate is 2.9% on all earnings up to $200,000 if you're single. So with both Social Security tax and Medicare tax—when you are employed; your employer picks up a portion of both your Social Security and Medicare tax making them less costly to you.

Finally there's state income tax. State income tax is what you pay based on your income. This is a little different--the state income tax rate in Oklahoma ranges from half a percent up to 5.25% depending on your taxable income, but those of you out there from Texas and a few other states don't pay any state income tax at all. You may actually have a zero income tax rate. You can check that state and/or the local tax commissions' websites. On Bucky's paycheck, we used an estimated 1.5% for Medicare and 5.25% for state tax just to give you an idea of what these deductions would look like on an actual paycheck. Now, you don't need to memorize the amounts of the deductions or percentages here because they are going to vary from year to year and from state to state. These amounts will vary, but I thought it was important for you to know what's going to come out of your paycheck AND why you have these specific withholdings.

TAX FORMS! Sticky Notes

Common tax forms – check them out for more info!

SELF-ASSESSMENT M/C

Which type of tax return is a student with no dependents most likely to file?

BASIC TAX STRATEGY

Exemptions

Taxes will be a huge part of your financial plan. There's not a way around it. Here's an example, let's say you've got two people, one person makes $100,000 a year and the other person makes $80,000 a year. Who makes the most money? Well it's fairly obvious that the person making $100,000 a year makes more money than the person making $80,000 a year. But then let's factor in taxes.

For example, let's say the person making $100,000 a year is paying 40% in taxes. So how much they're actually bringing home to their family is net income. Well 40% of $100,000, they're bringing home $60,000 a year to their family. Now you've got a person making $80,000 a year. What if the person making $80,000 a year had a tax return that only require him to pay 20% in taxes? How much is that person bringing home to their family? Well, 20% of $80,000 is $16,000. So that person is bringing home $64,000 a year to their family.

Now wait a minute, you're saying the person making $80,000 a year is actually bringing home more in net income than the person making $100,000 a year? Yes, because the person making $80,000 a year is more tax-efficient than the person making $100,000 a year. *It's not how much you make, it's how much you keep*.

Tax Return

Taxes—what a huge subject! There are many college courses built around this single subject and it is not a simple matter trying to understand the tax code in the United States. However, you need to understand taxes to the point where you can take advantage of the best tax strategy for you and your family and whatever your financial situation is going forward.

Tax Forms

There's two main forms that you need to deal with. The terms get thrown around a lot, but I'm not sure that anyone really takes the time to explain them. First, there is the W4 form. If you have a job where you actually work for wages, you've had to fill out a W4 form. The W4 form is where you put down the number of exemptions that you are going to take. An exemption is an annual deduction that a taxpayer can take for each dependent including yourself, which equates to a set dollar amount. This is what is going to be used by your employer to determine how much money is going to be taken out of your pay check.

How it works.

Exemptions work in reverse. So if you have zero exemptions claimed, then you will have the most, or the highest tax possible being withheld (or deducted) from your paycheck every time you get paid. The higher the number of exemptions claimed, the less money they take out of your paycheck.

What you have to do is strategically figure out where it is that you need to fall. When you are getting ready to file your tax return, between January 1st and April 15th, a decent strategy is to try to get to zero. In other words, when you settle up with the federal government and the state government from a tax perspective, and you fill out your tax return, it would be nice if you didn't own them any money in taxes and you didn't get a refund. That's what I call getting to zero.

I know a lot of people look very forward to their tax refunds--they think of that as sort of a windfall. Typically you don't want to just loan your money to the federal government or to the state to use for 12 months and then have them give it back to you. Basically what you did was give them an interest free loan for however long they held onto the money. Now, if you're a spender and not a saver, and you are just going to burn through that money no matter what, then it's not a bad strategy to basically claim zero on your W4 and then look forward to a nice, healthy income tax return at the end of the year. But if you're not a spender, if you're more strategic, and you're a saver, you can try to estimate how much you're going to owe in taxes and then have the corresponding number of exemptions set on your W4 at the beginning of the year. Then when you get to the end of the year, you can settle up and basically be in a zero balance situation where you don't owe the state or the feds any money and they don't owe you a refund.

Okay, now you can use a software program to help do your taxes. I use a software called Turbo Tax that I'm very high on. It has helped me tremendously especially with tax planning. It's more than just doing your taxes once a year. A tool like that can help you plan for these sorts of things.

Stay Current

Getting that W4 right is very important and helps determine where you're going to end up with your tax strategy at tax time. As your family situation changes, you get married, you have kids, you get more income, and you get more tax deductions. Say when you buy a house, you can deduct the mortgage interest on your tax return, so you may want to adjust that W4 accordingly so that you're still following your tax strategy.

Alright, another form that's very common is called the W2 form. While the W4 form is completed up front and determines how much is going to be withheld from every paycheck throughout the year, the W2 is a summary of what happened throughout the entire year. It is your statement which includes the amount of your wages, salaries, and tips and the amount of federal and state taxes withheld over the year. There are a number of other boxes with information on it that also needs to go on your tax return. Before you can file your tax return, you have to get copies of all of your W2s in order to properly fill out the tax form.

Finally, there is the actual tax form itself. There are actually several different forms. There's a 1040EZ form, (which stands for easy), and there's a 1040A. If you have any kind of complexity in your taxes at all, then you're going to fill out the 1040 regular form. Typically the software programs will just walk you through a series of questions and they'll let you know what tax form to complete.

Remember, when it comes to taxes on earnings, they're going to withhold money out of your paycheck, including Social Security, also called FICA, Medicare tax, federal income tax, and state income tax (in most states). So those four taxes are going to come out of your earnings every single paycheck based on how you filled out that W4 form for both the feds and the state. So again, the W4 is critical moving forward.

Now there's a great student learning website I want to direct you to by the IRS, (Internal Revenue Service) if you want to learn more about federal taxes so you can start working on your own strategy. I've included the link after this presentation, it's not required for this class, but I thought it was pretty cool so I wanted to share it with you in case you'd like to check it out.

OTHER TYPES OF TAXES

Okay, so outside of income, what are some of the other types of taxes that you pay? Well, know it or not you're paying taxes all the time. You pay taxes on purchases, so anytime that purchase something you are going to pay something called a sales tax. Sales tax varies from town to town, county to county, but you will have to pay sales tax unless you are somehow tax-exempt; like a farmer or if you have a not-for-profit business you are going to pay sales tax on purchases. I believe the sales tax where I live is 8.5% on everything that is purchased.

There's also an excise tax. The excise tax is basically something that is charged when you take advantage of certain things. Hotel rooms will have an excise tax; you know they do this strategically so that they have tax revenue coming in from people who don't live in the town where the hotel actually exists. It's external revenue so they throw an excise tax on it. Excise tax at times has been called the sin tax because they tax things like cigarettes, alcohol, and gasoline. There are lots of things that have excise tax attached to them that you're probably not even aware that you're paying taxes on at the time of purchase.

Property taxes. If you own real estate, you're going to pay property taxes. Real estate taxes vary in Oklahoma, depending on where you live. Property taxes--say in Texas are typically higher, Texas doesn't charge a state income tax so that's one of the reason their property taxes are higher. If you own real estate, you will have to pay property taxes on that real estate. Property taxes are much higher on the east and west coasts.

There's also personal property taxes, like a business owner or a farmer--and you have equipment, that is considered personal property and you will have to pay annual property taxes typically to your county or whatever jurisdiction that you're under. In some jurisdictions when you're not paying property taxes you may have to pay personal property taxes which is an estimate on your personal belongings!

There are also taxes on wealth, such as estate taxes. When you pass away and you have an estate, which is basically your total net worth; which includes real property and any assets that you actually have, then an estate tax must be paid.

And an inheritance tax. If you're the benefactor of an inheritance or a sum of money, say from a relative, you have to pay tax on that as well. It can actually be quite devastating because the estate will get taxed and then if you inherit from that estate you'll get taxed again, it's almost like a double tax. That's why many people *with a lot of wealth* will create trusts and other vehicles to get around having to pay the steep estate and inheritance taxes. If you're in a situation, and I'm sure all of you will be where you're going to create tremendous amounts of wealth, you will want to look at estate planning. When you're trying to leave things to your kids or grandkids you want to have a good strategy so that everything that you worked hard for throughout your entire life is not eaten up by taxes when you're gone. Planning is very important.

SELF-ASSESSMENT M/C

Which type of annual tax is assessed for things like boats and RVs?

3. INSURANCE

Insurance. Ok, so we've really covered a lot of information so far in Thing 6, but I believe this is all *really important information* that you need to know. You are going to be taking on these kinds of financial responsibilities sooner than you think. With that being said, next we are going to cover insurance, which is critical. But before we do that, if you need to take a quick break, now would be a good time. Just remember to start back in Thing 6 and start on the INSURANCE slide.

WHY DO I NEED INSURANCE

Insurance. Why buy insurance? You buy insurance to mitigate risk. You're going to accumulate assets, you're going to accumulate wealth, and you're going to have possessions that are extremely important to you. You are going to want to mitigate the risk of certain things happening to those assets, to those people, to the things that you hold valuable. And you do that by buying insurance to protect those things.

You want to mitigate your risk for things that are important and valuable to you. You want to protect your assets, whatever you've built up over the course of your lifetime. You want to make sure that you have financial security, so maybe not just for you, but for those around you who are dependent on your income. One thing you need to understand-your insurance needs will change over your lifetime.

For example, while you're in college and single, you probably don't need a lot of life insurance. I mean the only cost would be the cost for the funeral if something were to happen to you, right? But once you get married, and you have an income, and you have a spouse, or you have children who are dependent on that income, then it is critical that you make sure that those folks are protected. And so over the course of your life, your insurance needs are going to change, probably rather dramatically.

HOW INSURANCE WORKS

Now, we need to talk about the basics of insurance. And there's two basic concepts of insurance that you need to understand. The first one is called premium and the second one is called deductible. And folks tend to get these mixed up.

Premium is the amount paid for the insurance policy. Payments may be made monthly, semi-annually, or annually. Premium is the amount that you will pay, no matter what. Premium is the cost of the insurance. That is the amount that you will owe the insurance company in order to stay in good standing and still be covered.

The deductible, on the other hand, is the amount that the policy holder must pay out of pocket before payment can be claimed from the insurance policy. You can use the deductible to manipulate the premium. So let's say you're talking about car insurance, and you have a $500 deductible. With a $500 deductible on car insurance your premium is going to be higher than if you had a $1000 deductible. Because what a deductible means is--if you have a claim, which is a demand or request for payment due to a covered loss, because you hit a tree, and that claim costs $850 to fix your car. When you file a claim with the insurance company, with a $500 deductible, you would pay the first $500 out of your pocket, and the insurance company would kick in and pay the additional $350. If you had a thousand dollar deductible, hit a tree and the repair cost was $850 the insurance company would pay nothing. Because it didn't hit the level of the deductible, so all of it is on you. It's all out of your pocket—and you take a hit to your financial plan. That's why with a thousand dollar deductible, the premium is less (because you are assuming more of the risk) than it is if you have only a $500 deductible. Basically what's happening is the insurance company is balancing their risk as well. Everybody is trying to balance their risk here, and if they know you have more skin in the game by having a higher deductible, (and therefore, will be a more cautious driver), it is statistically going to cost them less money.

So premium, is the amount you have to pay for the insurance policy. Deductible is the amount you (as the policy holder) must pay out of your own pocket, before payment can be claimed by the insurance company. So each insurance company can have a little bit different situation as to how it works. But the concept of premium and deductible stays the same.

HEALTH INSURANCE

Health insurance typically starts with medical insurance and it has been a huge topic in the news with ObamaCare. ObamaCare is very complex and I'm not the only one who doesn't understand all the complexities yet…well…still.

So, basically, and I'm going to quote from the Obamacare.com website:
"Obamacare is the name coined for the Patient Protection and Affordable Care Act (PPACA or ACA) that became law in March 2010. The law focuses primarily on health insurance coverage, health care costs, and preventative care and was designed to give consumers more control over their health care *and* by allowing them to make informed decisions based on knowing all their options. In the case of health care, laws were created to regulate the insurance industry and make changes to protect the consumer." (Obamacare.com)

Since the law now requires *everyone* to have health insurance, you need to know about it. Most of you are probably covered under your parents' health insurance plan or by having a student plan or possibly by an employer supported plan. If you're not covered, you'd better do your research and ask for help if you need it—student insurance is available and help is available through Healthcare.gov, your state or local health care agencies, or possibly from your employer.

So, how does health insurance work? Well, many people get their health insurance from their employer. Those who are small business owners, self-employed, or not employed and those who don't have insurance can go to the Health Care Marketplace to research health insurance options to, quote, end quote, "shop for affordable insurance". I say quote/end quote because we all have our own opinions on how we define "affordable" and so does the government. Subsidies may be available to those who qualify. But what we do know, is that health care is not cheap and costs continue to rise in the United States and that's why we need insurance and why it's mandated.

Now, since I anticipate many of you will graduate from college and will hopefully be employed where you are offered some type of health insurance benefits where your employer may be paying at least part of the costs, we are going to talk about the most common employer based health insurance plans. But keep in mind, this information is always changing and we're going to just hit the tip of the iceberg. This is the kind of information you'll need to know whether you are choosing your health insurance benefits from your employer if offered, or from the Health Care Marketplace.

Basically the way this works is the employer will go through a formal process to select which insurance companies and what types of health insurance plans to offer the employees. Costs vs benefits are a huge factor. These plans may be offered by one or more of the big medical insurance companies, like Blue Cross & Blue Shield, Aetna, Humana, etc. Typically the employer will pay a percentage of *your* medical insurance costs, as an employee benefit, but if you have a family or a spouse that's not covered, *you're* going to have to pay to get them included on your plan. Now depending on the specifics of the plans offered, you are going to have to sit down and research the details of the plans offered and then decide which plan best meets the needs of you and your family if you are providing coverage for them. Choosing the right health insurance plan is not easy, because each plan is different and it's tough to make side by side comparisons. You also have to consider the current health of you and/or your family members and plan for potential health issues that may come up in the near future, which may be unknown.

The health insurance plan you select is very important to your overall financial plan because your employer will deduct money from your paycheck to pay the part of the health insurance they don't cover and this affects the amount of your net pay. If you don't select the right plan that best matches your family's health care needs, it can cost you a lot more out of pocket.

Now let's start with the two most common types of employer supported health insurance plans. One is called the Preferred Provider Organization or the PPO. The other is called the Health Maintenance Organization which is commonly referred to as an HMO.

The PPO is a Preferred Provider Organization which means that you normally have greater flexibility when it comes to selecting who is going to provide your care. You have more control over which doctors you use when setting up appointments. As long as the doctors are within the "network" you can utilize that doctor and it will be covered under your medical insurance as described by your insurer. Typically a PPO, is a little bit more expensive because you have more selectivity and control although that's not always the case.

The other one, the Health Maintenance Organization or HMO, is where you have a little less control. Typically it's less expensive, because the costs are spread out throughout the members. But with an HMO you have a single point of contact which is basically your primary care physician or PCP, and that doctor will then refer you to different specialists. So instead of you going in and picking which Ear, Nose, and Throat specialist that you want to go to you're going to get a referral from your doctor, for a doctor that he selects within their network. Going out of network gets quite costly. So basically the key to an HMO is getting a good primary care physician that you trust, who will refer you to good quality physicians, and basically manage your health care for you. In the past, HMO's typically covered more of the costs than Preferred Providers, but again, these medical plans are constantly changing and it's something you're going to have to keep up with.

There are premiums, co-pays, and deductibles with health insurance and how much these are will depend on the plan you choose. With most plans, except for certain preventative services which typically have no co-pays, you'll have a co-pay each time you see a doctor. For example, I have an HMO and I pay $25 each time I see my Primary Care Physician (PCP) and $40 for each time I go to a specialist. Let's say I have a "covered" procedure done. About a month or so later, I'll get an EOB statement, called an "Estimate of Benefits" from the insurance company showing how much they paid, and if my policy has a deductible, for example 20%, then my insurance will pay 80% of the cost and I will get billed for the remaining 20% by the service provider(s). Now, in reality, this is an oversimplification of how this works, but you should get the point.

Now another thing that seems to be growing is called a Health Savings Account or HSA. With an HSA you basically save for your future medical expenses in a tax advantaged medical savings account if you are enrolled in a high deductible health plan. As you have qualified medical expenses, you can withdraw funds to pay for them. But if you don't use the funds, they can grow and be used later on when you may need them for medical care, but any withdrawals not used for medical care are penalized and taxed up to a certain age. There's a lot of controversy with this type of plan, so if it becomes an option to you, you'll want to research it carefully.

Then there's a separate plan for dental insurance. So if you want to take advantage of a dental plan, you have to buy a separate piece of insurance that is less expensive than a medical plan. Typically these kinds of plans will cover a lot of preventative care. Each will be spelled out as to just exactly what they do cover. You want to pay special attention to orthodontics if you've got children who are looking at getting orthodontic work. Some plans will cover orthodontics, some plans won't. Some plans will cover up to a certain dollar amount. So you want to make sure, since orthodontics can be a significant expense that you understand what your particular dental plan covers when it comes to orthodontics.

And then typically vision insurance is a separate plan as well. And again, less expensive, but it does provide insurance up to a certain point for your exams, for purchasing glasses or contact lenses, or anything that you might need for your vision, so you're going to have to decide. When you're single, it's fairly straight forward. You don't need glasses and you see fine, you probably don't need vision insurance.

As time goes on, or you get married, or your kids come along, you're going to have to constantly re-evaluate and adjust your health insurance needs. So, that's the basics of health, dental, and vision insurance from a personal insurance standpoint.

Bucky: I wonder if I still have health insurance? Better check with mom.

LIFE INSURANCE

So let's move onto life insurance. Life insurance is a difficult subject to talk about. A lot of people would rather just sort of ignore it, while you're young and single it may be just fine to ignore it. If something were to happen to you, you'd only have the expenses of the funeral to deal with, and if you want to get a small life insurance policy to cover that, that's great.

But as time goes on, things are going to change, and there is going to be a point when other people are relying on your income, and if something were to happen to you, those people would be in a seriously compromised financial situation. So you need to look at what happens if "I'm gone". Is my family going to be able to continue on in the lifestyle to which they've grown accustomed, and would they'd be okay? When you're in a situation where your kids are getting ready to go to college, or you've got a spouse left behind--will she or he have enough income to live out the rest of their days? Those are things that you have to consider when you're talking about life insurance, okay?

Now there are different types of life insurance, and they are very, very different. The first one is called whole-life. And I'll be honest up front I am not a big proponent of whole life. I think whole-life is expensive. I don't think whole-life does what you want it to do which is to protect yourself in case something would happen to you. The benefit to whole life is that you accumulate--it's more like an investment vehicle. You accumulate these assets, and those assets are available to you later in life. So it's not just like complete use it or lose it, type situation. But the cost of whole-life is high, and the restrictions that are put on whole-life, to me, it just isn't anything that I've ever wanted to get involved with. I researched it thoroughly when I was looking into life insurance twenty years ago and my opinion on whole-life has not changed.

What I propose or promote is called term-life insurance. Term-life insurance is different than whole-life insurance in that you buy life insurance in a term, in other words a set amount of time. You can buy life insurance for a ten year term or a twenty year term. It's typically less expensive to pay for term life insurance. If you don't die then that money just goes away. But the lower cost makes it well worth it, and it is still doing what it is that you want it to do. And that is to protect your family in the event that something would happen to you during that time frame.

Now term-life if you buy it when you're young. If you're young and healthy is very inexpensive. As you get older it becomes more expensive. It is important for you to have a strategy as to how you're going to do this. I bought my first term-life insurance when I was thirty. When I got married, and it was a ten-year term and it was very inexpensive. Because actuarially speaking I should make it to 40. Then I bought another policy at 40 and that got me all the way to 50. Now I just had to renew my policy and that's going to get me all the way into my 60s, and that will probably be the last term-life insurance policy that I buy, because once I get up into my 60s my kids will basically be gone, my wife will be taken care of by my other retirement vehicles, so there's no reason for me to carry life insurance after that point. But I do have to pay more now for the life insurance, significantly more at 50, than back when I was 30. They're looking at you; your age, you're sex, your weight, your lifestyle, um, basically your expected life span based on actuarial data and they determine the risk that they're willing to take and they're going to set your premium based on all that. So getting life insurance when you're in your 70s or 80s is of course, going to be quite expensive.

The downside of term-life is, you know, every time I got to the end of that ten-year period, the money that I had put into it is gone. So when I was paying a thousand dollars a year over a ten year period, that's ten thousand dollars that was taken out of my financial situation. But the upside, I didn't die, and my family was protected the entire time. I could have rolled the dice and though, you know, I'm not going to die, and just taken the chance. But if something would have happened to me, I just did not want to put my family into that situation. So I believe that you should be insured. I believe that it gives you peace of mind, that your family is going to be protected should anything happen to you.

Accidental life is very different in that it's cheap. I mean, you can buy accidental life for literally dollars. Accidental life will only pay though, in the event of an accident. So if you die in a plane crash, yes, accidental life will pay. But if you get cancer, and die of cancer, accidental life won't pay. You want to make sure when taking out insurance that you don't get confused by buying this very cheap accidental life policy and you think that you have life insurance that would cover you in any event, because that's not the case. And I have personally dealt with people who have had accidental life insurance thinking that it was term-life and that they were covered and it wasn't and it ended up being a difficult financial situation for the family to recover from.

Okay outside of life insurance there's other types of life insurance that you can buy there's disability insurance which is another type of protection. You know possibly you're in an accident and you don't die, but you're unable to work because of that accident. If you have disability insurance you'll continue to have a partial income for your family. Some states mandate disability insurance and they deduct the premium from your paycheck automatically.

Long-term care. What's going to happen to you when you can't take care of yourself? What is the plan for your parents when they get old and need somebody to take care of them? Are you going to do it? Is there going to be a funding source if you're not going to do it? Are you going to pay somebody to do it? How are you going to handle long-term care? Providing for care in a nursing home or assisted living facility can be very expensive. So you need to decide if long-term care is something that you want to buy so that the other people in your family are not burdened by your expense. And this is something you probably wouldn't buy until later in life as long as you're healthy. You'll just have to see about the market availability for this type of insurance in the future--because it's very complex and volatile, because of the high cost of care.

Hey, we've covered a lot of information, really important stuff, so if you need to take a quick break, please review the next two slides then come back to Thing 6 and start back on Auto Insurance.

VIDEO: INSURANCE EDUCATION

SELF-ASSESSMENT T/F

Accidental life insurance is primarily to cover accidental death.

AUTO INSURANCE

Alright. Let's move on to auto-insurance. This is probably the one you guys are most familiar with. Hopefully you have auto insurance. You shouldn't be driving without auto insurance. Auto insurance provides you with different types of coverage; including liability, collision, property damage, uninsured motorist and others such as bodily injury and death. Most states now require what is called liability insurance.

Liability insurance will pay if basically you're at fault. So a cars at a stop sign. You come up behind the car at the stop sign, you're not paying attention and you run into the back of them. If you have liability insurance which you're basically required to have, that insurance, your insurance will pay for the car that you rear-ended. Liability insurance will not pay to fix your car, but it will pay to fix the car that you ran into and you'll pay the insurance deductible. You are liable for that, because the accident was your fault. Most states, if not all, have liability requirements, and that liability insurance must meet the state minimum. Okay.

Beyond liability insurance, there are other types of insurance. Collision. Let's go back to that same scenario; a cars parked at a stop sign, you come up and you run into that car. Now your liability is going to pay for that persons' car, and if you have collision insurance, that insurance will also pay to fix your car, minus your deductible. So if you're in a collision with another vehicle, and you are, even if you're at fault basically collision is going to pay to fix your car so that you're not without a vehicle.

The best and most expensive type of auto insurance that you can have is called comprehensive. So let's say that your car is parked in front of your house and let's say somebody breaks the window on your car, and reaches in and rips the stereo out and leaves. Well collision is not going to pay for that, well I guess the crow bar, or whatever they used did collide with the window, but that's not how they look at it. Vandalism—is accident coverage that is not a moving violation and is not covered under collision, but it is covered under comprehensive. So basically anything that happens to the vehicle from a claim standpoint is covered under comprehensive. It is the most expensive, but it also protects you the most. So when you have a lien against a vehicle, they're basically going to require you to have comprehensive insurance. As you get that vehicle paid off you have to decide, at what point do I scale down to a cheaper version to either collision or even just liability? I use the philosophy that I should drive my car for ten years. So if I've got a three year note on it, that vehicles paid off in three years. Then I have to decide, okay, at what point do I lower my insurance premiums by moving away from comprehensive insurance to collision and/or liability only?

And the decision is different for whatever the vehicle is. I mean two of the vehicles now that I'm driving have over 200 thousand miles on them and obviously because of that I carry just liability insurance on those vehicles. If I get in an accident and the car goes down, then I'm going to buy I new car anyway. So I don't need to carry comprehensive or collision insurance since I'm going to get a new vehicle if either one of those high mileage cars go down. You got to figure out what that break point is though, for you is it a hundred thousand miles, is it a hundred and fifty thousand miles or what is the mileage or the situation that you're in that would convince you to lower the amount of insurance that you're carrying? But while there's a lien against the car you want to make sure that you're carrying comprehensive because you don't want to get stuck with a loan on a vehicle, that has been in an accident and cannot be repaired because it doesn't have the proper insurance. Then you're basically still going to have to pay for a car that you can't drive. Oh, and let's make sure you remember what a lien is. A lien is a debt; when you borrowed money for the car--if you don't make the payments, then the lender or owner can repossess or take back the car.

The last one is un-insured and under-insured motorist. This is for protecting you against the other people that don't take care of business. There are people out there who don't carry the state-minimum liability requirement. Say they run into the back of your car when you're parked at the stop sign. They don't have insurance, and now you're stuck--because typically these people who don't have insurance and it's not worthwhile to go after them and sue them because usually the reason they don't have insurance is because they don't have any money. So what are you going to sue them for? So basically, if you have an uninsured or under-insured motorist policy, if someone hits you like that you can at least get your car fixed. It's going to count against you because it's going to be a claim against your policy, but at least you can get your car fixed but you'll pay the deductible. And that deductible, whether it's $500 or $1000 dollars or whatever, comes out of your pocket. Did you know that as many as 1 in 5 motorists in Oklahoma is driving without insurance? This is just one more reason why having the right coverage on your vehicle is important.

So these are decisions that you have to make, decisions that will change over the course of your life. You want to make that you're properly insured for whatever stage that you are in at any given period of your life.

HOMEOWNERS INSURANCE

Okay. Let's talk about homeowners and renters insurance. Homeowners and renters provides coverage for property loss and liability. Typical property coverage includes fire and lightning, windstorm or hail, very important in Oklahoma, breakage of glass, explosion, riot or civil commotion, theft, smoke damage, and vandalism or mischief. While, these may be typical coverages, but again, just like everything else you've got to read your policy, and understand what is actually covered.

RENTERS INSURANCE

So what does that mean to you as college students now? Probably not much because you don't probably own a home yet or have these concerns, but there's some things that you should think about. You may have limited coverage of your belongs under your parents' homeowners policy. It's a good question to ask them. If something were to happen to the contents in my dorm room, would I be covered under your homeowner's policy?

Once you move out of the dorms and off campus into your own place you have to decide if your stuff is worth paying renters insurance for. I mean is the stuff that you have--if the apartment complex burns down, the owner of the apartment complex is going to have insurance to rebuild the apartment complex, but his insurance is not going to cover the contents that you had inside your apartment. So you have to decide. Is the stuff I have in this apartment important enough that I want to have insurance and I want to have it replaced, if it were to be a total loss? If the answer to that question is yes, then you need to look at getting a renters policy so that your furnishings can be replaced. If the question to that question is no, I would just walk away and start over, which I've been at points like that in my life. Then there's no reason to carry renters insurance. Some of you that live in these higher end apartments may be required to carry renters insurance for liability in the event someone is hurt in your apartment or you are responsible for certain things arising from your actions, there is insurance to pay for certain damages. If you move into an apartment that requires renters insurance, they are going to have this requirement written into your lease or contract.

So it really just depends on where you're at. And as always, especially when you're in this transition sort of period, check with your parents and make sure that everyone agrees that you either carry or don't carry the proper coverage that you need going forward, when it comes to renters insurance.

Bucky: "Okay, now this all makes sense to me."

SELF-ASSESSMENT M/C

What type of property insurance should a student have when living in an apartment?

WHAT'S NOT COVERED

Okay, so one of the most important things that you need to figure out is what's not covered, in your policy. A couple of specific examples, especially if you live near water, flood damage is not typically covered in a home owner's insurance policy, and you would have to buy a separate policy to cover flood damage. So if you live near a creek and the rains get too heavy and it actually floods your house, which is awful damage, floods are just terrible, you want to make sure that you have a special policy for floods. If there's no chance that your home is going to flood, then you don't need a flood policy.

Another one that's becoming more and more interesting in Oklahoma is earthquake insurance. Typical coverage does not cover earthquakes, and who would've ever that that would become an issue in Oklahoma? But in the last couple of years, we've had many more earthquakes in the state, and more and more people are trying to figure out if they need earthquake insurance. I don't think too many of the earthquakes have been to the point where they would have damaged structures to where it would have been worth it buying earthquake insurance, but it's a difficult thing to predict, especially if you're that one. With more earthquakes and some of a higher magnitude, it might just make more sense to consider this now, especially if you live in some of the areas in Oklahoma that have had multiple large earthquakes. If a big earthquake comes, and you lose your house, and you're not insured, that's going to be a difficult financial hole to dig yourself out of.

There are also other things, called exclusions, like when your sewer backs up that your insurance may not cover; and the same thing with war, or acts of war. So you're going to have to make the decision on what additional coverage you will need based on the location of the property and the risks of the different situations—so that you have the right kind of insurance and the right amount.

SPECIALITY INSURANCE

Some other important factors to consider is if you have things with special value. It's not going to be covered under the typical coverage. If you have jewelry or you have a coin collection you may need to get a special rider for those items and make sure that they're basically insured separately so that if something happens to them you can get the full value of them. You can basically insure anything. I mean if you've got a lot of money, there's a group called Lloyds of London, that'll will insure almost anything. If you want to pay the premium, typically they'll go ahead and insure it.

Now the one thing that you can't really insure is memories and nostalgia. If you've got a family heirloom that was handed down to you and it means a lot to you, and it is lost in a fire or whatever, they're not going to pay you the value of what your emotional attachment was to that object. Your standard homeowner's policy is only going to pay you what the current or replacement value of that object is, depending on your policy. So there's really no way to replace those things that have sentimental value.

Another tip is when you're preparing to purchase insurance and before you ever make a claim is to just walk through your house and videotape the contents of your house. So that if something happens and your house gets blown away by a tornado, it's going to be very difficult to remember and recreate everything you've had in that house. Especially if it's covered in the contents section of your homeowners insurance, you want to make sure that you get everything down to the last toothpick included in that claim so that you can get all of the money that is owed to you. A videotape stored somewhere off site like in a safety deposit box or in a safe location where if can't be damaged by the rain or the wind or a fire is a very good idea.

Just FYI about things that you don't think about one of the most expensive areas of the home, and I never would have thought of this. It's in your closet, and especially in women's closets. A lot of the time the clothes that they own have a very large value, but people would never think of taking an inventory of all your clothing if you need to file a claim. Anyway, take pictures of everything and then store it somewhere safe so you'll be prepared if you need to file a claim.

IMPORTANT POINTS

CHECK YOUR COVERAGE

Instructor Brad: Remember to check with your parents about health insurance coverage for your belongings.
If you are on your own, check at your school for health insurance options and check into renters insurance if needed.
Bucky: That my friends, is a very valuable lesson!

4. RETIREMENT

Retirement.

ANOTHER DEDUCTION

Alright. And finally in Thing 6 we talked about that 35-40% of your income that is the difference between the net and the gross. Where does that go? It goes to taxes. It goes to insurance. It goes to retirement, which we'll talk more about in Thing 7. But, why do they take that money out? Well, so you can plan for your future. So that you can get the tax benefits now of what that future planning is going to do to you. So that you can build wealth going forward. And we're going to talk about this a lot more in Thing 7. But, understand that retirement is something that will come out of that 35-40%--that is the difference between the gross and the net and we'll go into that in more detail in Thing 7.

Bucky: Thank goodness it's covered in Thing 7. I've got to get back to work!
Penny: Hey Bucky, I heard that Things 7, 8, and 9 will go a lot faster!

GLOSSARY REMINDER

Bucky: You didn't think I was going to forget to remind you?