

Personal Finance

Financial Budgeting Simulation

Calculating Net Pay

Objectives: Apply financial literacy skills in a “real world” simulation activity
Calculate monthly net pay

NAME: _____

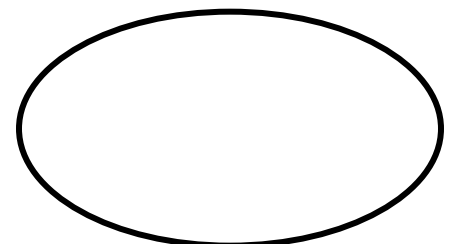
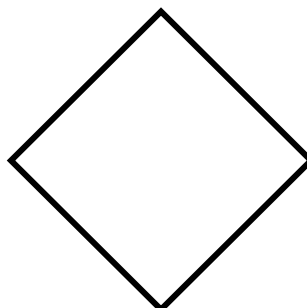
For the remainder of the semester, we are going to participate in a financial budgeting simulation. We will apply skills already learned during this semester as well as acquire new financial literacy skills. The goal is to have a close to real world experience in which you can practice fiscal responsibility.

Define fiscal responsibility and provide an example of a fiscally responsible decision:

Starting Assumptions – Simulations require assumptions in order to function properly. We will apply the following assumptions, although some may be relaxed as the simulation progresses:

- You are 22 years old, unmarried, and have just graduated from college
- The following tax rates will apply:
 - Federal – 15%
 - State – 5.5%
 - City/Local – 2%
 - FICA – 7.65%
- Employer will match your contributions to your retirement account up to 10% of income
- \$15 parking fee per month
- \$10 charitable contribution
- \$0 contributed to a medical savings account or child care account
- \$100 health insurance premium
- \$0 life insurance premium

Setting the Stage – There is always some element of chance in life. Therefore, you will determine your financial profile by the roll of a die. Roll the dice three times to determine your profession, student loan and current savings account balance.



Circle the number that you rolled to determine your basic financial profile

The first roll (rectangle) determines your job and salary:

If you rolled	Profession	Annual Salary
1	Registered Nurse	57,280
2	Physical Therapist	66,200
3	Engineer, computer	56,201
4	Restaurant Manager	45,650
5	Accountant	54,630
6	Police Officer	47,460

The second roll (diamond) determines your outstanding student loan amount

If you rolled	Student Loan
1	25000
2	30000
3	21000
4	29000
5	27000
6	26000

The third roll (oval) determines your current savings account balance

If you rolled	Savings Account Balance
1	1500
2	2000
3	1750
4	1000
5	2500
6	1500

Your financial profile: Record your profile below:

Profession: _____

Annual Salary: _____

Outstanding Student Loan: _____

Savings Account Balance: _____

DO NOT MISPLACE THIS – YOU WILL NEED IT TO PARTICIPATE IN THE SIMULATION

Part 1: Calculating Monthly Net Pay

Calculate your net pay you need to decide how much you will contribute to your retirement account.

Contributions to your retirement account are tax deferred. Define tax deferred:

The maximum amount you can contribute to a retirement account (401K) per year is \$15,500 for 2008. What percentage of your net income will you contribute to your retirement account? Why?

- A. Monthly Gross Pay: (Annual Salary/12): _____
B. Contribution to retirement account (Percentage above x Monthly gross pay): _____
C. Monthly Pay before taxes and deductions: (A-B): _____

Calculate Deductions

- a. Federal Tax (C X Federal Tax rate) _____
b. State Tax (C X State Tax rate) _____
c. Local Tax (C X Local Tax Rate) _____
d. FICA (C X Social Security and Medicare Tax Rates) _____
e. Parking _____
f. Charitable Contribution _____
g. Health Care _____
h. Anything else? _____
- D. Total Taxes and deductions (add a-h) _____
E. NET PAY (C-D): _____

How much do you contribute to your retirement account per month? _____

How much does your employer contribute to your retirement account per month? _____

Total contribution to your retirement account: _____

Part 2: Pay your taxes

It is April 15 and it is time to settle up with the government

W-2 Wage: Monthly pay before taxes and deductions (C) x 12: _____ (line 1)

1099 INT: Savings account balance x 0.03: _____ (line 2)

Federal taxes withheld: Federal Tax (a) x 12: _____ (line 7)

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