



UNDERSTANDING YOUR PAYCHECK

METHODS FOR PAYING EMPLOYEES

Receiving a paycheck, especially if it is an individual's first, can be the highlight of a person's day. However, many are often shocked when they learn almost 31% of their paycheck is missing. By learning about paychecks, paycheck deductions, and required employment forms, a person will be able to understand the amount received on their paycheck and ensure they have been paid the correct amount from the employer.

There are three ways an employer may handle paying his/her employees:



Paycheck

This is the most common method. The employer physically provides the employee with his/her paycheck. The paycheck stub is attached to the paycheck to show the deductions. The employee is responsible for handling the paycheck.

Direct Deposit

Employers directly deposit the employee's paycheck into his/her authorized account. On payday, the employee receives a paycheck stub detailing the paycheck deductions. This method is more secure because there is no direct handling of the check and the employee knows exactly which day his/her paycheck will be deposited and available for use.

Payroll Card

The third and newest method is by using a **payroll card**. A payroll card is a prepaid card that is offered to employees as an alternative to paper paychecks or directly depositing wages into an employee's depository institution account. Most payroll cards are **smart cards**, which have money electronically loaded onto them each pay period with funds automatically deducted from the balance when a purchase is made. Payroll cards function similarly to a debit card, except the funds are not linked to a checking account. The funds are directly deposited by an employer into an account at a depository institution that is linked to the payroll card. Once the employee's wages are credited to an account, the employee can use the card for ATM withdrawals or to make purchases.

Regardless of which method employees choose to receive their payment, it is important for the employee to understand paycheck deductions taken out of a paycheck and what they are used for.

PAYROLL CARD FEES

There may be numerous fees associated with payroll cards. The number and amount of fees depends upon the depository institution. For example, some payroll cards offer just one ATM withdrawal per pay period free of charge, while others offer three to five withdrawals free of charge. Employers can negotiate with depository institutions to reduce the number of fees and some employers will pay all or part of the payroll card fees. Therefore, it is important for employees to obtain a list of all fees before signing up to use a payroll card.

The following are examples of fees charged by payroll card companies:

- monthly or annual fee;
- ATM fee;
- inactivity fee;
- fee after a specific number of transactions have been used;
- replacement fee if the card is lost, stolen, or destroyed;
- load fee (when funds are placed on the card account);
- point of sale (POS) fee for using the card at a point of sale terminal, or an electronic payment processor.

UNDERSTANDING YOUR PAYCHECK—PAYROLL CARDS CONTINUED

CONSUMER PROTECTION WITH PAYROLL CARDS

Payroll card users are protected through **Regulation E**, or the **Electronic Fund Transfer Act**. If a payroll card is stolen or fraudulent transactions are completed, the payroll card holder is liable for only \$50 if the lost or stolen card is reported to the sponsoring depository institution within 48 hours. The FBI estimates that over four million paper paychecks are stolen annually (Visa USA, Inc.). Considering there is no legal protection for consumers whose paychecks have been stolen, Regulation E provides safety and protection for payroll card holders.

Safety tips to follow when using a payroll card include memorizing the **Personal Identification Number (PIN)** and not giving it out to anyone. Also, if a payroll card is lost or stolen, it should be reported to the sponsoring depository institution immediately.

PAYROLL CARD BENEFITS

There are many benefits for both employers and employees to use payroll cards.

FOR EMPLOYERS

- lower internal costs: the costs associated with producing, handling, and distributing paychecks is eliminated.

FOR EMPLOYEES

- Increased safety: payroll cards reduce the need to carry large amounts of cash.
- 24 hour access to funds and the ability to make online purchases easily.
- No check cashing fees each pay period which costs unbanked Americans roughly \$8 billion annually (Visa USA, Inc.).
- Access to an electronic monthly statement of transactions—a great money management tool
- Option of a second card: allowances for children, send money internationally to family without additional hassle



Depository institutions benefit from the payroll card arrangement because many unbanked consumers who begin to use a payroll card become traditional depository institution account users. In addition, depository institutions profit from the fees charged to employees, employers, and merchants.

Payroll cards have no check cashing fees, which costs unbanked Americans roughly \$8 billion annually (Visa USA, Inc.).

FORM W-4

Regardless of the job, every new employee will be asked to complete a **Form W-4** also known as an Employee's Withholding Allowance Certificate. The information provided on this form determines the percentage of gross income to be withheld for taxes. Federal taxes are the largest deduction on an individual's income.

On the Form W-4, the federal government allows taxpayers to claim certain allowances. An **allowance** is used to determine the amount of federal taxes withheld from the paycheck. An employee may claim a personal allowance if no one else claims them as a dependent. A **dependent** is a person who relies on the taxpayer for financial support.

The **Internal Revenue Service** is the governmental agency responsible for collecting federal taxes, issuing regulations, and enforcing tax laws written by the United States Congress. The amount of taxes withheld from an individual's paycheck depends upon his/her income and information provided on the Form W-4.

FORM I-9

The **Form I-9** is the Employment Eligibility Verification Form used to verify the eligibility of individuals and to avoid hiring undocumented workers. All employees, citizens, and non-citizens must complete a Form I-9 at the time of hire. Employees must provide documentation which establishes identity and employment eligibility. Examples include a driver's license, passport, Social Security card, and birth certificate.

TAXES

Monetary deductions are subtracted for mandatory systematic taxes, employee sponsored medical benefits, and/or retirement benefits. **Taxes** are compulsory charges imposed on citizens by local, state, and federal governments used to fund public goods and services. The United States tax system operates on an ongoing payment system. This means as a person earns income, taxes are paid immediately on the income. There are two types of taxes: **progressive** and **regressive**.

READING A PAYCHECK STUB

<i>On-The-Go</i>					
Employee	Employee Identification	Check #	C	Check Amount	\$1,102.98
Employee Address 293 Michael Grove Billings, MT 59102					
B	Pay Type- Gross Pay	Deductions	Current	Year-to-date	
	\$1,353.33	Federal Withholding	E	\$106.00	\$636.00
		State Withholding	F	\$40.82	\$244.92
		Fed OASDI/EE or Social Security	G	\$83.91	\$503.46
		Red MED/EE or Medicare		\$19.62	\$117.72
		Medical 401 K	H I	\$0.00 \$0.00	\$0.00 \$0.00
	Totals		\$250.35	\$1,502.10	
A <i>Pay Period 6/11/2009-7/11/2009</i>					

A typical paycheck has two parts: the actual check and a paycheck stub. A **paycheck stub** lists the paycheck deductions as well as other important information including:

Personal Information—States the employee's full name, address, and Social Security or Employee Identification number.

- A. **Pay Period**—The length of time for which an employee's wages are calculated usually weekly, bi-weekly, twice a month, or monthly.
- B. **Gross Pay**—The total amount of money earned during the pay period before deductions. If a person earns an hourly wage, gross pay is calculated by multiplying the number of hours worked by the wage. For example, if a person works 45 hours in a pay period earning \$6.25 per hour, his/her gross pay would be \$281.25. If a person is on **salary**, earning a set amount for a specified time period, the gross pay is the salary amount divided by the specified time period. For example, if a person earns \$24,000.00 per year, his/her gross pay would be \$2,000.00 per month.
- C. **Net Pay**—The amount of money left after all deductions have been withheld from the gross pay earned in the pay period.
- D. **Deductions**—The amount of money subtracted or deducted from the gross pay for mandatory systematic taxes, employee sponsored medical benefits, and/or retirement benefits.
- E. **Federal Withholding Tax**—The amount required by law for employers to withhold from earned wages to pay taxes. This represents the largest deduction withheld from an employee's gross income. The amount withheld depends upon two things: the amount of money earned and the information provided on the Form W-4.
- F. **State Withholding Tax**—The percentage deducted from an individual's paycheck to assist in funding government agencies within the state. The percentage of deduction depends upon the amount of gross income the employee has earned.
- G. **FICA** (Federal Insurance Contribution Act)—This tax includes two separate taxes: **Fed OASDI/EE** or **Social Security** and **Fed MED/EE** or **Medicare**. These two taxes can be combined as one line item or itemized separately on a paycheck stub.
 - **Fed OASDI/EE** or **Social Security**—The nation's retirement program. This tax helps provide retirement income for elderly and pays disability benefits. Social Security taxes are based upon a percentage (6.2%) of the employee's gross income. The employer matches the contribution made by the employee.
 - **MED/EE** or **Medicare**—The nation's health care program for the elderly and disabled. This tax provides hospital and medical insurance to those who qualify. Medicare taxes are based upon a percentage (1.45%) of the employee's gross income.
- H. **Medical**—The amount taken from the employee's paycheck for medical benefits. This occurs when the employer has a medical plan for employees, but does not pay full coverage for his/her benefits.
- I. **Retirement Plan**—The amount an employee contributes each pay period to a retirement plan. A specified percentage of the contribution is often matched by the employer. This may be a 401K, state, or local retirement plan.
- J. **Year-to-Date**—Totals all of the deductions which have been withheld from an individual's paycheck from January 1 to the last day of the pay period indicated on the paycheck stub.



UNDERSTANDING YOUR PAYCHECK GRADE LEVEL 10-12



“TAKE CHARGE OF YOUR FINANCES”

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Time to complete: 135 minutes

NATIONAL CONTENT STANDARDS

Family and Consumer Science Standards: 1.1.6, 1.2.2, 2.5.2, 2.6.1, 2.6.4, 3.3.1

National Council on Economic Education Teaching Standards: 3, 5, 11

National Standards for Business Education:

- Career Development:
- Economics: III 3-4, VII.1, VII.3, VII.4
- Personal Finance: II.2, III.2

OBJECTIVES

Upon completion of this lesson, participants will be able to:

- Define terms associated with a paycheck.
- Compare the advantages and disadvantages of three methods for paying employees.
- Point out the systematic deductions removed from each paycheck.
- Complete sample standard tax forms required on the job to benefit each individual's situation.

INTRODUCTION

Receiving a paycheck can be the highlight of a person's day. If the paycheck is smaller than expected, it can also be a concern. By learning about paychecks, paycheck deductions, and required employment forms, a person will be able to understand the amount received on their paycheck and ensure they have been paid the correct amount from the employer.

Methods for Paying Employees:

Today, there are three ways an employer may handle paying his/her employees.

- The first method is a **paycheck with the paycheck stub** attached, so the employee can immediately see the deductions taken out of the paycheck. This is the most common payment method, but the least secure for the employee. The employee is responsible for taking the check to the depository institution and depositing it into his/her personal account.
- The second method is the use of **direct deposit**. Using this method, an employer deposits the employee's paycheck directly into the authorized employee's depository institution account. On payday, the employee receives a written statement detailing the paycheck deductions. This method is more secure because there is no direct handling of the check and the employee knows exactly which day his/her paycheck will be deposited and available for use.
- The third method is by using a **payroll card**. A payroll card is a prepaid card that is offered to employees as an alternative to paper paychecks or directly depositing wages into an employee's depository institution

account. Most payroll cards are **smart cards**, which have money electronically loaded onto them each pay period with funds automatically deducted from the balance when a purchase is made. Payroll cards function similarly to a debit card, except the funds are not linked to a checking account. The funds are directly deposited by an employer into an account at a depository institution that is linked to the payroll card. Therefore, there are always three parties involved with a payroll card, including the employer, the employee, and a depository institution. Once the employee's wages are credited to an account, the employee can use the card for ATM withdrawals or to make purchases.

There may be numerous fees associated with payroll cards. The number and amount of fees depends upon the depository institution. For example, some payroll cards offer just one ATM withdrawal per pay period free of charge, while others offer three to five withdrawals free of charge. Employers can negotiate with depository institutions to reduce the number of fees and some employers will pay all or part of the payroll card fees. Therefore, it is important for employees to obtain a list of all fees before signing up to use a payroll card. The following are some examples of fees charged by payroll card companies:

- monthly or annual fee;
- ATM fee;
- inactivity fee;
- fee after a specific number of transactions have been used;
- replacement fee if the card is lost, stolen, or destroyed;
- load fee (when funds are placed on the card account);
- point of sale (POS) fee for using the card at a point of sale terminal, or an electronic payment processor.

There are many benefits for both employers and employees to use payroll cards. For employers, the primary benefit is lower internal costs, because the costs associated with producing, handling, and distributing paychecks is eliminated. Employees benefit from increased safety as payroll cards reduce the need to carry large amounts of cash. Payroll card users also benefit from 24 hour access to their funds and have the ability to make online purchases easily. Unbanked employees benefit from payroll cards because they do not have to pay check cashing fees each pay period, which costs unbanked Americans roughly \$8 billion annually (Visa USA, Inc.). Payroll card users can access an electronic monthly statement of transactions, allowing employees to easily use it as a money management tool. Payroll card recipients can receive a second card that can be used to give allowances to children or send money internationally to family members without having to open a separate checking account or undergo credit approval. Depository institutions benefit from the payroll card arrangement because many unbanked consumers who begin to use a payroll card become traditional depository institution account users. In addition, depository institutions profit from the fees charged to employees, employers, and merchants.

Payroll card users are protected through **Regulation E**, or the **Electronic Fund Transfer Act**. If a payroll card is stolen or fraudulent transactions are completed, the payroll card holder is liable for only \$50 if the lost or stolen card is reported to the sponsoring depository institution within 48 hours. The FBI estimates that over four million paper paychecks are stolen annually (Visa USA, Inc.). Considering there is no legal protection for consumers whose paychecks have been stolen, Regulation E provides safety and protection for payroll card holders.

Safety tips to follow when using a payroll card include memorizing the **Personal Identification Number (PIN)** and not giving it out to anyone. Also, if a payroll card is lost or stolen, it should be reported to the sponsoring financial institution immediately.

Regardless of which method employees choose to receive their payment, it is important for the employee to understand paycheck deductions taken out of a paycheck and what they are used for.

The first step to understanding a paycheck is to understand the vocabulary associated with paychecks and the paycheck process. Employers pay their employees on a regular schedule known as a **pay period**. Most businesses pay employees either weekly, bi-weekly, twice a month (usually the 1st and the 15th), or monthly. In most businesses, the last day of the pay period is not the payday. Payday is delayed a week or a full pay period to allow the business to accurately compute the employee's wages and pay them for all the time they worked in a pay period.

Taxes are compulsory charges imposed on citizens by local, state, and federal governments. The money is used to provide public goods and services. State withholding tax is the percentage deducted from an individual's paycheck to assist funding government agencies within the state. The largest amount of taxes a person pays is on his/her income. Federal taxes are the largest tax, required by law for employers to withhold from earned wages, and are collected by a government agency called the **Internal Revenue Service (IRS)**. The IRS collects federal income taxes, issues regulations, and enforces tax laws written by the United States Congress.

Form W-4:

The **Form W-4** is also called an Employee's Withholding Allowance Certificate. The information provided on this form determines the percentage of gross pay to be withheld for taxes. Regardless of the job, every new employee will be asked to complete a Form W-4 when they begin a new job.

The federal government allows taxpayers to claim certain allowances. An **allowance** is used to determine the amount of federal taxes withheld from the paycheck. The number of allowances a person claims should result in the amount of federal income tax being withheld to be about equal to his/her federal income tax liability. An employee may claim a personal allowance only if no one else claims the person as a dependent. A **dependent** is a person who relies on the taxpayer for financial support, like a child or nonworking adult. Once the Form W-4 is completed, the employer will compare the employee's form to the withholding tables prepared by the government. Based on the employee's income, the employer will determine how much money to withhold from each paycheck for income tax. Ideally, the amount of taxes withheld during the year should come close to the employee's total tax bill for the year. If the amount withheld does not cover the taxes, an employee can amend the Form W-4 for the next year's employment. The Form W-4 may be downloaded from the Internal Revenue Service's Web site at www.irs.gov/formspubs.

To complete a Form W-4:

- Print or type legal name on Line 1 and home address directly below the name.
- Write Social Security number on Line 2.
- On Line 3, check the appropriate box to indicate marital status.
- Enter a zero on Line 5 if not claiming any allowances. *Reminder: An employee cannot claim an allowance for him/herself if a parent or guardian is claiming him/her as a dependent.*
- Sign name and date the form before giving it to the employer.

An employee should be sure to receive a copy of all tax forms completed for his/her personal records.

Form I-9:

The **Form I-9** is the Employment Eligibility Verification form. The information gathered in this form is for employers to verify the eligibility of individuals for employment thereby avoiding hiring undocumented workers or others who are not eligible to work in the United States. All employees, citizens, and non-citizens must complete a Form I-9 at the time of hire. To complete this form properly, a prospective employee must provide documentation which establishes identity and employment eligibility. Examples of documentation include a passport, driver's license, U.S. Military card, social security card, etc. The Form I-9 may be downloaded from the U.S. Citizenship and Immigration Services Web site at <http://uscis.gov>.

Reading a Paycheck Stub:

A typical paycheck has two parts: the actual check and a paycheck stub. A **paycheck stub** lists the paycheck deductions as well as other important information including:

- **Personal Information** – The employee’s full name, address, and social security number or employee identification number.
- **Pay Period** – The length of time for which an employee’s wages are calculated. Most are weekly, bi-weekly, twice a month, or monthly.
- **Gross Pay** – The total amount of money earned during the pay period before deductions. If a person earns an hourly wage, gross pay is calculated by multiplying the number of hours worked by the wage. For example, if a person works 45 hours in a pay period earning \$6.25 per hour, his/her gross pay would be \$281.25. If a person is on **salary**, earning a set amount for a specified time period, the gross pay is the salary amount divided by the specified time period. For example, if a person earns \$24,000.00 per year and gets paid once a month, his/her gross pay would be \$2,000.00 per month.
- **Net Pay** – The amount of money left after all deductions have been taken from the gross pay earned in a pay period.
- **Deductions** – The amount of money subtracted or deducted from the gross pay for mandatory systematic taxes, employee sponsored medical benefits, and/or retirement benefits.
- **Federal Withholding Tax** – The amount required by law for employers to withhold from earned wages to pay taxes. This represents the largest deduction taken from an employee’s gross income. The amount withheld depends on two things: the amount of money earned and the information provided on the Form W-4.
- **State Withholding Tax** – The percentage deducted from an individual’s paycheck to assist in funding government agencies within the state. The percentage deducted depends on the amount of gross pay the employee has earned.
- **FICA (Federal Insurance Contribution Act)** – This tax includes two separate taxes: **Fed OASDI/EE or Social Security** and **Fed MED/EE or Medicare**. These two taxes may be combined as one line item or itemized separately on the paycheck stub.
 - **Fed OASDI/EE (Federal Old Age Survivors Disability Insurance/Employee Employment Tax) or Social Security Tax** – The nation’s retirement program. This tax helps provide retirement income for the elderly and pays disability benefits. Social Security taxes are based on a percentage (6.2%) of the employee’s gross income. The employer matches the contribution made by the employee.
 - **Fed MED/EE (Federal Medicare/Employee Employment Tax) or Medicare** – The nation’s health care program for the elderly and the disabled. This tax provides hospital and medical insurance to those who qualify. Medicare taxes are based on a percentage (1.45%) of the employee’s gross income.
- **Retirement Plan** – The amount an employee contributes each pay period to a retirement plan. A specified percentage of the contribution is often matched by the employer. This may be a 401K, state, or local retirement plan.
- **Medical** – The amount taken from the employee’s paycheck for medical benefits. This occurs when the employer has a medical plan for employees, but does not pay full coverage for his/her benefits.
- **Year-to-Date** – Totals all of the deductions which have been withheld from an individual’s paycheck from January 1 to the last day of the pay period indicated on the paycheck stub.

In this lesson, participants learn how to understand the deductions taken out of a paycheck, why deductions are taken, and how to complete the forms required at the time of employment which determines some of the deductions. They also learn the differences between gross and net pay and between state taxes, federal taxes, Social Security, and Medicare. Participants practice calculating different amounts deducted from a paycheck, complete a Form W-4, and participate in the *Where Does All the Earnings Go?* activity 1.13.1.H1.

BODY

* *Note to educator:* The facilitation of this lesson includes clips from the movie “The Pursuit of Happyness.” In addition, a blank I-9 and W-2 form for each participant to complete is suggested. These forms can be downloaded from www.irs.gov/formspubs.

1. Play the start of chapter 20 from the movie “The Pursuit of Happyness” for approximately 4 minutes.
 - a. This scene begins with the main character Chris Gardner, played by Will Smith, stating “This part of my life is called paying taxes.”
 - i. Discuss with participants the following:
 1. Why did the government seize the money from Chris’s account?
 2. Does the government have the right to do this with only the notification of a letter?
 3. What suggestions do you have for Chris to correct the situation?
2. Pass out one *Understating Your Paycheck* note taking guide 1.13.1.L1 to each participant.
3. Instruct participants to complete the note taking guide by filling in information learned during the PowerPoint presentation.
4. Present *Understanding Your Paycheck* PowerPoint presentation 1.13.1.G1.
 - a. Slide 1: Introduction
 - b. Slides 2: Where Does My Money Go?
 - c. Slide 3: Paying Employees
 - i. Discuss with participants the advantages and disadvantages of an employer using a paycheck to pay their employees.
 1. Advantages may include:
 - a. Employee may choose what action to do with the paycheck.
 - i. Deposit into a depository institution
 - ii. Have the paycheck cashed
 - b. Deductions can be seen on each paycheck stub.
 2. Disadvantages may include:
 - a. Employee is completely responsible for paycheck which increases the chances of the paycheck getting lost.
 - b. The cost for employers to print paychecks is greater compared to direct deposit.
 - d. Slide 4: Paying Employees Continued
 - i. Discuss with participants the advantages and disadvantages of an employee using direct deposit.
 1. Advantages may include:
 - a. No direct handling of the check
 - i. This increases security and convenience for the employee.
 - b. Employee can view their paycheck stub to see what deductions have been taken.
 2. Disadvantages may include:
 - a. Employees must use a depository institution for this payment method to be available.
 - e. Slide 5-7: Paying Employees Continued
 - i. Instruct participants to record on their *Understanding Your Paycheck* note taking guide 1.13.1.L1 the payment method that they feel best fits them.
 - ii. Instruct participants to record two reasons why they picked that method of payment.
 - f. Slide 9: Describe taxes.
 - i. Who writes tax laws?
 1. United States Congress

- a. Take participants on a walking tour of their community to identify the public services and facilities that are provided through tax dollars.
 - i. During the tour, instruct participants to write down everything they see that is paid for with taxes.
 - ii. Be sure to take participants past multiple services such as a library, police station and fire department.
 - b. An alternative to facilitate the same activity would be to use the computer program Google Earth.
 - c. Google Earth can be downloaded for free from <http://earth.google.com/>.
 - d. Once the program has been downloaded you may enter information in the “fly to” box located in the upper left hand corner of the Google earth screen. We suggest you enter your own community to brainstorm locations within your community that taxes fund. Other well developed areas on Google Earth include cities such as Washington D.C., and recreational areas such as Yellowstone National Park. In the “fly to” box, the name of a business or park, street address, or city may be indicated.
 - i. Return to the classroom, and ask participants to share their lists aloud making a master list on the board.
 - e. Discuss specific examples that are relevant to participants to reinforce that working citizens pay for public goods and services.
 - i. For example, ask participants who pays to clean up parks or school buildings if they are vandalized?
 - g. Slides 10-11: Discuss the Form W-4 and how they affect Federal Taxes.
 - i. Allow time for participants to answer the question on the note taking guide 1.13.1.L1.
 - ii. Discuss the answer to the question.
 1. Why may an employee claim a personal allowance on their Form W-4 only if no one else claims them as a dependent?
 - a. So they are not claimed twice. Once on their parent’s W-4 as a dependent, and again on theirs as an independent.
 - h. Slide 12: Hand out blank Form W-4s.
 - i. Up-to-date forms can be downloaded from the IRS Web site at www.irs.gov/formspubs.
 - ii. Have participants follow the directions to complete a Form W-4.
 - i. Slides 13: Discuss the Form I-9
 - i. Up-to-date forms can be downloaded from the IRS Web site at www.irs.gov/formspubs.
 - ii. Have participants follow the directions on the form to complete a Form I-9
 - j. Slides 14-28: Review each part of a paycheck stub.
 - i. Allow time for participants to answer questions on the note taking guide 1.13.1.L1.
 - ii. Discuss the answers to the questions.
 1. If Thomas earned \$6.00 per hour, and worked 15 hours this pay period, what would his gross pay be?
 - a. $\$6.00 \text{ per hour} * 15 \text{ hours} = \90.00
 2. Why is it important for Thomas, who is 25 years old, to put money into a retirement plan?
 - a. The time value of money. If Thomas starts saving early, his money will have more time to earn interest.
5. Pass out one *Understanding Your Paycheck* information sheet 1.13.1.F1 to each participant.
 6. Have participants correct their note taking guides using the *Understanding Your Paycheck* information sheet 1.13.1.F1.

CONCLUSION

As a review, participants may play *Where Did All the Earnings Go?* activity 1.13.1.H1.

- This activity is designed to review and discuss all of the concepts covered in the information sheet and PowerPoint presentation 1.13.1.G1.
- To set up and play the activity, review the *Where Did All the Earnings Go? Instructions* 1.13.1.J1.

Or

Have participants complete the *Paychecks Math* worksheet 1.13.1.A6 to reinforce math concepts in the lesson.

ASSESSMENT

Have participants complete the *Paycheck Stub 1* worksheet 1.13.1.A2 and *Reviewing Paychecks* worksheet 1.13.1.A4.

- The *Paycheck Stub 2* worksheet 1.13.1.A3 is available to provide participants with additional practice.

Or

Have participants complete the *Paychecks* crossword puzzle 1.13.4.A5

MATERIALS

Paychecks worksheet – 1.13.1.A1
Paycheck Stub 1 worksheet – 1.13.1.A2
Paycheck Stub 2 worksheet – 1.13.1.A3
Reviewing Paychecks worksheet – 1.13.1.A4
Paychecks worksheet – 1.13.1.A5
Paychecks math worksheet – 1.13.1.A6
Understanding Your Paycheck information sheet – 1.13.1.F1
Understanding Your Paycheck PowerPoint presentation – 1.13.1.G1
Where Did All the Earnings Go? activity cards – 1.13.1.H1
Where Did All the Earnings Go? Instructions – 1.13.1.J1
Where Did All the Earnings Go? Answers – 1.13.1.K1
Understanding Your Paycheck note taking guide – 1.13.1.L1
Form W-4
Form I-9
The Movie “Pursuit of Happyness”
DVD or VCR
Twister® mat and spinner (optional)
Velcro (optional)

RESOURCES

Internal Revenue Service (IRS)

www.irs.gov/formspubs

- Government tax forms may be downloaded here including the Form W-4 and Form W-2.

Social Security Forms

www.ssa.gov/online/ss-5.html

- The application for a Social Security card (Form SS-5) may be downloaded here.

- If an employee's last name is different from the name appearing on his/her Social Security card, he/she must call the social security administration and apply for a new card at 1-800-772-1213. If the employee does not have a social security card, it will be necessary to apply for one. If there is a Social Security office in the area, he/she may go to the office and ask for the forms or the forms may be downloaded from the internet. The process is free, but instructions must be followed carefully.

U.S. Citizenship and Immigration Services

<http://uscis.gov>

- Immigration forms may be downloaded here including the Form I-9.

W-4 Simulation

http://www.irs.gov/app/understandingTaxes/hows/mod01/sim_mod01_01.jsp

- This is a simulation teaching participants how to complete a W-4 Form sponsored by the IRS.

"Payroll cards: An innovative product for reaching the unbanked and underbanked"

<http://www.occ.treas.gov/cdd/payrollcards.pdf>

- This article examines the growth of payroll cards, how they work and the risks involved with using payroll cards.

"Pricey plastic; NYPIRG report and survey of plastic card fees."

<http://www.nypirg.org/Consumer/cards/payroll.html>

- The NYPIRG Consumer Protection Project article includes a list of companies offering payroll cards to their employees and a list of potential fees that card holders may incur.

"Questions for employees to ask about payroll cards"

http://www.consumersunion.org/pub/core_financial_services/000920.html

- This article provides a list of questions employees may consider asking about payroll cards.

Federal Reserve Board: Press Release

<http://www.federalreserve.gov/boarddocs/press/bcreg/2005/20051230/default.htm>

- This press release from the Federal Reserve Board describes Regulation E, or the Electronic Transfer Act, and the protection it provides to payroll card holders.

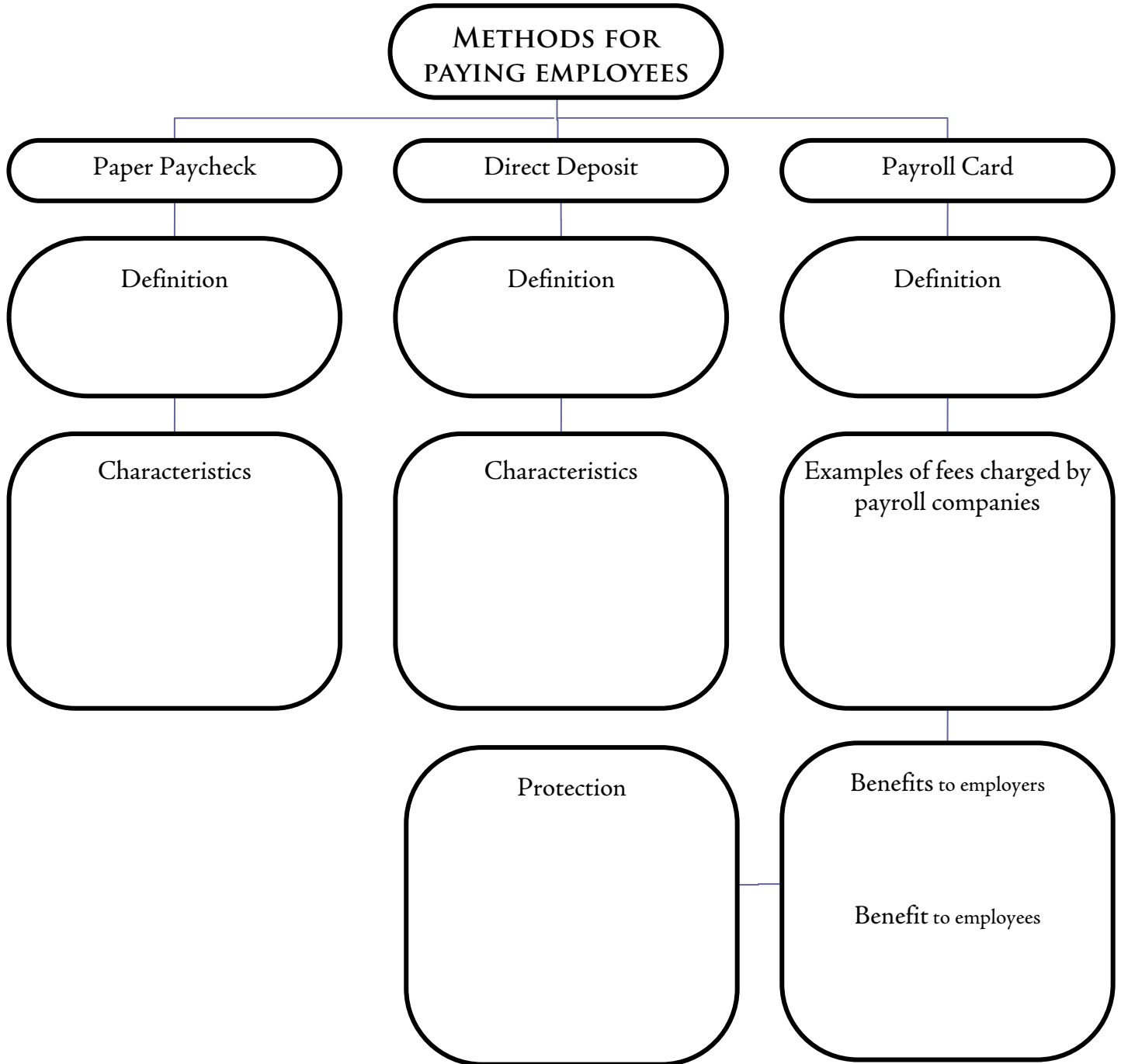
UNDERSTANDING YOUR PAYCHECK

	Total Points Earned
35	Total Points Possible
	Percentage

Name _____

Date _____

Class _____



TAXES

Taxes:

What public services and goods in your community are funded with tax dollars?

Internal Revenue Service:

Who writes tax laws?

EMPLOYMENT FORMS

Form W-4:

- **Allowance:**
- **Dependent:**

Why may an employee claim a personal allowance on their Form W-4 only if no one else claims them as a dependent?

Form I-9:

- **Examples of documentation:**

PAYMENT FORMS

Payment option choice is:

For these two reasons:

READING A PAYCHECK STUB

Paycheck stub: _____

Personal Information: _____

Gross Pay: _____

Net Pay: _____

Deductions: _____

If Thomas earned \$6.00 per hour, and worked 15 hours this pay period, what would his gross pay be?

REQUIRED AND OPTIONAL DEDUCTIONS

Federal Withholding Tax: _____

State Withholding Tax: _____

FICA: _____

Fed OASDI/EE or Social Security: _____

Fed MED/EE or Medicare: _____

Retirement Plan: _____

Medical: _____

Year-to-Date: _____

Why is it important for Thomas, who is 25 years old, to put money into a retirement plan?

PAYCHECKS

	Total Points Earned
24	Total Points Possible
	Percentage

Name _____

Date _____

Class _____

Directions: Complete the following questions.

1. Approximately what percentage of a person's paycheck is deducted? (1 point)
2. What are the three methods an employer may use to pay his/her employees? (3 points)
3. How does direct deposit work? (1 point)
4. How does a payroll card work? (1 point)
5. What two forms must an employee complete when beginning a new job? (2 points)
6. What do taxes provide citizens? (1 point)
7. How are federal taxes determined? (1 point)
8. What services are provided by the Internal Revenue Service? (1 point)
9. What does the Form W-4 determine? (1 point)

PAYCHECK STUB 1

	Total Points Earned
14	Total Points Possible (1 point per correct response)
	Percentage

Name _____

Date _____

Class _____

Directions: Read the following scenario. Complete the blanks on the paycheck stub by entering the personal information and paycheck deductions in the appropriate places. Calculate the gross pay, total deductions, and net pay.

<i>Guardian National Bank</i>				
Employee	Employee Number	Check # 164	Check Amount	
Employee Address				
	Pay Type- Gross Pay	Deductions	Current	Year-to-date
		Federal Withholding		\$366.15
		State Withholding		\$126.81
		Fed OASDI/EE or Social Security		\$201.51
		Fed MED/EE or Medicare		\$47.13
		Medical		\$126.00
		401K		\$228.93
		Totals		\$ 1,096.53
<i>Pay Period</i>				

Employee information: Julie Jones
 408 South 11th Street
 Ash Grove, MO 65604
 Social Security number: 999-88-7766

Julie Jones has just secured a job as a teller at the Guardian National Bank. Julie is paid twice a month on the 1st and the 15th. The pay period is February 1 – 14. Payday will be on March 1. Julie is on salary and earns \$26,000 per year. She has medical benefits and a retirement package.

Julie's paycheck deductions include: 6.2% Social Security, 1.45% Medicare, \$122.05 Federal Withholding Tax, \$42.27 State Withholding Tax, \$42.00 Medical, and \$76.31 401K.

What amount will Ms. Jones receive on her paycheck? _____

PAYCHECK STUB 2

	Total Points Earned
14	Total Points Possible (1 point per correct response)
	Percentage

Name _____

Date _____

Class _____

Directions: Read the following scenario. Complete the blanks on the paycheck stub by entering the personal information and paycheck deductions in the appropriate places. Calculate the gross pay, total deductions, and net pay.

<i>Hank's Culinary Center</i>				
Employee	Employee Number	Check # 164	Check Amount	
Employee Address				
Number of Hours Worked and Hourly Rate	Pay Type- Gross Pay	Deductions	Current	Year-to-date
		Federal Withholding		\$1,278.75
		State Withholding		\$433.84
		Fed OASDI/EE or Social Security		\$1,415.81
		Fed MED/EE or Medicare		\$331.10
	Medical		\$0.00	
	401K		\$799.26	
		Totals		\$ 4,258.80
<i>Pay Period</i>				

Employee information: Sally Kreeps
 106 Michael Grove
 Great Falls, MT 59405
 Social Security number: 987-65-1234

Sally Kreeps has just received a job as a secretary at Hank's Culinary Center. Sally is paid once a month on the 1st. The pay period is November 1 - 30. Payday will be on December 1. Sally earns \$12.00 an hour. This pay period she worked 173 hours. She has a retirement package.

Sally's paycheck deductions include: 6.2% Social Security, 1.45% Medicare, \$116.25 Federal Withholding Tax, \$39.44 State Withholding Tax, and \$72.66 401K.

What amount will Ms. Kreeps receive on her paycheck? _____

REVIEWING PAYCHECKS

	Total Points Earned
28	Total Points Possible
	Percentage

Name _____

Date _____

Class _____

Directions: Match the payment method on the right with the characteristics on the left. Each payment method will be used twice. Each question is worth 1 point.

- | | |
|--|--|
| <p>_____ 1. The employee knows exactly which day his/her paycheck will be deposited into their depository institution account.</p> <p>_____ 2. This payment method is the most common.</p> <p>_____ 3. There may be numerous fees associate with this payment method.</p> <p>_____ 4. This payment method is the least secure for employees.</p> <p>_____ 5. An employee's paycheck is deposited directly into the authorized depository institution account.</p> <p>_____ 6. A prepaid card which holds the employee's pay.</p> | <p>A. Paycheck with the paycheck stub attached</p> <p>B. Direct Deposit</p> <p>C. Payroll Card</p> |
|--|--|

Directions: Fill in each blank with a term or phrase that completes the sentence. Each blank is worth 1 point.

7. There are always three parties involved with a payroll card including _____, _____ and _____.
8. Payroll card holders benefit from increased safety because the need _____ is reduced.
9. Unbanked payroll card holders benefit by not having to pay _____ fees each pay period.
10. _____ is a federal act that protects payroll card holders.
11. _____ are compulsory charges imposed on citizens by local, state and federal governments.
12. Federal taxes are collected by the _____, a government agency.

Directions: Answer each question with a short paragraph.

13. A Form W-4 allows taxpayers to claim certain allowances. What does this mean? (2 points)

14. What is the purpose of a Form I-9? (1 point)

Directions: Match the following term on the right with its definition on the left. Each question is worth 1 point.

- | | |
|--|----------------------------|
| _____ 15. This tax includes two separate taxes: Fed OASDI/EE or Social Security and Fed MED/EE or Medicare. | A. Personal Information |
| _____ 16. Totals all of the deductions which have been withheld from an individual's paycheck from January 1 to the last day of the pay period indicated on the paycheck stub. | B. Pay Period |
| _____ 17. The amount of money left after all deductions have been taken from the gross pay earned in a pay period. | C. Gross Pay |
| _____ 18. The amount an employee contributes each pay period to a retirement plan. | D. Net Pay |
| _____ 19. The amount required by law for employers to withhold from earned wages to pay taxes. | E. Deductions |
| _____ 20. The employee's full name, address, and Social Security number. | F. Federal Withholding Tax |
| _____ 21. The total amount of money earned during the pay period before deductions. | G. State Withholding Tax |
| _____ 22. The amount taken from the employee's paycheck for medical benefits. | H. FICA |
| _____ 23. The amount of money subtracted or deducted from the gross pay earned in a pay period. | I. Retirement Plan |
| _____ 24. The length of time for which an employee's wages are calculated. | J. Medical |
| _____ 25. The percentage deducted from an individual's paycheck to assist in funding government agencies within the state. | K. Year-to-Date |

PAYCHECKS MATH

Name _____

Date _____

Class _____

	Total Points Earned
44	Total Points Possible
	Percentage

Directions: Answer the following questions to help provide the information for the paycheck.

Hint: A way to double check your work is to add your deductions and your net income. If they do not equal your gross income, then you need to recalculate.

Joe works the same amount of hours each month.

Joe worked 80 hours in the last pay period and he earns \$12 per hour.

Joe's gross pay = 80 hours x \$12.00 1. \$ _____

Calculate Joe's Social Security deduction, which is 6.2% of his gross pay.

Gross pay 2. \$ _____ (answer to #1) x .062 = 3. \$ _____ Social Security deduction

Calculate Joe's Medicare deduction, which is 1.45% of his gross pay.

Gross pay 4. \$ _____ (answer to #1) x .0145 = 5. \$ _____ Medicare deduction

Add all of Joe's deductions together to figure out the total amount taken out of each paycheck.

Joe's deductions include the following:

- a) \$ 84.00 Federal withholding
- b) \$ 38.00 State withholding
- c) 6. \$ _____ Social Security (answer to #3)
- d) 7. \$ _____ Medicare deduction (answer to #5)
- e) \$ 25.00 Medical
- f) \$ 40.00 401K

8. \$ _____ Total Deductions (a+b+c+d+e+f)

Subtract the total deductions from Joe's gross pay to determine his net pay.

Gross pay 9. \$ _____ (answer to #1) – deductions 10. \$ _____ (total from #8) =

11. \$ _____ net pay

Directions: Complete the paycheck stub based upon the information that was found in the previous calculations.

<i>Joe's Paycheck</i>				
Employee Joe	Employee Number 123-45-6789	Check # 164	Check Amount: (net pay) 12. _____	
Employee Address 123 E. 1 st St. This city, state 12345				
Number of Hours Worked and Hourly Rate	Pay Type- Gross Pay	Deductions	Current	Year-to- date
13. _____ Number of hours worked	15. _____ Gross Pay	Federal Withholding	16. _____	\$ 168.00
		State Withholding	17. _____	\$ 76.00
		Fed OASDI/EE or Social Security	18. _____	\$ 119.04
		Fed MED/EE or Medicare	19. _____	\$ 27.84
14. _____ Houly rate		Medical 401K	20. _____	\$ 50.00
		21. _____	\$ 80.00	
		Totals	22. _____	\$ 520.88
<i>Pay Period February 2009</i>				

Directions: Answer the following questions to provide the information for the paycheck stub.

Susan works the same amount of hours each month.

Susan worked 85 hours in the last pay period and she earns \$18 per hour.

Susan's gross pay = 85 hours x \$18.00 23. \$ _____

Calculate Susan's Social Security deduction, which is 6.2% of her gross pay.

Gross pay 24. \$ _____ (answer to #23) x .062 = 25. \$ _____ Social Security deduction

Calculate Susan's Medicare deduction, which is 1.45% of her gross pay.

Gross pay 26. \$ _____ (answer to #23) x .0145 = 27. \$ _____ Medicare deduction

Add all of Susan's deductions together to figure out the total amount taken out of each paycheck.
Susan's deductions include the following:

- a) \$ 140.00 Federal withholding
- b) \$ 55.00 State withholding
- c) 28. \$_____ Social Security
- d) 29. \$_____ Medicare deduction
- e. \$ 40.00 Medical
- f. \$ 75.00 401K

30. \$_____ Total Deductions (a+b+c+d+e+f)

Subtract the total deductions from Susan's gross pay to determine her net pay.

Gross pay 31. \$_____ (answer to #23) – deductions 32. \$_____ (total from #30) =
33. \$_____ net pay

Directions: complete the paycheck based upon the information that was found in the above calculations.

<i>Susan's Paycheck</i>				
Employee Susan	Employee Number 987-65-4321	Check # 146	Check Amount: (net pay) 34. _____	
Employee Address 321 E. 2 nd St. This city, state 54321				
Number of Hours Worked and Hourly Rate	Pay Type- Gross Pay	Deductions	Current	Year-to- date
35. _____ Number of hours worked	37. _____ Gross Pay	Federal Withholding	38. _____	\$ 280.00
		State Withholding	39. _____	\$ 110.00
36. _____ Houly rate		Fed OASDI/EE or Social Security	40. _____	\$ 189.72
		Fed MED/EE or Medicare	41. _____	\$ 44.38
		Medical	42. _____	\$ 80.00
		401K	43. _____	\$ 150.00
		Totals	44. _____	\$ 854.10
<i>Pay Period February 2009</i>				

WHERE DID ALL THE EARNINGS GO? INSTRUCTIONS

**Note to educator:* Rather than purchasing Twister® paint a clear shower curtain with circles or print 5 of each of the colored circles provided with the activity pieces

1. To create a mat, cut 5 circles out of 4 different colored shower curtains or table cloths for a total of 20 pieces.
2. Mat should be arranged with about eight inches between each circle. The circles should be arranged with four columns of five pieces.
 - a. Be sure the circles are taped to a solid surface so they do not move during the activity.

Setting Up the Activity:

This activity is designed for two to four teams of three and a referee.

1. Either spread a *Twister*® mat face-up on a flat surface or create one using the activity piece circles provided.
2. Either use the spinner provided with the *Twister*® mat or draw activity pieces from a hat.
3. Place the foot and hand activity pieces on the colored circles on the mat (*see diagram below*).
 - a. These need to be lightly taped or Velcroed down so they stay in place while the activity is being played.
 - b. On the bottom of each activity piece is a question or other instructions.
 - c. To increase or decrease the time of the activity, circles may have just one activity piece (either a hand or a foot). For a longer activity, have both a hand and a foot on each circle.
 - d. If only placing one activity piece per circle, they should be alternated between hand and foot.
4. Designate one person as the referee. The referee will be responsible for spinning the spinner, calling out the moves, monitoring activity play, asking the questions, and determining if a team receives a point for answering a question correctly. This person is generally the educator.
5. Each team designates one person to be on the mat. The rest of the team will help answer the questions.
 - a. The person on the mat should take off his/her shoes and set them aside.
6. Each team representative positions him/herself around the outside of the mat. Each person should be on opposite sides of the mat facing one another so each team starts from their own side.

Chance Cards:

The educator may choose to use Chance Cards. Instead of questions, Chance Cards have alternative instructions listed.

- **Free Pass**- The team keeps the activity piece and receives 100 points.
- **Spin Again**- The team keeps the activity piece, receives 200 points, and gets another turn.
- **Free Fall**- The team can hold onto the activity piece. In case they fall, they may turn the activity piece into the referee and continue playing.
- **Lose a Turn**- The team loses their turn.

How to Play:

1. Only one team attempts to move at a time. Each team takes a turn moving in a clockwise direction.
2. The referee spins the spinner or draws the activity piece from a hat, then calls out the body part and color.

3. For the team whose turn it is, the team representative must attempt to place the called out body part on the mat matching the activity pieces. For example, if “right hand red” was called, the player must place his/her right hand on a red activity piece in the shape of a hand.
 - a. If an activity piece is called which is already cleared from the board, the team must put their hand on the colored circle of the activity piece and they lose the opportunity to earn money.
4. Once the team lands on an activity piece, they must pick it up, give it to the referee who will read the question, and answer the question.
 - a. If the team answers incorrectly, the other teams have the opportunity to answer the question and earn the points.
 - i. If there are more than two teams, the educator may choose to have the team which would be next in a clockwise direction answer the question to earn the points or allow all of the teams to answer to earn points.
 - b. If the team answers correctly, they are awarded the points on the activity piece.
 - c. The referee should keep score.
5. Throughout the activity, a person cannot remove their hand or foot from the circle unless directed to by the referee after the spin.
 - a. If a person falls down or moves a hand or foot, his/her team is out of the competition.

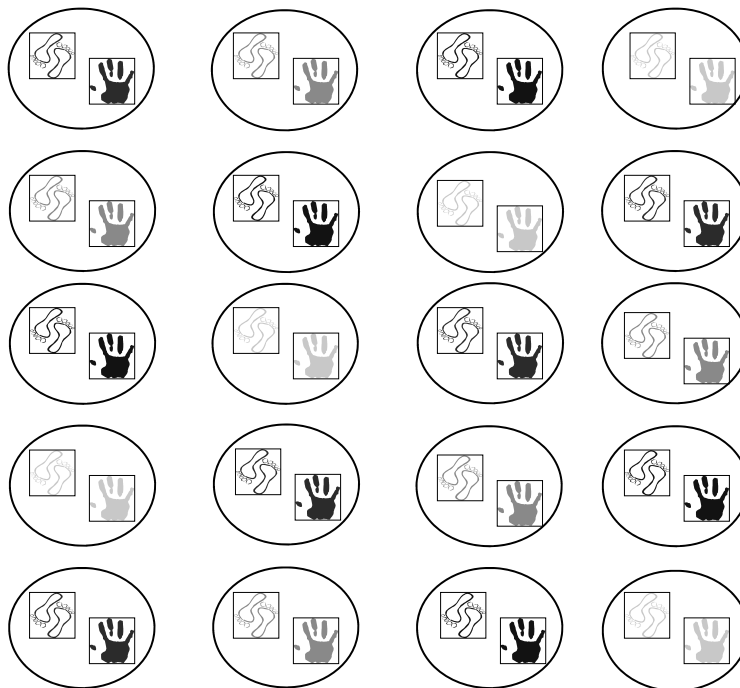
Alternative Facilitation Ideas:

1. Rather than having participants on the board, instruct them to toss a small ball (such as a Koosh Ball) onto the mat. Participants have to answer the question closest to where the ball lands.
2. Rather than having participants on the boards, put boards on tables. Distribute the activity pieces on the circles (one hand and one foot on each circle). One or two participants will facilitate the game with the spinner, score sheet and answer sheet. Team members will stand around the board and remove the cards and answer the questions on their turn.

How to Win:

1. Once all activity pieces are removed from the board, the team with the most points wins.

Example:



WHERE DID ALL THE EARNINGS GO?

ANSWERS

1. **What is a pay period?** - *A length of time for which an employee's wages are calculated. May be weekly, bi-weekly, twice a month, or monthly.*
2. **What is the most common method of paying employees?** - *Paycheck*
3. **Which is the higher amount – gross pay or net pay?** - *Gross pay*
4. **Define net pay.** - *The amount paid after all the deductions are subtracted from the gross pay amount.*
5. **What does FICA stand for?** - *Federal Insurance Contribution Act*
6. **What two deductions are withheld under the FICA heading?** - *Fed OASDI/EE or Social Security and Fed MED/EE or Medicare*
7. **What is the percentage of gross pay withheld for Social Security?** - *6.2%*
8. **What percentage of gross pay is withheld for Medicare?** - *1.45%*
9. **What is a dependent?** - *A person who relies on the taxpayer for financial support.*
10. **What 2 forms does every person complete when they begin a new job?** - *Form W-4 and Form I-9*
11. **What determines the amount of taxes withheld from an employee's paycheck?** - *The information supplied by the employee on the Form W-4 and the amount of earnings.*
12. **What is Medicare?** - *Medicare is hospital and medical insurance for the elderly and disabled.*
13. **Do all paychecks have retirement plan deductions?** - *No*
14. **Is a Social Security number required to receive a paycheck?** - *Yes*
15. **Why would a person complete a Form I-9?** - *To determine if they are eligible to be hired in the United States.*
16. **Give two examples of documentation and identification required to complete the Form I-9.** - *Birth certificate, driver's license, passport, and Social Security card.*
17. **What is the Form I-9?** - *The Employment Eligibility Verification form.*
18. **Name three ways an employee may be paid.** - *A paycheck, direct deposit of paycheck, or a payroll card.*
19. **What is the most secure way to be paid?** - *Direct deposit*
20. **What is Federal Withholding Tax?** - *The amount of tax required by law to be withheld from wages earned.*
21. **What is a paycheck stub?** - *A paycheck stub is the second part of a paycheck with the written record of the withheld deductions.*
22. **What is State Withholding Tax?** - *The amount of taxes withheld to assist in funding government agencies in the state.*
23. **Which deduction is the largest percentage of paycheck deductions?** - *Federal Withholding Tax*
24. **Define gross pay.** - *The total amount of money earned in a pay period.*
25. **Define deductions.** - *Money subtracted or deducted from gross pay earned.*
26. **What approximate percentage of an individual's paycheck is deducted for taxes?** - *Approximately 31%*
27. **Who writes the Tax Laws?** - *United States Congress.*
28. **Which method of paying employees is the least secure?** - *Paycheck*
29. **How does a payroll card work?** - *The balance of an employee's net pay is added to the card.*
30. **What are the three main responsibilities of the Internal Revenue Service (IRS) –** *Collects federal taxes, issues regulations, and enforces tax laws written by the United States Congress.*
31. **Another name for Regulation E is what?** - *Electronic Fund Transfer Act*
32. **What is social security –** *The nation's retirement program, helps provide retirement income for elderly and pays disability benefits.*
33. **What is year to date?** - *Total of all of the deductions which have been withheld from a paycheck from Jan 1 to the last day of the pay period indicated on the paycheck stub.*
34. **What is the pay a person actually takes home: gross or net?** - *Net pay*
35. **Describe why a payroll card is type of a smart card?** - *Money is electronically loaded onto the payroll card and deducted from the balance when a purchase is made.*
36. **What is one benefit for unbanked individuals who get paid with a payroll card?** - *They do not have to pay check cashing fees.*