MODULE 8

TAXES AND PENSION

Funded by the
Erasmus+ Programme
of the European Union

Content

- Introduction
- Context and background
- Taxes and pension
- Tax Obligations and Types of Taxes
- Keep in Mind and Resources for Tax Assistance
- Types of Pensions and Benefits of Starting Early
- Contribution Strategies and Key Areas
- Activities:
    - Activity 1: Retirement matters
    - Activity 2: Retirement saving goals challenge
    - Activity 3: Taxes, Taxes, Taxes
    - Activity 4: Picture your retirement
    - Activity 5: Secure your retirement against inflation

FLY
Financial Literacy for Youth

Funded by the
Erasmus+ Programme
of the European Union

"IT'S NICE TO GET OUT OF THE RAT RACE, BUT YOU HAVE TO LEARN TO GET ALONG WITH LESS CHEESE."

GENE PERRET

Financial Literacy for Youth

Funded by the
Erasmus+ Programme
of the European Union

Introduction

According to the Z Generation Financial Health Report, the majority of young people have limited or no knowledge of taxes. Since they do not have enough information about taxes, they cannot even think of retirement and what they should do to invest until their retirement.

When considering pension planning, it's important to take into account factors such as inflation and the rising cost of living. In addition to paying into social security or a private retirement fund, it may be beneficial to diversify your investments to mitigate these risks. Some options for additional forms of saving could include:

- Investing in stocks or mutual funds
- Owning rental property for passive income
- Contributing to a Health Savings Account (HSA) for healthcare expenses in retirement

It's also important to regularly review and adjust your retirement plan as your circumstances and goals change over time. By taking a proactive approach to retirement planning, you can increase your chances of achieving financial security and enjoying a comfortable retirement.

Funded by the
Erasmus+ Programme
of the European Union

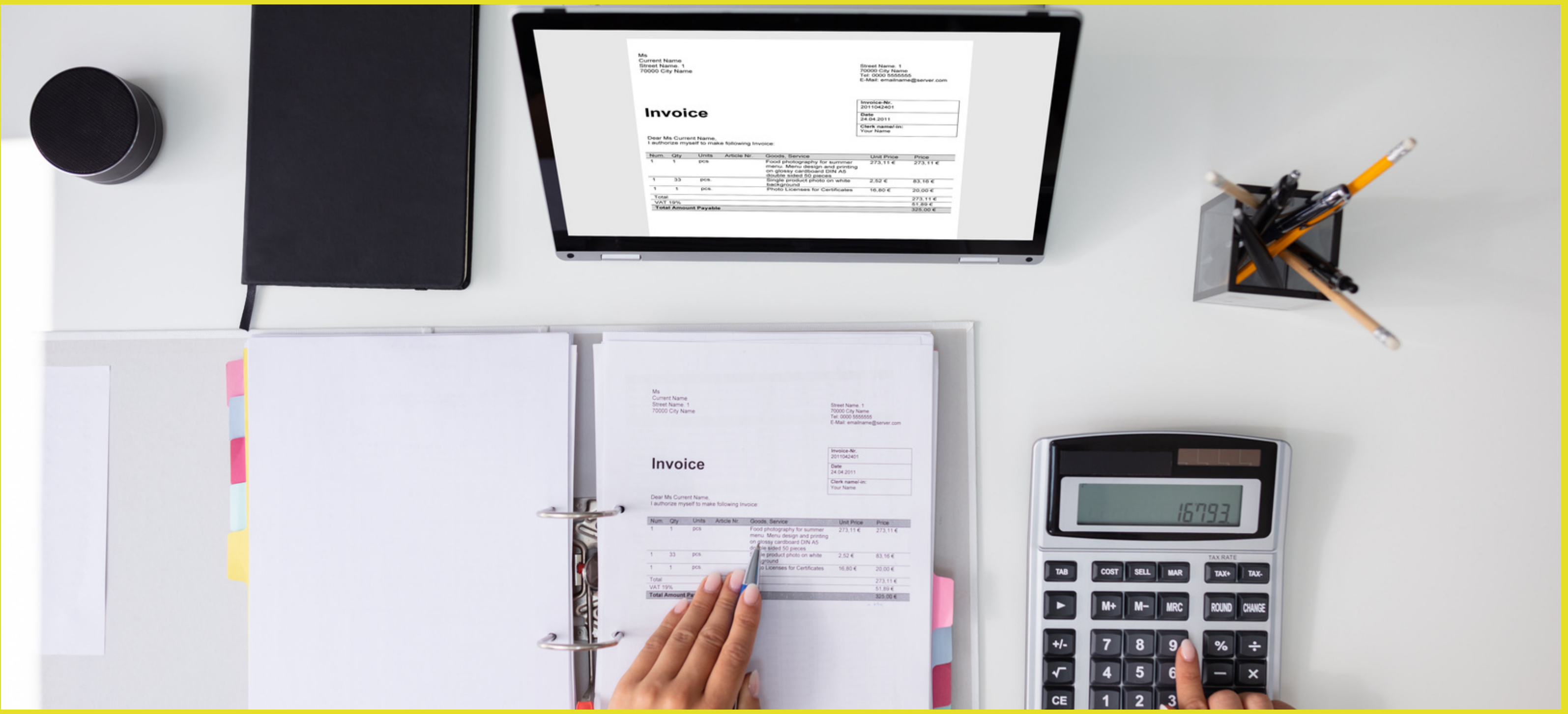
Context and Background

Countries typically have national pension systems that provide retirement benefits to their citizens. These systems are often funded through contributions from both employees and employers. Young people should familiarize themselves with the pension system in their country, including eligibility criteria, contribution rates, and the expected benefits.

Each country has a designated **retirement age** at which individuals become eligible for full retirement benefits. However, several countries have been increasing the retirement age due to demographic changes and financial sustainability concerns. Young people should **stay updated** on any changes to the retirement age and plan their savings accordingly.

Tax laws can significantly impact retirement savings and pension benefits. Young people should be aware of **tax incentives** available for retirement savings, such as tax-deductible contributions to pension plans or tax-free investment gains within certain retirement accounts. Understanding the tax implications of different retirement options can help optimize savings strategies.

Funded by the
Erasmus+ Programme
of the European Union



Taxes are:

Taxes are mandatory charges or fees levied on individuals or corporations by the government that finance public goods and services that benefit the community, such as education, transportation, healthcare, or infrastructure development.

Taxes are required payments of money to governments, which use the funds to provide public goods and services for the benefit of the community as a whole. Understanding taxes is an important part of managing your money, both now and in the future.

Pension is:

A pension is a retirement plan designed to provide you with a regular income after you stop working. It is a long-term savings vehicle that helps you accumulate funds over your working years to support your lifestyle in retirement.

Funded by the
Erasmus+ Programme
of the European Union

FLY
Financial Literacy for Youth

Tax Obligations

The funds collected from taxes are used to provide essential public services and infrastructure that benefit everyone—for example, taxes fund schools, hospitals, roads, public transportation, and social welfare programs. By paying taxes, individuals **contribute** to the well-being and development of their communities and society.

As a taxpayer, you have certain obligations to fulfill. These include obtaining a tax identification number, filing your tax return accurately and on time, and paying the taxes you owe. Filing your tax return involves **reporting** your income, deductions, and credits for a specific tax year. It's crucial to meet the **deadlines** to avoid penalties and interest on unpaid taxes. Fulfilling your tax obligations helps you stay compliant with tax laws and avoid potential legal issues.

Funded by the
Erasmus+ Programme
of the European Union

Types of Taxes

There are different types of taxes that individuals may encounter.

Income tax is a tax on the money you earn through employment or other sources. It is calculated based on income brackets, where different tax rates apply to different income ranges.

Sales tax or value-added tax (VAT) is a tax added to the price of goods and services when you make a purchase.

Property tax is based on the value of the property you own.

Social security contributions are deducted from your income to fund benefits like healthcare, pensions, and unemployment benefits.

Corporate tax is paid by businesses on their profits.

KEEP IN MIND

Deductions and credits can help reduce your tax liability. Deductions are expenses or costs that you can subtract from your taxable income, thereby lowering the amount of income subject to tax. Examples of deductions include student loan interest, mortgage interest, and certain medical expenses.

Tax credits, on the other hand, directly reduce the amount of tax you owe. For instance, if you have a tax credit of $500, it will reduce your tax liability by $500. Examples of tax credits include credits for having children, pursuing higher education, or adopting a child. Understanding deductions and credits allow you to take advantage of potential tax savings.

When you work for an employer, you receive a payslip showing how much money you earned and the deductions from your paycheck. These deductions include income tax, social security contributions, and other applicable taxes. Employers withhold these taxes from your paycheck and forward them to the tax authorities on your behalf. It's important to review your payslip to ensure accuracy and understand the various deductions being made.

Budgeting for your tax obligations is essential to stay financially prepared. Set aside a portion of your income to cover your tax liability. By doing so, you won't be caught off guard when it's time to pay your taxes. Budgeting for taxes ensures you have the necessary funds available and minimizes any financial strain.

Maintaining accurate records is essential for proper tax management. Keep track of your income, expenses, and relevant tax documents. Organize receipts, invoices, and bank statements systematically. Good record-keeping not only supports accurate tax reporting but also helps in the case of audits.

Funded by the
Erasmus+ Programme
of the European Union

FLY
Financial Literacy for Youth

Resources for Tax Assistance

1. Government Tax Websites:
    - Provide valuable resources, including tax forms, guides, FAQs, and calculators.
2. Online Tools and Guides:
    - Often include tax calculators, estimators, and step-by-step guides to assist you in accurately preparing and filing your taxes.
3. Tax Preparation Software:
    - Programs guide you through the tax filing process, prompting you to input relevant information and helping you maximize your deductions and credits.
    - Popular tax software options include TurboTax, H&R Block, and TaxAct. Choose one that suits your needs and budget.
4. Tax Professionals:
    - Have the expertise to handle intricate tax matters and ensure compliance with tax laws.
    - Provide personalized guidance, help you identify potential deductions, and assist in preparing and filing your tax returns accurately.
5. Community Tax Clinics:
    - Offer tax clinics or volunteer programs where trained individuals provide free or low-cost tax assistance to eligible individuals.
6. Online Tax Forums and Communities:
    - Provide you with a platform to ask questions, seek advice, and learn from others' experiences.
    - Participating in these communities can help you gain insights, stay updated on tax changes, and find answers to specific tax-related queries.

Remember, while these resources can be helpful, it is essential to exercise caution and verify the accuracy and credibility of the information obtained.

Funded by the
Erasmus+ Programme
of the European Union

TERMINOLOGY

TAXATION

REQUIRED PAYMENTS OF MONEY TO GOVERNMENTS, WHICH USE THE FUNDS TO PROVIDE PUBLIC GOODS AND SERVICES FOR THE BENEFIT OF THE COMMUNITY AS A WHOLE.

TAX DEDUCTION

AN AMOUNT (OFTEN A PERSONAL OR BUSINESS EXPENSE) THAT REDUCES INCOME SUBJECT TO TAX.

TAX CREDIT

A REDUCTION IN THE AMOUNT OF TAX OWED BASED ON CERTAIN CONDITIONS, SUCH AS INCOME LEVEL, FAMILY STATUS, OR INVESTMENT IN CERTAIN TYPES OF ASSETS.

TARIFF

A TAX ON PRODUCTS IMPORTED FROM FOREIGN COUNTRIES. THIS TAX CAN INCREASE THE COSTS OF THOSE PRODUCTS, WHICH ULTIMATELY CAN BE PASSED ON TO CONSUMERS AS HIGHER PRICES.

INTEREST

THE AMOUNT OF MONEY CHARGED BY A LENDER TO A BORROWER FOR THE USE OF BORROWED FUNDS

RETAIL

THE SALE OF GOODS OR PRODUCTS DIRECTLY TO CONSUMERS FOR THEIR PERSONAL USE OR CONSUMPTION

SALES TAXES

A TAX ON RETAIL PRODUCTS BASED ON A SET PERCENTAGE OF THE RETAIL PRICE.

TAX TREATY

AN AGREEMENT BETWEEN TWO COUNTRIES TO AVOID DOUBLE TAXATION OF INDIVIDUALS OR BUSINESSES THAT OPERATE IN BOTH COUNTRIES.

Funded by the
Erasmus+ Programme
of the European Union

Types of Pensions

There are different types of pensions you may encounter, depending on your country's pension system and your employment status.

1. **Workplace Pensions:**
    - These are employer-sponsored pension plans offered by companies to their employees.
    - Workplace pensions can be defined as benefit plans (based on salary and years of service) or defined as contribution plans (based on contributions and investment growth).
2. **Individual Retirement Accounts (IRAs):**
    - IRAs are personal pension accounts that individuals can set up independently.
    - They allow you to make contributions and invest funds for retirement, providing tax advantages depending on the type of IRA.

Funded by the Erasmus+ Programme of the European Union

Benefits of Starting Early

The Power of Compound Interest:
One of the most important concepts to understand is the power of compound interest. Starting your pension contributions early gives your money more time to grow through compounding. Your contributions and investment returns generate additional earnings that can significantly boost your retirement savings over time.

Maximizing Employer Contributions:
If you have a workplace pension, your employer may offer to match a portion of your contributions. This is essentially free money! Maximizing your contributions to meet the employer match, you take full advantage of this benefit and increase your retirement savings.

FLY

Financial Literacy for Youth

Contribution Strategies

Building your pension requires regular contributions throughout your working years. Here are some strategies to consider:

- Assess your financial situation and set a contribution rate that aligns with your long-term retirement goals.
- Aim to contribute a percentage of your income that allows for a comfortable retirement without sacrificing your present financial needs.
- Set up automatic contributions to your pension plan or IRA, which helps ensure consistent savings and removes the temptation to spend the money elsewhere.
- Consider risk tolerance, time horizon, and diversification factors when selecting your investment mix.
- It's important to review your pension investments and regularly adjust as needed. Stay informed about market trends and consult with a financial advisor if necessary.
- Estimate the income you will need during retirement based on your desired lifestyle, healthcare costs, and other factors.
- In addition to pensions, consider other retirement savings vehicles such as personal savings, individual investments, or Social Security benefits.

Funded by the
Erasmus+ Programme
of the European Union

KEY AREAS ON RETIREMENT

Social Security Benefits:

- It's essential to understand how your country's social security system works and the potential benefits you may be eligible for in retirement.
- You can learn about the criteria for receiving benefits, the age at which you can start claiming them, and how they factor into your overall retirement income.

Long-Term Financial Goals:

- Discover the importance of saving for other milestones, such as buying a home, starting a family, or pursuing further education, and how these goals intersect with retirement planning.

Health Insurance and Healthcare Costs:

- Check the significance of health insurance and potential healthcare costs during retirement.
- Learn options for obtaining healthcare coverage, such as employer-sponsored plans, private insurance, or government programs, and how they can impact retirement finances.

Lifestyle Planning:

- Have discussions about retirement lifestyle goals, including hobbies, travel, volunteer work, or starting a small business, and how these aspirations tie into financial planning.

Tax Considerations:

- Learn strategies for minimizing tax obligations in retirement, such as utilizing tax-advantaged retirement accounts and understanding the tax treatment of different types of retirement income.

Funded by the Erasmus+ Programme of the European Union

ACTIVITIES MODULE 8

TAXES AND PENSION

Financial Literacy for Youth

Funded by the
Erasmus+ Programme
of the European Union

FLY
Financial Literacy for Youth

MODULE 8

ACTIVITY 1: RETIREMENT MATTERS!

Learning Objectives

1 Raise awareness about pension and retirement challenges

2 Sensitize youth about the importance of retirement planning

3 Encourage young people to think about their financial future and start planning for retirement

Duration

30 minutes to 1 hour

Level

- ☑ Beginner
- ☐ Intermediate
- ☐ Advanced

Materials /Resources

- Pens and post-its or digital tools such as KAHOOT, Mentimeter
- Whiteboard

Funded by the Erasmus+ Programme of the European Union

Activity 1: RETIREMENT MATTERS!

Descriptions

- Ask each participant to write on a piece of paper his or her own definition of retirement or use Mentimeter to collect the answers.
- Ask each participant to present and explain their understanding of retirement.
- Discuss the definitions given and explain the principle of retirement if necessary.
- Ask participants if they have ever thought about their retirement.
- Form groups of 5 people and ask them to write on post its 10 reasons to think about retirement in advance.
- Ask groups to put their Post-it on the whiteboard and discuss the reasons provided.
- Ask each group to write on post-its 10 different ways of planning retirement.
- Ask groups to put their Post-it on the whiteboard and discuss the reasons provided.

Debriefing questions

01

How do you imagine your retirement?

02

What are the risks of not considering your retirement?

03

How would you plan your retirement?

Funded by the Erasmus+ Programme of the European Union

FLY
Financial Literacy for Youth

MODULE 8

ACTIVITY 2: RETIREMENT SAVING GOALS CHALLENGE

Learning Objectives

1. Understand the impact of financial decisions made today on future retirement income
2. Understand how to optimize future retirement income.
3. Learn how to use the results of a retirement simulator to adjust retirement planning strategy

Duration

40 minutes

Level

- ☐ Beginner
- ☑ Intermediate
- ☐ Advanced

Materials /Resources

- A computer
- Paper and pencils may be needed

Funded by the
Erasmus+ Programme
of the European Union

Activity 2: Retirement saving goals challenge

Descriptions

- Present the different scenarios and ask participants to choose to work on one of the scenarios.
- Explain that for this activity, participants will have to use a simulator and go to the NerdWallet Retirement Calculator website https://www.nerdwallet.com/investing/retirement-calculator
- Have participants read the simulator instructions and give them time to familiarize themselves with the various functionalities.
- Ask participants to enter the relevant data from the chosen scenario into the simulator and click on the calculate button.
- Allow time for participants to answer the questions and then compare their answers with each other.
- Repeat the process with other scenarios to see the different retirement plans possible based on different situations.
- Encourage the participants to discuss and share their ideas and insights with each other on the results.

Debriefing questions

01

What did you learn from the simulation activity?

02

How did this simulation activity make you feel about your own retirement planning and preparation?

Funded by the Erasmus+ Programme of the European Union

CASE 1

Caroline
45 years old
Community Manager and earns 50,000 euros per year.
Plans to retire at 67 and hasn't started saving for retirement yet.

CASE 2

Nathan
28 years old
Project Manager and earns 75,000 euros per year.
Plans to retire at 67 and hasn't started saving for retirement yet.

CASE 3

Sarah
22 years old
Teacher and earns 45,000 euros per year.
Plans to retire at 67 and hasn't started saving for retirement yet.

1. If they decide they can set aside 10% of their salary in saving for retirement.
a. How much will they need in retirement?
b. How much will they have at age 67?
c. How short are they in her savings?

2. If they increase their saving rate to:
a. 15%, how short will they be?
b. 20%, how short will they be?
c. What percent must they save from their current income to meet their recommended retirement goal?
d. What challenges might they face when trying to save this percentage of their income?

Funded by the
Erasmus+ Programme
of the European Union

ACTIVITY 3: TAXES, TAXES, TAXES

Learning Objectives

1 Understand the different taxes and how they affect salary and savings

2 Reflect on the link between taxes and retirement

Duration

40 minutes

Level

- [x] Beginner
- [ ] Intermediate
- [ ] Advanced

Materials /Resources

- A series of cards with tax-related vocabulary and their corresponding definitions.

Funded by the Erasmus+ Programme of the European Union

FLY
Financial Literacy for Youth

Activity 3: Taxes, Taxes, Taxes

Descriptions

- Before the activity, print the cards with the tax vocabulary.
- Mix up the cards with the words and their definitions.
- Distribute the cards randomly to participants.
- Ask participants to find the word that matches the definition on their card.
- Participants should move around the room to find the person who has the card that matches their definition.
- Once they have found their match, participants should share information about the words and definitions to ensure that they have correctly identified the matching pairs.
- The activity continues until all participants have found their match and have correctly identified all pairs.

Debriefing questions

01

Did you know about these taxes before the activity?

02

To what extent do you think taxes can affect your retirement?

03

Which of these taxes do you currently pay?

Funded by the Erasmus+ Programme of the European Union

INCOME TAX

SALES TAX

TAX DEDUCTION

TARIFF

PROPERTY TAX

TAX CREDIT

TAXES

TAX TREATY

Funded by the Erasmus+ Programme of the European Union

REQUIRED PAYMENTS OF MONEY TO GOVERNMENTS, WHICH USE THE FUNDS TO PROVIDE PUBLIC GOODS AND SERVICES FOR THE BENEFIT OF THE COMMUNITY AS A WHOLE.

AN AMOUNT (OFTEN A PERSONAL OR BUSINESS EXPENSE) THAT REDUCES INCOME SUBJECT TO TAX.

A REDUCTION IN THE AMOUNT OF TAX OWED BASED ON CERTAIN CONDITIONS, SUCH AS INCOME LEVEL, FAMILY STATUS, OR INVESTMENT IN CERTAIN TYPES OF ASSETS.

A TAX ON PRODUCTS IMPORTED FROM FOREIGN COUNTRIES. THIS TAX CAN INCREASE THE COSTS OF THOSE PRODUCTS, WHICH ULTIMATELY CAN BE PASSED ON TO CONSUMERS AS HIGHER PRICES.

TAXES ON PROPERTY, ESPECIALLY REAL ESTATE, BUT ALSO CAN BE ON BOATS, AUTOMOBILES (OFTEN PAID ALONG WITH LICENSE FEES), RECREATIONAL VEHICLES, AND BUSINESS INVENTORIES.

TAXES ON INCOME, BOTH EARNED (SALARIES, WAGES, TIPS, COMMISSIONS) AND UNEARNED (INTEREST, DIVIDENDS). INCLUDES BOTH PERSONAL AND BUSINESS OR CORPORATE INCOME TAXES.

A TAX ON RETAIL PRODUCTS BASED ON A SET PERCENTAGE OF THE RETAIL PRICE.

AN AGREEMENT BETWEEN TWO COUNTRIES TO AVOID DOUBLE TAXATION OF INDIVIDUALS OR BUSINESSES THAT OPERATE IN BOTH COUNTRIES.

Funded by the Erasmus+ Programme of the European Union

MODULE 8

ACTIVITY 4: PICTURE YOUR RETIREMENT

Learning Objectives

1 Encourage young people to think about their retirement goals.

2 Instill a sense of responsibility and empowerment in young people to take control of their retirement plan.

Duration

1 hour

Level

- ☑ Beginner
- ☐ Intermediate
- ☐ Advanced

Materials /Resources

- Magazines, scissors, and glue
- Paper and pens

Funded by the Erasmus+ Programme of the European Union

Activity 4: Picture your retirement

Descriptions

- Round the table and ask each participant to share their vision for their own retirement goals and plans using prepared questions such as the following.
  - What age do you want to retire?
  - How long do you anticipate living past retirement?
  - What type of lifestyle do you want during your retirement?
  - How much money will you need to maintain that lifestyle?

- Ask participants to create a visual representation of their retirement goals in the form of a collage.

- Ask each participant to present their collage and explain their retirement goals.

- Arrange the different collages and ask participants to find out who owns each collage based on what was said during the table talk.

Debriefing questions

01

What were some common themes or goals that emerged among the collages created by the participants?

02

What resources or support do you need to help you achieve your retirement goals?

Funded by the Erasmus+ Programme of the European Union

MODULE 8

ACTIVITY 5: SECURE YOUR RETIREMENT AGAINST INFLATION

Learning Objectives

1. Have an overview of the concept of inflation and its impact on retirement planning.
2. Raise awareness on the importance of taking inflation into account when planning for retirement.
3. Identify the risks and challenges that inflation can pose to retirement goals.

Duration

45 minutes

Level

- ☑ Beginner
- ☐ Intermediate
- ☐ Advanced

Materials /Resources

- Computer and projector
- Paper and pens

Funded by the Erasmus+ Programme of the European Union

FLY
Financial Literacy for Youth

Activity 5: Secure Your Retirement Against Inflation

Descriptions

- Ask participants to watch the video "How inflation affects your retirement plan".

- Form groups of 5 people and discuss the following questions with each groups:
  - What is inflation and how does it impact retirement planning?
  - What are some ways to protect retirement savings from the effects of inflation?
  - How can you adjust your retirement plan to account for inflation?

- After the discussion, bring the group back together and ask everyone to share their thoughts.

- Ask participants to reflect on what they learned about the impact of inflation on retirement planning and ask them to write down one action that would counteract the negative effects of inflation on retirement.

Debriefing questions

01

Why is it important to consider inflation when planning for retirement?

02

What other factors can impact retirement planning?

Funded by the Erasmus+ Programme of the European Union

FLY: Financial Literacy for Youth
Educación Financiera para Jóvenes
2021-1-IT03-KA220-YOU-000028694

IF YOU WANT TO KNOW MORE ABOUT FLY PROJECT:

Follow the FLY project on Instagram at: www.instagram.com/fly_financial_literacy

Follow the FLY project on Facebook at: www.facebook.com/fly.financial.literacy

www.financialliteracyfly.eu

FLY: Financial Literacy for Youth
Educación Financiera para Jóvenes
2021-1-IT03-KA220-YOU-000028694

Financial Literacy for Youth

FLY PLAYBOOK

abn network sociale

XANO CHANNEL

ASSET TECHNOLOGY

MONOMYTHS – Joyful learning experiences –

Funded by the Erasmus+ Programme of the European Union