

Risks and Benefits of Entrepreneurship

LESSON DESCRIPTION (Background for the Instructor)

In this lesson, students will learn about the risks and benefits of entrepreneurship as a career choice compared to working for an employer and earning a paycheck. They will also learn about the financial planning aspects of entrepreneurship such as the need for self-employed individuals to secure their own health insurance coverage and retirement savings and make estimated tax payments to the IRS.

The lesson includes five activities that instructors can select from. In these activities, students will:

- ◆ View and debrief the YouTube video *Entrepreneurs Can Change the World*
- ◆ Complete an entrepreneurship aptitude assessment activity
- ◆ Play a 14 question *CEO BINGO Game* to reinforce key class concepts
- ◆ Summarize key lesson concepts with *Information on an Index Card*
- ◆ Describe and debrief product or service pitches on the *Shark Tank*® television show

The lesson also contains 10 assessment questions (5 multiple choice and 5 True-False), learning extensions (i.e., suggested learning activities beyond the scope of the lesson plan), and references and resources.

INTRODUCTION (Background for the Instructor)

An increasing number of American workers are self-employed. An entrepreneur is a person who operates a business and/or works for himself or herself, rather than working for others. Entrepreneurs must generally work hard to be successful and assume the risk of business failure in order to make money. They play a key role in the economy and are often innovators of new products and services. Entrepreneurship is included in financial education classes because it is a source of income and a career choice for many people.

The U.S. is increasingly becoming a nation of self-employed workers as an increasing number of employers are addressing their human capital needs by hiring independent contractors instead of employees. This is happening in a wide variety of fields including sales, accounting, law, engineering, and higher education. It is expected that 40% of America's workforce will be entrepreneurs by 2020. Other terms used to describe these workers include freelancers, permalancers, contingent workers, and independent contractors. By hiring people on a freelance basis, employers avoid hiring and layoff hassles and large employers avoid the requirement to provide health insurance for their workers. Technology improvements, such as fast Internet connections, facilitate freelancing and some people prefer the flexible work hours and reduced commuting time versus a traditional "9 to 5" job at an office or other worksite.

Workers who are not on an employer's payroll and work for themselves are called independent contractors according to IRS tax rules. An independent contractor is someone who is subject to the direction or control of another person merely as to the *result* to be accomplished and not as to the *means and methods* by which the result is accomplished. In other words, entrepreneurs must generally use their own equipment (e.g., computer) but they can work at a time and location of their own choosing as long as they get a job done.

Successful entrepreneurs have certain work habits and personality traits. They tend to be creative and organized and manage their time well. Many entrepreneurs are comfortable taking risks and have a variety of skills that are necessary to manage a successful business. They are also “planners” and write business plans that describe how they will manage and market their business to deliver a product or service. Online assessment tools are available to assess someone’s inclination for entrepreneurship. Some people who work for employers also have these traits and are called “intrapreneurs” because they think and act like entrepreneurs within an organization (e.g., secure funding, manage projects, and develop creative ideas).

Entrepreneurship requires a different way of handling one’s personal finances. Instead of paying 7.65% of a salary or wages for FICA (Social Security and Medicare) tax as employees do, entrepreneurs must pay twice that amount (15.3%) because they are their own “employer” and must cover the required employer match. They must also secure their own health insurance coverage and retirement savings (e.g., IRAs), make quarterly estimated tax payments to the IRS, and set aside a large emergency fund (6 to 12 months of living expenses) in case business is slow. Unlike employees who may receive paid “sick days” when they are unable to come to work, when self-employed individuals do not work, they are not generating any income. Entrepreneurs can subtract business expenses from their income on their tax return while employees are often limited in their ability to do this. They receive 1099 forms for work projects and file a Schedule C to report business income and expenses and a Schedule SE for self-employment (FICA) tax.

Entrepreneurs need to budget their money carefully. A portion of higher income from “peak” months should be set aside to cover expenses during lower income “lean” months. It is also a good idea to set aside about 30% of net income for estimated federal and state income tax payments. Health insurance can be purchased through a state or federal government marketplace under the Affordable Care Act or through a private policy with a health insurance provider. Marketplace policies are often less expensive than private insurance due to tax subsidies for income-eligible individuals. For more information about Marketplace health insurance, see www.healthcare.gov.

OBJECTIVES

Students will be able to:

- ◆ Summarize the advantages and disadvantages of becoming an entrepreneur.
- ◆ Describe how entrepreneurship differs from working for a paycheck from an employer.
- ◆ Determine their personal aptitude for entrepreneurship using one or more online assessment tools.
- ◆ Describe how entrepreneurs must manage their finances in a different way than employees do.

NEW JERSEY PERSONAL FINANCIAL LITERACY STANDARD

- ◆ Standard 9.1.12.A6: Summarize the financial risks and benefits of entrepreneurship as a career choice. See <http://www.state.nj.us/education/aps/cccs/career/FLFAQ.htm#gradcredit> and <http://www.state.nj.us/education/cccs/2014/career/91.pdf> for information about Standard 9.1

TIME REQUIRED

45 to 180 minutes (depending upon student progress and content depth and number of activities used)

MATERIALS

- ◆ YouTube Video: *Entrepreneurs Can Change the World*:
<https://www.youtube.com/watch?v=T6MhAwQ64c0>
- ◆ Entrepreneurship Quiz (paper): *Take the Test*:
http://www.ccms.clay.kyschools.us/textbooks/cte/facs/fffl/data/papers/9-12/978-1-56183-697-0_05.pdf
- ◆ *Entrepreneur Quiz* (online): <http://www.wesst.org/business-toolkit/entrepreneur-quiz/> (OPTIONAL)
- ◆ *Entrepreneurship Quiz* (ASSESSMENT)

Teachers are encouraged to use as many of the five student learning activities as time permits to provide a fuller understanding of consumer entrepreneurship. The activities can also be used for extra credit assignments, homework, or after-school activities.

PROCEDURE

1. As an introductory activity to interest students, ask them to define the word “entrepreneur” in their own words and to name successful entrepreneurs and describe how they made their money.

Answers will vary but the key point is that students realize that entrepreneurs work for themselves rather than working for others as an employee.

For lists of successful entrepreneurs, see <http://www.incomediary.com/30-most-influential-entrepreneurs-of-all-time-2> and <http://www.ranker.com/list/most-successful-entrepreneurs-in-the-world/business-and-company-info?page=6> and <https://www.biographyonline.net/business/top-10-entrepreneurs.html>

2. **Activity 1:** Show the video *Entrepreneurs Can Change the World* and ask students to explain key take-aways: <https://www.youtube.com/watch?v=T6MhAwQ64c0>

Answers will vary and may include the ability of one person to make a difference, the need for innovation, the need to overcome obstacles, and the fact that entrepreneurs make the world a better place with brilliant ideas and hard work. Imagining possibilities leads to better ways of doing things, which helps society.

3. Share the information in the *Introduction* pertaining to increased numbers of self-employed Americans, the IRS definition of an independent contractor, personality traits of successful entrepreneurs, and financial planning differences between entrepreneurs and employees.
4. **Activity 2:** Distribute *Take the Test* from *Financial Fitness for Life* and ask students to answer the 10 questions with a response from 1 to 4 and add up their total score. Debrief the scores as follows: **10 to 19** means little or no inclination toward entrepreneurship, **20 to 29** means inclined toward entrepreneurship, and **30 to 40** means very inclined toward entrepreneurship.

If time permits, have students complete one or more online entrepreneurship assessments as well.

5. **Activity 3:** Distribute a copy of the *CEO Bingo Game* and explain that entrepreneurs are the CEO (chief executive officer) of their business. The *CEO Bingo Game* card has 15 spaces, including one free space in the middle. Have the students write each one of the 14 terms under the game board *in any order* in the 14 open spaces. Read only the *definitions* of the 14 terms below and have students determine the correct answer. Once students identify the correct answer, have them mark it on their game card. When students get three markers across or five down, they will say “BINGO.”

A template for Bingo game markers to cover the *CEO Bingo Game* card can be found at <http://fffl.councilforeconed.org/documents/978-1-56183-696-3-activity-lesson-22.pdf>. Cut each of the 14 words and definitions, below, into strips to pull out of a container (e.g., can, jar, hat) on a random basis to play the game. The definitions for the 14 *CEO Bingo Game* questions are as follows:

Creativity- The ability to generate original and useful ideas to produce products or solve problems.

Emergency Fund- Money set aside to cover unexpected expenses and reductions in income.

Entrepreneur- A person who generates his or her own income rather than working for others.

FICA- Tax paid by employees and entrepreneurs for future Social Security and Medicare benefits.

Fringe Benefit- Perks such as sick days and paid vacation that entrepreneurs do not get and employees do.

Health Insurance- Coverage for medical expenses that entrepreneurs must provide for themselves.

Independent Contractor- IRS definition of a person hired to complete a job with limited oversight.

Innovation- The act of introducing an idea, product, or method that is new and different.

Intrapreneur- Workers who think and act like self-employed individuals while working for an employer.

Risk- The chance of the loss of time and money invested to own and operate a business.

Salary- Money paid to employed individuals that self-employed persons must generate for themselves.

Schedule C- Tax form used by self-employed taxpayers to report business income and expenses to the IRS.

Self-Directed- The ability to take action by yourself without a lot of external control by others.

1099 Form- Tax form sent to self-employed taxpayers and the IRS to report income earned for a project.

6. **Activity 4:** *Information on an Index Card* is based on a lesson plan from Next Generation Personal Finance: <http://nextgenpersonalfinance.org/activity-idea-personal-finance-ideas-that-fit-on-an-index-card/>. Give students a 4 x 6 index card and ask them to summarize with bullet points five key things that entrepreneurs need to know or do to be successful in working for themselves. Then debrief the activity and ask students to share their ideas.

Answers will vary and may include the need to work hard, have a broad skill set, produce a useful product or service, set aside money for income taxes, and fund your own health insurance and retirement savings.

7. **Activity 5:** The television program *Shark Tank*® is an excellent resource to teach entrepreneurship. It features fledgling entrepreneurs making a pitch to a panel of potential investors called “The Sharks.” The television show discusses topics such as innovation, product marketing, intellectual property protection, and return on investment. Ask students to watch the television show or show *Shark Tank*® video clips on YouTube (see <https://www.youtube.com/user/EnterTheSharkTank>) with a critical eye, noting both the product or service being pitched and how entrepreneurs make their pitch for funding. Have students complete the *Shark Tank Entrepreneurship Lesson Learning Activity* individually or in small groups and debrief what they learned.

Answers will vary and may include the need to protect newly created products with patents, create useful products or services that people will want to buy, price products appropriately, have a strong marketing plan, and appear knowledgeable and confident in the presence of potential business investors.

CLOSURE

Ask students if they have any remaining questions about entrepreneurship. Ask them if they, personally, know any entrepreneurs and to tell the class what these individuals do. Remind the students that 4 in 10 workers are expected to be entrepreneurs by 2020 because they want to or they have to. Ask students if they, personally, plan to become entrepreneurs and, if so, the type of business that they plan to develop.

GLOSSARY

See the 14 items on the *CEO Bingo Game* (on page 4) for key entrepreneurship terms and definitions.

LEARNING EXTENSIONS

If time permits, the following activities can be used to extend the depth of this lesson:

- ◆ Invite one or more entrepreneurs as guest speakers to discuss their experiences and provide advice. Have students Google the speaker(s) in advance and prepare questions.
- ◆ Invite one or more intrapreneurs as guest speakers to discuss their experiences and provide advice. Have students Google the speaker(s) in advance and prepare questions.
- ◆ Have students do an online search for an article about entrepreneurship or a successful entrepreneur and present a 1-2 minute summary to the class.
- ◆ Have students take the online *Are You an Intrapreneur?* quiz: http://www.blanchardinternational.com.au/Leadership_Research/Business_Innovation_Quiz.php. Debrief their quiz questions and qualities of successful intrapreneurs.
- ◆ Show the “Do It Yourself” video clip about a self-employed young adult from the PBS television feature *Your Life, Your Money*: <http://www.pbs.org/your-life-your-money/>.
- ◆ Have students write a summary of what they learned about entrepreneurship for the school newspaper.

ASSESSMENT: *Entrepreneurship Quiz*

Instructors are encouraged to use the questions below for content review or as a pre-and/or post-test to determine gains in student knowledge about entrepreneurship after teaching this lesson.

Correct answers to the multiple choice and True-False questions are shown in boldface type.

Multiple Choice Questions

1. The percentage of American workers that is expected to be self-employed in 2020 is
 - a. 20%
 - b. 30%
 - c. 40%**
 - d. 50%
2. The term that the IRS uses for someone hired to complete a job with minimal supervision as to how the work gets done is
 - a. Intrapreneur
 - b. Independent Contractor**
 - c. Freelancer
 - d. Fiduciary
3. Self-employed workers should have an emergency fund equal to _____ of living expenses.
 - a. 1 to 2 months
 - b. 3 to 4 months
 - c. 5 to 8 months
 - d. 6 to 12 months**
4. People who take risks and work creatively within an established organization are referred to as
 - a. Intrapreneurs**
 - b. Entrepreneurs
 - c. Independent Contractors
 - d. Freelancers
5. The income tax form that self-employed persons use to report their income and expenses is called
 - a. Schedule SE
 - b. Schedule C**
 - c. 1099 Form
 - d. W-2 Form

True-False Questions

1. Self-employed individuals are required to have health insurance. (**TRUE: Like all Americans, as per the Affordable Care Act, self-employed persons must have health insurance. Because they do not have an employer to provide coverage as a fringe benefit, they must pay the premiums themselves**)

2. Entrepreneurs must pay 10.65% of their net income in taxes for Social Security and Medicare. (**FALSE: Self-employed individuals pay 15.3% of their net business income in taxes**)
3. Entrepreneurs can save for retirement in an Individual Retirement Accounts. (**TRUE: All workers, whether they are self-employed or work for others, can fund IRAs with earned income**)
4. Entrepreneurs get a special income tax credit from the government to start a business. (**FALSE: While there are government programs that assist business owners, entrepreneurs assume all the risks associated with the establishment of their business, including the risk of failing to make money**)
5. Entrepreneurs must make two semi-annual estimated tax payments to the IRS. (**FALSE: Self-employed individuals are expected to make four quarterly estimated tax payments to the IRS every tax year**)

REFERENCES AND RESOURCES

Entrepreneur Quiz (WESST): <http://www.wesst.org/business-toolkit/entrepreneur-quiz/>

Entrepreneurs and Their Communities (eXtension Community of Practice):
<http://www.extension.org/entrepreneurship>

Financial Fitness for Life. Lesson 5: Making Your Own Job. New York: Council for Economic Education:
<http://fffl.councilforeconed.org/lessons.php?gradeLevel=9-12&lid=68291>

Financial Fitness for Life. Exercise 5.2. Who are Entrepreneurs? New York: Council for Economic Education: http://www.ccms.clay.kyschools.us/textbooks/cte/facs/fffl/data/papers/9-12/978-1-56183-697-0_05.pdf

40% of America's Workforce Will be Freelancers by 2020 (Quartz): <http://qz.com/65279/40-of-americas-workforce-will-be-freelancers-by-2020/>

Hot Topic: Is America Turning into a Freelance Nation? (Rutgers University): <http://news.rutgers.edu/q-and-a-hot-topic/hot-topic-is-america-20120402>

Independent Contractor or Employee? *Journal of Financial Planning* (March 2013):
<https://www.onefpa.org/myFPA/journal/Documents/Independent%20Contractor%20or%20Employee.pdf#search=February%202013>

Quiz: Do You Have What it Takes to Be an Entrepreneur? (Entrepreneur):
<http://www.entrepreneur.com/personalityquiz>

Schedule C: Profit or Loss From Business (IRS): <http://www.irs.gov/pub/irs-pdf/f1040sc.pdf>

Shark Tank (ABC): <http://abc.go.com/shows/shark-tank>

The Entrepreneur Test (BizMove.com): <http://www.bizmove.com/other/quiz.htm>

CEO Bingo Game

Entrepreneurs are the CEO of their business. There are 14 terms below the *CEO Bingo Game* board. Write each word **once in any order** in the 14 blank squares. As definitions of these terms are read and confirmed, place a Bingo marker on that square. When you get three markers across or five down, say “Bingo.”

Chief	Executive	Officer
	FREE SPACE	

Creativity
 Entrepreneur
 Fringe Benefit
 Independent Contractor
 Intrapreneur
 Salary
 Self-Directed

Emergency Fund
 FICA
 Health Insurance
 Innovation
 Risk
 Schedule C
 1099 Form

Shark Tank® Entrepreneurship Lesson Learning Activity

Watch 3 product or service Shark Tank® presentations by entrepreneurs (on television or from videos on YouTube) and complete the table below:

Question	Presentation #1	Presentation #2	Presentation #3
Type of product or service presented to the Sharks			
Description of the introduction to the presentation			
Amount of money that the entrepreneur(s) asked for			
Percentage of business ownership stake willing to be shared by the entrepreneur(s)			
What the entrepreneur(s) said they needed money from the Sharks for			
How the entrepreneur(s) dressed and acted			

Uniqueness of the product or service			
How the product or service was being marketed by the entrepreneur(s)			
Questions asked by the Sharks to the entrepreneur(s)			
Resolution of the presentation (i.e., did the entrepreneur(s) get a deal or not)			

Use the internet to search for definitions for the following terms:

- ◆ Business (Company) Valuation
- ◆ Intellectual Property
- ◆ Return on Investment (ROI)

Entrepreneurship Quiz

Multiple Choice Questions:

Circle the correct answer from among the four answers provided.

1. The percentage of American workers that is expected to be self-employed in 2020 is
 - a. 20%
 - b. 30%
 - c. 40%
 - d. 50%

2. The term that the IRS uses for someone hired to complete a job with minimal supervision as to how the work gets done is
 - a. Intrapreneur
 - b. Independent Contractor
 - c. Freelancer
 - d. Fiduciary

3. Self-employed workers should have an emergency fund equal to _____ of living expenses.
 - a. 1 to 2 months
 - b. 3 to 4 months
 - c. 5 to 8 months
 - d. 6 to 12 months

4. People who take risks and work creatively within an established organization are referred to as
 - a. Intrapreneurs
 - b. Entrepreneurs
 - c. Independent Contractors
 - d. Freelancers

5. The income tax form that self-employed persons use to report their income and expenses is called
 - a. Schedule SE
 - b. Schedule C
 - c. 1099 Form
 - d. W-2 Form

True-False Questions:

Mark "T" for True or "F" for False in the space before each question.

- _____ 1. Self-employed individuals are required to have health insurance.
- _____ 2. Entrepreneurs must pay 10.65% of their net income in taxes for Social Security and Medicare.
- _____ 3. Entrepreneurs can save for retirement in an Individual Retirement Accounts.
- _____ 4. Entrepreneurs get a special income tax credit from the government to start a business.
- _____ 5. Entrepreneurs must make two semi-annual estimated tax payments to the IRS.

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