

Paycheck Stub

Employers pay workers for hours worker every "pay period. Pay periods may be: 1) once per week; 2) once every other week; 3) twice per month; 4) once per month. Employers may pay workers with:

- **PAYCHECKS** - Employers may handwrite paper paychecks — or use a computer to print out paper paychecks to give to workers. Most employers pay young workers with paper paychecks.
- **DIRECT DEPOSIT** - About 82% of workers ask employers to electronically send the paycheck money to their bank for direct deposit into the worker's bank account. With direct deposit, workers do not need to physically visit the employer to pick up a paper paycheck.
- **PAYROLL CARDS (plastic ATM cards)** - Employers place money earned for the pay period on each worker's payroll card. Then, workers can use the payroll card to purchase items in stores or withdraw cash from an ATM. Only employers can place money on a worker's payroll card. **CAUTION:** Do not tell anyone your payroll card's PIN (Personal Identification Number). Call your employer's bank and your employer immediately to report a lost or stolen payroll card.
- **CASH** - Employers who pay in cash are required by law to take out taxes and keep records for cash paid workers. The IRS (Internal Revenue Service) may inspect employers who pay workers in cash to make sure both workers and employers are paying correct amount of taxes owed to the government.

UNDERSTANDING PAYCHECK WORDS

PAYCHECK STUB - Employers must provide every worker with a paycheck stub every time the worker is paid. Paycheck stubs list hours worked for the pay period, earnings, and all deductions (money taken out of a worker's pay). Employers may give workers paper paycheck stubs — or ask workers to use a computer to go to a website, enter user name and password, then print out the paycheck stub.



GROSS (OR TOTAL) PAY - Total wages earned during the pay period. If you worked 30 hours in a weekly pay period and earn \$15 per hour, your gross pay will be \$450 (30 hours times \$15).

INCOME TAX - You must pay income tax (federal and sometimes state) on earnings. Employers are responsible for withholding (taking out) income tax from your earnings and sending it to the federal and state government.

W-4 FORM - Before your first day of work, you will fill out a W-4 form (called Employer's Withholding Allowance) to tell your employer how much income tax money to deduct (take) out of your pay. A single worker has more income tax money taken out than worker who supports 3 children. This is because the government gives "exemptions" for workers with dependents (or children). On the W-4 form, each exemption claimed lowers the amount of income tax taken out of your pay. Exemptions are also available when worker has a disability, blindness, or over 65 years of age.



FICA (FEDERAL INSURANCE CONTRIBUTIONS ACT) - FICA tax on your paycheck stub is divided into two parts: 1) **Social Security** tax which is 6.2% of gross pay; and 2) **Medicare** tax which is 1.45% of gross pay. Employers may combine both Social Security and Medicare and call it FICA tax. FICA tax is 7.65% (6.2% Social Security plus 1.45% Medicare).



Social Security gives benefits to workers who paid social security taxes for at least 10 years: **1) Retirement Benefits:** Monthly retirement income at age 67 (if born 1960 or later). **2) Disability Benefits:** Monthly disability income if worker receives physical or mental condition that is expected to prevent worker from working for more than one year. **3) Family Benefits:** If worker retires or becomes disabled, members of worker's family may be eligible to receive monthly benefits. **4) Survivor's Benefits:** If a worker dies, members of his or her family may be eligible to receive monthly benefits. **5) Medicare Benefits:** Government paid medical insurance for the worker at age 65.

HEALTH INSURANCES - Employers may deduct all or part of the cost of your medical insurance. Or, employers may pay for your medical insurance, but require you to pay for any dental or vision insurance.

UNION DUES - If your place of employment is covered by a union contract, union dues may be taken out of your paycheck — or, sometimes union workers must go to the union office to pay union dues.

VOLUNTARY DEDUCTIONS - Workers may choose to sign-up for voluntary paycheck deductions to support a charity or to place money into their saving account.



NET PAY - Amount of money you are paid after all deductions are subtracted from your gross pay. Therefore, gross pay minus deductions for federal income tax, state income tax, social security tax, medicare tax, health insurance, union dues, and voluntary deductions equals **NET PAY**.

QUICK CHECK:

1. List 4 types of pay periods.
2. List 2 ways employers prepare paper paychecks.
3. What do 82% of workers ask employers to do?
4. a) What do employers place on each worker's payroll card? b) Workers can use payroll card to do what 2 things? c) What are 2 CAUTIONs?
5. a) When must employers provide paycheck stubs? b) What 3 things do paycheck stubs list? c) List 2 ways workers get their paycheck stub.
6. a) Define "gross" pay. b) What is gross pay of worker paid \$24 hourly and worked 40 hours?
7. a) What is the W-4 form called? b) What does the W-4 form tell the employer? c) What does each exemption claimed on the W-4 form do?
8. a) For what words does FICA stand? b) What are the 2 parts of FICA tax?
9. What percent of gross pay is: a) Social Security tax? b) Medicare tax? c) FICA tax?
10. How long must worker pay social security taxes to get benefits?
11. Briefly describe: a) Retirement benefits. b) Disability benefits. c) Family benefits. d) Survivor's benefits. e) Medicare.
12. a) What insurances may employers require you to pay? b) List 2 ways you may pay union dues.
13. a) Define "net" pay. b) List 7 items that may be deducted (taken out) from your gross pay.
14. If your employer forgets that \$50 was taken out of your paycheck each week to put in your savings account, what can you show the employer to prove the money was taken out?

Weekly Paycheck Stub: Jason

Single man, no children
40 hours per week. Pay is \$800 per week.

Wages: \$800.00

Overtime Wages: \$60.00

Total Wages: \$860.00

Traditional 401K Plan: \$75.00

Total Wages Taxable (after 401K): \$785.00

**Weekly Paycheck Stub: Julie**

Single woman, 2 children
35 hours per week. Pay is \$630 per week.

Wages: \$630.00

Overtime Wages: \$0

Total Wages: \$630.00

Traditional 401K Plan: \$0

Total Wages Taxable (after 401K): \$630.00

**Deductions:**

Federal Income Tax: \$65.00

Social Security (6.2% of taxable wages): \$48.67

Medicare (1.45% of taxable wages): \$11.38

Benefits - Employee (Worker) Paid

Vision Insurance: 8.00

Net Pay after deductions: 651.95

**Deductions:**

Federal Income Tax: \$44.23

Social Security (6.2% of taxable wages): \$39.06

Medicare (1.45% of taxable wages): \$9.14

Benefits - Employee (Worker) Paid

Vision Insurance: \$0

Net Pay after deductions: _____

Benefits - Employer Paid for Workers:

Health Insurance: \$40.00

Dental Insurance: \$10.00

Retirement Plan (10% of taxable wages): \$78.50

Benefits - Employer Paid for Workers

Health Insurance: \$40.00

Dental Insurance: \$10.00

Retirement Plan (10% of taxable wages): \$63.00

RETIREMENT SAVINGS PLANS

Traditional 401K - Allows workers to save money from every paycheck *BEFORE* taxes are taken out. Taxes are due when money is withdrawn from 401K plan at age 59 ½.

Roth 401K - Allows workers to save money from every paycheck *AFTER* taxes are taken out. Money may be taken out of the Roth 401K retirement plan at any age without taxes due.

**QUICK CHECK:**

1. a) How much is Jason paid **per hour**? b) How much is Julie paid **per hour**? (Pay divided by hours worked each week)
2. Jason is paid \$30 hourly for overtime. a) How many hours of overtime did Jason work? b) How many hours of overtime did Julie work?
3. Traditional 401K retirement savings plan: a) What are workers allowed to do? b) When are taxes due? c) When the worker is how old?
4. Roth 401K retirement savings plan: a) What are workers allowed to do? b) Since taxes have been paid, at what age may money be taken out of the Roth 401K plan?
5. a) Does Jason pay into a Traditional 401K Plan? b) How much per paycheck? c) Does Julie pay into a Traditional 401K Plan?
6. Why are Jason's "Total Wages Taxable" lower than "Total Wages" but Julie's are not?
7. Why do you think Jason, a single man, pays more federal income tax than Julie?
8. What percent of taxable wages do workers pay for: a) Social Security? b) Medicare?
9. List 3 benefits that the employer pays for both workers, Jason and Julie.
10. Which worker selected to pay for vision insurance?
11. a) If you worked at the same place as Jason and Julie, would you select to pay for vision insurance? b) Why or why not? c) Would you select to pay into a 401K retirement plan? d) Why or why not?
12. What is Julie's "Net Pay after deductions?"