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Considerations When Making Employment Decisions

FOR THE
#GATORGOOD

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OPPORTUNITY COST

- **Opportunity cost: what you give up as a result of a decision**
- Every spending decision has an opportunity cost

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COMPARE COST OF LIVING

- http://www.bestplaces.net/cost-of-living/
- 2021 Cost of Living Calculator: Gainesville, Florida vs Charlotte, North Carolina
- A salary of $65,000 in Gainesville, Florida should increase to $72,547 in Charlotte, North Carolina (assumptions include Homeowner, no Child Care, and Taxes are not considered.

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Comparison Highlights

- Overall, Charlotte, North Carolina is 10.0% more expensive than Gainesville, Florida
- Median Home Cost is the biggest factor in the cost of living difference.
- Median Home Cost is 25% more expensive in Charlotte.

Cost of Living Indexes	Gainesville, FL	Charlotte, NC	Difference
Overall Index: Homeowner, No Child care, Taxes Not Considered	89.9	98.9	10.0% more
Food & Groceries	99.2	99.2	equal
Housing (Homeowner)	79.2	99	25.0% more
Median Home Cost	$183,000	$228,800	$45,800 (25.0% more)
Utilities	105.4	98.3	6.7% less
Transportation	81.5	97.7	19.9% more
Health	102.1	100	2.1% less
Miscellaneous	96.5	99.4	3.0% more

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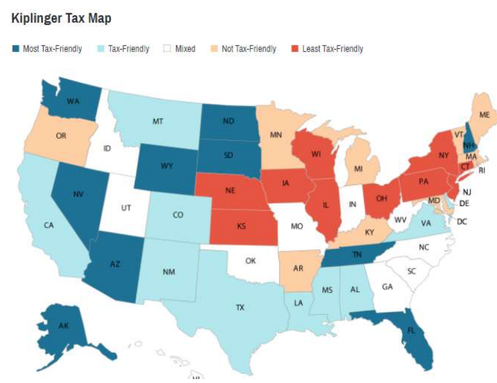
STATE-BY-STATE GUIDE TO TAXES

- **North Carolina has a flat state income tax rate of 5.25%.**



https://www.kiplinger.com/kiplinger-tools/taxes/t055-s001-kiplinger-tax-map/index.php

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Importance

- **Shift from defined benefit pensions to defined contribution plans**
- **Smooth consumption over changes in resources and situation**
  - Time off for maternity
    - Short-term disability insurance
  - Changing jobs
  - Think about retirement
- **Achieve financial goals such as buying a home, funding education for children or yourselves**
- **Having something for a rainy day**
- **Starting early is a key issue!!**

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SOME "FUN" QUESTIONS

- When you get a job should you take advantage of their 401(k) plan?
- What's the difference between 401(k) plan and a 403(b) plan?

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THE BENEFITS OF 401(K) PARTICIPATION

Table 17-1 **Samantha Smarty Invests $6300 in Employer's 401(k) Plan and Earns 41 Percent, Really!**

Samantha Smarty participates in her employer's 401(k) retirement plan, and contributes 7 percent, or $6300, of her $89,000 income. Since her contributions are tax deductible and she is in the 25 percent federal tax bracket, this reduces her federal income taxes by $1575 ($6300 × .25 = $1575), and it reduces her state income tax another $252 ($6300 × 0.04 = $252). Thus, for a net outflow of $4473 ($67,334 − $62,861), Samantha gets to invest $6300. That's a 41 percent return ($6300 − $4473 = $1827/$4473) on her "investment." Whoa! What a great deal!

	Not Participating in 401(k) Plan	Participating in 401(k) Plan
Income	$89,000	$89,000
Contribution to plan	– 0 –	6,300
Taxable income	89,000	82,700
Federal income tax*	18,106	16,531
State income tax (4%)	3,560	3,308
Take-home pay	$67,334	$62,861

* From Table 4-2 on page 114.

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HOW MUCH YOU GIVE UP WITHOUT MATCHING CONTRIBUTIONS

Table 17-2 Only Work for Companies Who Offer Healthy Matching Employer Retirement Contributions

You should make contributions to your employer-based retirement account at least up to the amount where you obtain the largest matching contribution from your employer. The matching 100 percent employer contributions shown below increase the retirement account balance after 30 years from \$317,000 to \$476,000 with a 2 percent match and to \$634,000 with a 4 percent match. By increasing the employee's contribution from 4 percent (\$70,000 × 0.04 = \$2800) to 6 percent (\$70,000 × 0.06 = \$4200) to obtain the full 100 percent employer match on the first 6 percent of salary, the sum rises to almost \$1 million after 30 years earning an 8 percent annual return. Be smart. Work only for employers who offer healthy matching contributions to your retirement account.

Salary \$70,000	Zero Employee Contribution	100% Match of 2% of Salary	100% Match of 4% of Salary	100% Match of 6% of Salary
Employee contributions	\$2,800	\$2,800	\$2,800	\$4,200
Employer contributions	\$0	\$1,400	\$2,800	\$4,200
Total annual contributions	\$2,800	\$4,200	\$5,600	\$8,400
Account balance after 30 years earning 8%	\$317,000	\$476,000	\$634,000	\$952,000

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An Example

- Ron and Jon are twin brothers, both age 21.
- Ron invests \$2,000 each year for the next 10 years and then he lets that money sit until he is 55.
- Jon will wait until he is 35 and then invest \$2,000 a year until he is 55.
- If they would both earn 8.7% per year, who will have the most?

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RON

$2,000 per year for 10 years, and then left to sit earning 8.7% will grow to ($29,954 after 10 years then left to sit for 24 more years)

$221,801

JON

$2,000 per year for 20 years at 8.7%

$98,939

Difference of $122,862

Jon would have to increase his annual contribution by $2,285 per year to "catch up" to Ron.

ROTH IRA

- **Contribute to Roth IRA accounts to supplement your employer-sponsored plans.**
- **Withdrawals are tax free if taken at age 59.5 or later or if you are disabled**
- **Earlier for…**
  - Qualifying first time homebuyer costs
  - Medical expenses
  - Educational expenses
  - Can pass on to heirs free of estate taxes

UF – VOLUNTARY PLANS

- Graduate assistants can participate
- **UF does not contribute to these plans.**

- Voluntary 403(b) Plans
  - UF Tax-deferred 403(B)
  - UF After-tax Roth 403(B)

  https://benefits.hr.ufl.edu/retirement/voluntary/voluntary-403b-plans/

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UF – VOLUNTARY PLANS

- Graduate assistants can participate
- **UF does not contribute to this plan.**

- Voluntary 457 Deferred Compensation Plan
- No early withdrawal penalty if you leave your job
  https://benefits.hr.ufl.edu/retirement/voluntary/voluntary-457-deferred-compensation-plan/

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HOW LONG WILL THE RETIREMENT MONEY LAST?

The odds your funds will last:

Withdrawal Rate		20 yrs.	30 yrs.	40 yrs.
3%	99%	99%	93%	
4%	99%	86%	68%	
5%	93%	67%	41%	
6%	74%	35%	18%	

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FUN QUESTIONS….

- If you go home and you find that your house is robbed, you probably have insurance for that…..? If so, what insurance?

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STRATEGIES

- **That starting early is always to your advantage**
  - More time for compounding
- **Use payroll deduction if you have access to an employer provided plan**
- **Pay yourself first**
- **Tax advantaged savings**
  - ROTH IRA makes the most sense for average student and young employee

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OK SO WE ARE BUILDING WEALTH, BUT HOW DO WE PROTECT IT?

- **Protection from what?**
  - Injury
  - Illness
  - Death
- **Each of these is a shock to financial resources**
  - Can disrupt income
  - Can require using investments or other assets to meet spending needs in the short run

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PROTECTING WEALTH

- **Importance of risk management planning**
  - Protect income sources
    - Health, Disability and Life insurance
  - Protects wealth that has been accumulated
    - Home owners/Renter's, Auto, Liability, etc.

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We can pay someone else to assume these risks.

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WHERE DO I FIND ALL OF THESE?

- **Employee benefits**
- **Hidden value**
  - Insurance coverage
    - Subsidies to premiums
  - Employer match/contributions to retirement
- **Helps with all 3 spheres**
- **Part of the package**
  - How do we value these?

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CONSIDERATIONS OVER TIME

- **Single – no dependents**
  - Protect your stuff – Home owners/renters/auto
  - Health insurance
  - Protect your income – disability insurance
- **Single parent**
  - Add life insurance and will for sure
- **Cohabitating with/without children**
  - Same as above
- **Married with/without children**
  - Same as above

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WHAT DO YOU DO?

- **Check with your employer**
  - If you have a job, you may be eligible for some benefits
- **Financial services**
  - Any of these can be found working with various service providers.
  - Do your homework if you pursue this avenue.

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IN CLOSING

- **Have a plan; knowing it will change as your life does (marriage, divorce, kids)**
- **Have some form of a spending plan**
- **Use credit wisely**
- **Start saving early**
- **Protect your financial resources**
- **Communicate with loved ones, roommates, family**

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Questions or Comments

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