

# LESSON THREE: PAYCHECK

# UNDERSTANDING YOUR PAYCHECK

## Lesson 3: Paycheck

### UNDERSTANDING YOUR PAYCHECK

- Students will learn about different payroll deductions that affect their take home pay
- We will talk about deductions, net vs. gross, and annual tax responsibilities

## Your Paycheck - Understanding Your Take Home Pay

Getting your first paycheck can be overwhelming. There are lots of details and deductions to consider, but knowing what to expect makes it easier. There are several places your money goes once you get paid. It may seem depressing in a way, but at least you can be better prepared, and perhaps budget accordingly.

With your first real job, you tend to pay more attention to everything that is on your paycheck. It is important to understand the breakdown of what is being withheld and what it is being used for. Checks may vary slightly from company to company, so if you have any additional questions, you can ask your human resources department.

Let's talk about all the different items that may be listed on your check stub aside from your normal hours worked. Some deductions are automatically taken out by the Government, like Medicare, Income Taxes, and Social Security. Others, like a 401k and insurance are elective, meaning you have the option to take advantage of these services in exchange for a deduction in your paycheck.

### Sample Paycheck

PERSONAL AND CHECK INFORMATION			EARNINGS					
Mario W Gotze 300 CorporatePointe #66 Culver City, CA 90230  Soc Sec #: xxx-xx-xxxx Employee ID: 2014 Clock ID: 2014 Home Department: 5105 Maintenance Tech I / 519 Eagle Rare Mission / 3 Property Management  Pay Period: 07/26/15 to 08/08/15 Check Date: 08/14/15 Check #: 869			DESCRIPTION	HRS/UNITS	RATE	THIS PERIOD (\$)	YTD HOURS	YTD (\$)
<b>NET PAY ALLOCATIONS</b>  DESCRIPTION      THIS PERIOD (\$)      YTD (\$)			Regular	49.79	11.0000	547.69	508.55	5594.05
Check Amount      0.00      0.00 Chkg 9009      355.62      3409.09 <b>NET PAY      355.62      3409.09</b>			Sick	8.00	11.0000	88.00	12.00	132.00
<b>TIME OFF (Based on Policy Year)</b>  DESCRIPTION      AMT TAKEN      AVAIL BAL			Vacation				32.00	352.00
Vacation      0.000 hrs      43.077 hrs			<b>EARNINGS</b>	57.79		635.69	552.55	6078.05
			<b>TOTAL HOURS WORKED</b>	49.79				
			OTHER ITEMS		THIS PERIOD (\$)		YTD (\$)	
			Do not increase Net Pay					
			Rent Credit		500.00		2000.00	
			WITHHOLDINGS		THIS PERIOD (\$)		YTD (\$)	
			Social Security		36.07		343.48	
			Medicare		8.44		80.33	
			Fed Income Tax S 1		33.96		312.79	
			CA Income Tax S 0 1		1.58		10.76	
			CA Disability		9.74		67.86	
			<b>TOTAL</b>		<b>89.79</b>		<b>815.22</b>	
			DEDUCTIONS		THIS PERIOD (\$)		YTD (\$)	
			Garnishment		136.48		1315.74	
			Health Ins 125		53.80		538.00	
			<b>TOTAL</b>		<b>190.28</b>		<b>1853.74</b>	

LITCHFIELD BANCORP ACADEMY



Member FDIC



EQUAL HOUSING LENDER

NMLS #510070

Litchfield Bancorp



ACADEMY



*Other Types of Pay:* Near your regular pay box, you may see boxes labeled with overtime, holiday and sick pay. If you took time off, you will normally see those hours reflected in this section, assuming you have time to use, and a reduction in your regular hours worked. If you worked over 40 hours, you will typically earn wages at one and a half times your normal pay rate. On a side note, it is important to monitor the number of vacation and sick days you have accrued and used to make sure they match. If you are fired or decide to leave, you may be eligible to be paid out for any unused vacation or sick time.

*Federal Tax:* This one is pretty simple. This is the federal tax you pay from each check.

*State Tax:* Again, a basic concept. This would be the state tax you pay.

*FICA or OASDI:* This is your social security tax. You pay 6.2% of your salary to the Federal Insurance Contribution Act or FICA. Don't feel too bad though because your employer contributes an additional 6.2% into FICA also, so really 12.4% of your salary goes into social security, but only half of that is pulled away from you.

*Medicare:* You have probably heard of Medicare. This is the system that helps the elderly with medical expenses. You pay 1.45% towards Medicare. Your employer matches the same amount.

*Health:* Your health insurance may be taken from your paycheck either pre-tax or post-tax. Either way it gets taken out of the gross amount and makes your net amount smaller. For most people, their employer pays a much larger share of the health insurance cost than they do.

*Life:* Your employer may offer a life insurance policy option to you. Sometimes it will be a complimentary policy that they offer for 1 times your salary, or they may offer the option to purchase your own policy where you select the amount of coverage and pay a small fee each pay period.

---

WWW.LITCHFIELDBANCORP.COM • 860-567-9401

  Member FDIC

 EQUAL HOUSING LENDER

NMLS #510070

*Retirement:* There are several categories available here. It could be a certain percentage of your paycheck applied to a pension or to a 401K. If your company matches your contribution, you will also see a line for that as well.

There may be others, depending on what your employer offers in the form of benefits, but these are the basics and most common ones. You may also have stock options, long or short-term disability, or separate vision or dental insurance deductions that show up on your pay stub.

### *The Two Types of Pay That Really Matter*

It's important to understand the difference between gross pay and net pay.

**Gross pay** is the larger of the two. Your gross pay is what you make before taxes and deductions. If you are an hourly employee, your gross pay is simply your hourly rate multiplied by the number of hours you worked. For a salaried employee, your gross pay is your annual salary divided by the number of paychecks you receive in a year (typically 26).

**Net pay** is the amount that's left over after all the deductions previously discussed. You start with gross pay, then taxes are taken out, and insurance, retirement, and so forth. That's why your net pay is always so much smaller than your gross pay. As a quick estimate, you can assume your net pay will be between 60% and 70% of your gross pay, depending on how much your insurance costs, and how much you contribute towards retirement, etc.



### *Why It's Important to Securely Store Your Pay Stubs*

Certain employers include your Social Security number, name and address on pay stubs, so consider storing them in a safe place like a locked drawer, or filing cabinet. If you ever think your pay stub - and, consequently your Social Security number - was compromised, consider keeping an eye on your credit for any signs of identity theft. If your employer uses an online portal, make sure you keep your login information safe and don't share it with anyone.

### *Paying Taxes*

Both employer and employee hold the responsibility for collecting and remitting withholding taxes to the Internal Revenue Service (IRS). For the most part, the employer withholds these taxes on behalf of their employees, but in cases where an employer does not do this, or where an employee is self-employed, it is the responsibility of the employee to pay these withholding taxes.

At the end of the year, you must prepare and file a tax return. You will be required to report any wages and taxes paid. Regardless of your age, if you earned income, you will need to file a tax return to report those wages to the IRS.



## PAYCHECK ACTIVITY

Consider each of the following scenarios and determine if they are true or false.  
Circle your answer:

- My net income is the money I get to deposit in my bank account. TRUE FALSE
- I don't have to pay taxes because I'm not 18 years old yet. TRUE FALSE
- I signed up for direct deposit, so I won't get a physical check with my pay stub. TRUE FALSE

Fill in the blank using one of the key words listed below:

Benefits                                      Gross pay                                      Insurance                                      Net pay  
 Earnings statement                      Payroll deductions                      Retirement savings                      Social Security tax  
 Federal income tax                      State income tax

1. The actual amount of money you "take home" is \_\_\_\_\_.
2. State government services are paid for by \_\_\_\_\_.
3. A document showing an employee's wages and deductions is an \_\_\_\_\_.
4. \_\_\_\_\_ are part of an employee's compensation.
5. People purchase \_\_\_\_\_ to protect against various risks.
6. \_\_\_\_\_ goes into a federal program that provides financial support for people who are retired.
7. Federal government programs and services are supported through \_\_\_\_\_.

### DEDUCTIONS

There are all sorts of deductions taken out of people's paychecks. Some are for the government, and others are 'elective' deductions - benefits that you choose to pay for if you want them. For the items below, identify if they are government or elective deductions, and calculate the deduction.

Deduction	Government or Elective	Rate	Amount Deducted
EXAMPLE: Federal Income Tax	Government	10%	10.00
Insurance		\$50 per week	
State Income Tax		1%	
Social Security		6.2%	
Dental Insurance		\$5 per week	
Life Insurance		\$3 per week	
401(k)		1%	

What is your gross pay if you make \$10 per hour and worked 10 hours this week? \$ \_\_\_\_\_

What is the dollar amount of your net paycheck? \$ \_\_\_\_\_

WWW.LITCHFIELDBANCORP.COM • 860-567-9401



Member FDIC



NMLS #510070