

## ***Learn about Paychecks and Deductions***

**The money you earn is not the money you take home. Deductions are the difference between gross pay and net income, depending on your situation.**

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### **Here are some important concepts to understand about your pay**

**Taxes and withholding:** the money that's deducted from your pay before you receive your paycheck.

**Taxes:** money paid to the government by its citizens, meaning YOU. The government uses the money for many things that you benefit from: national defense, police, fire fighters, roads, libraries, schools, politicians' salaries, and the cost of running the government.

**Paystub:** a tear-off part of your check that you keep that describes what's been deducted.

**Gross pay vs. net income:** your "gross" is the total amount you make before deductions. "Net" is what's left after the deductions.

**W4 Form:** a form that you submit to the government when you start a new job. It tells the government and your employer how much tax to deduct from your pay.

**Exemptions:** the number of people that depend on your income. You choose the number of exemptions based on how many people you support and enter that number on your W4. More dependents means less money is deducted -- but don't overstate this just to get more money. You'll have to pay it back when you file your income tax returns.

**Income tax returns:** forms that you must, by law, file each year with the federal and state governments. Most people file a form 1040 with the federal government and other forms for the state they live in. These forms calculate how much tax you owe the government for the year. If too much was deducted from you pay, you get a tax refund. If you didn't pay enough, you have to pay the government more.

**Direct deposit:** many employers can put your pay directly into your bank account. You won't get a check, just a paystub. If you're too tempted to spend money when you get it, consider direct deposit.

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### **Taking care of your money**

Having money is one of life's pleasures. But falling into debt and being without what you really need is the downside of spending your money too easily.

**Below, click all the options that answer, "how I've wasted my money."**

- Spend my paycheck as soon as I get it**
- Give or loan money to friends**
- Borrow money from friends, then use all my paycheck to pay them back**
- Gradually fritter my money away, and before I know it, it's gone**
- I have occasionally lost money from carelessness**

**Describe how you'd like to better manage your pay:**

Sample Paycheck Stub

Earnings	Rate	Hours	This Period	Year to Date
Regular	13.02	80	1,041.60	
	<b>Gross Pay</b>		<b>\$1,041.60</b>	\$12,323.81
Deductions	Statutory			
	Federal Income Tax		-82.19	959.85
	Social Security Tax		-64.59	764.08
	Medicare Tax		-15.11	178.70
	State Income Tax		-34.27	402.34
	City Income Tax		-3.14	34.50
<b>Net Pay</b>			<b>\$842.30</b>	\$9,266.07

**Understand what's on a pay stub**

**Look at the sample paystub below. Then read the section below it on what the categories mean.**

**Federal Income Tax:** This is money taken out for the federal government. It maybe listed as FIT.

**Medicare:** This is money taken out for federal medical insurance, for old age. It may also be listed as OAH I or FICA M.

**Social Security :** This is what the government calls Old Age and Survivors Insurance. It may also be listed as FICA O or OASI. The government takes 6.2% of your gross pay for Social Security.

**Gross:** This is the amount of money you earned. It does not reflect the money that automatically is taken out of your pay for deductions and taxes.

**Insurance** (not shown above): If your company has medical, dental, or vision plans, your contribution and the company's contribution may be listed on your pay stub.

**Net:** The net is sometimes called "take home" pay. It is the amount you have after all the deductions have been taken out of your pay.

**Other deductions:** If your company offers plans that require other deductions to be taken out of your paycheck, such as United Way contributions, those deductions will be listed on your pay stub.

**State and City Tax:** This is money taken out for governments closer to home. Some states don't have an individual income tax.

**YTD:** This abbreviation means "Year to Date." This shows the total amount of pay, taxes, and deductions from the beginning of the year.

**401-K** (not shown above): This is a retirement plan. Money is taken from your paycheck and put into an investment account. Some companies offer a 401-K plan, others do not. Some companies will put their own money into your account to match the money you put in. If your company does not use a 401-K plan, ask about other forms of retirement benefits. Also, check with your bank to see what types of savings plans they have available.

