

Lesson 6: Bread-And-Butter

TOPIC: Managing Your Paycheck

OVERVIEW:

Whether teens already have their first job or are considering work for the first time, they will be eager to learn how their **paycheck** works. Decoding paycheck mysteries for teens and young adults, such as differentiating between **gross** and **net income** and **personal exemptions**, this lesson puts student-centered activities at the forefront to demonstrate how managing a paycheck takes practice and strategy.

OBJECTIVES:

1. Decode and identify elements of a paycheck
2. Discuss how taxes, personal exemptions, and deductions impact net pay
3. Explain how to calculate gross and net income
4. Discuss the IRS Form W-4

INDIVIDUAL HANDOUTS:

- Paycheck Pros
- Paycheck Puzzle

GROUP HANDOUTS:

- None

TEACHER PRESENTATION SLIDES:

- Deduction Introduction
- Paycheck
- Solve That Paycheck Problem

ESSENTIAL QUESTIONS:

- What is the difference between gross and net income?
- What are deductions?
- How much do I pay in taxes and why?

ASSESSMENT ACTIVITIES:

Pre-Assessment:

- **Activity:** Deduction Introduction

Post-Assessment:

- **Handout:** Paycheck Pros*
- **Handout:** Paycheck Puzzle*
- **Wrap up Activity:** Solve That Paycheck Problem
- **Slides:** The Best Methods

*Money Smart Portfolio Handouts

Time: 60 min

Subject Connections:

- English Language Arts
- Math

Supplies:

- Projector (for teacher presentation slides)
- Access to the Internet (optional)

Preparation:

- Make copies of student handout
- Set up projector with presentation slides

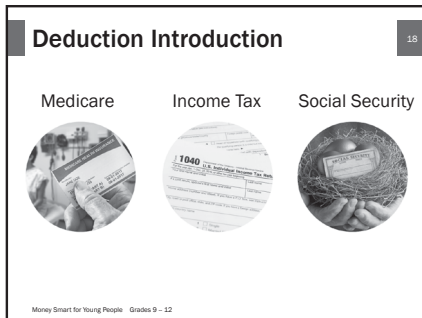
Glossary with key vocabulary 16

Instruction Steps

WARM UP

Deduction Introduction

20 MINUTES



Display the **Deduction Introduction** slide and **ask students** to guess what each picture represents and how they might relate to a paycheck (e.g., how the nest with eggs represents the Social Security deduction because Social Security provides a “nest egg” of savings to live on in retirement).

Encourage students to share their ideas, and then explain that the images represent **deductions** on a paycheck, or income subtracted from a paycheck, for **income tax**, **Medicare** tax, and **Social Security** tax.

MONEY SMART TIP!

Help students understand that Medicare and Social Security are part of FICA (Federal Insurance Contributions Act) and may appear on their paychecks as such. For more information about FICA, encourage students to visit the history of Social Security by reviewing the Social Security Administration’s website at www.ssa.gov/history/hfaq.html.

Ask students whether they have heard of these deductions before and what they know about them. Using the glossary on page 147 as a guide, share the definitions of each term with students and then invite volunteers to share their ideas for why we pay taxes.

Explain that taxes not only help support national programs such as Medicare, but state and city taxes also help maintain safe highways, schools, clean and accessible water, fire and police stations, libraries, and many more public services that all citizens can benefit from.

Grade Level Modifications:

Beginner: Share with students a short reading from the Internal Revenue Service (IRS) about why citizens pay taxes, such as the brochure *Why Do I Have to Pay Taxes?* available at www.irs.gov/pub/irs-pdf/p2105.pdf. Use the reading as a tool for discussing the purpose of taxes.

Advanced: Have students create a list of questions they have about taxes and then challenge them to research the IRS website to find answers. Students can present their questions and answers to the class and work together to compile them into a comprehensive tax guide that can be shared with family, friends, and the community.

MONEY SMART TIP!

Review with students how to file state and federal income tax returns. Visit the IRS US Tax Center website for complete information on tax resources. www.irs.gov

Additionally, lesson plans, simulations, and activities related to taxes can be found at <http://apps.irs.gov/app/understandingTaxes/index.jsp>. Please note the resources are based on 2014 tax laws.

GUIDED EXPLORATION Paycheck Elements

20 MINUTES

Paycheck

| Employee No. | Employee Name | Bank Account No. | Bank Name | Payroll No. | Period | Period End | Check No. | Check Date |
|--------------|----------------|------------------|-----------|-------------|---------|------------|-----------|------------|
| 100001 | Jerome Roberts | 000000 | 000000 | 100001 | 9/15/14 | 9/15/14 | 2756 | 9/15/14 |

| Amount | Rate | Rate | Contract Number | Period | Period End | Check No. | Check Date |
|--------|-------|-------|-----------------|---------|------------|-----------|------------|
| 466.34 | 15.88 | 15.88 | 000000 | 9/15/14 | 9/15/14 | 2756 | 9/15/14 |

| Contract Number | Contract Description | Rate | YTD Contract | YTD Rate | Check No. | Check Date |
|-----------------|----------------------|-------|--------------|----------|-----------|------------|
| 000000 | 000000 | 15.88 | 15.88 | 15.88 | 2756 | 9/15/14 |

Show students the **Paycheck** slide and explain each part of the sample paycheck. A complete definition for each tax is available in the glossary on page 11.

Explain the different deductions found on the paycheck, and emphasize the difference between fixed deductions, such as those that everyone pays like federal taxes, and flexible deductions, such as those that employees can control, like contributing to a 401k retirement account or moving money directly into a savings account.

Distribute the **Paycheck Pros** handout and review part one together as a class. Discuss the differences between gross versus net pay and then challenge students to complete the sample net pay calculation.

Grade-Level Modifications:

Beginner: Arrange students in small groups of four to five and challenge each group to brainstorm a list of fixed and flexible deductions. Invite each group to share their brainstorms and use student ideas to facilitate a discussion on the differences between fixed and flexible deductions.

Advanced: Introduce students to the W-4 Form (www.irs.gov/pub/irs-pdf/fw4.pdf) and explain that, when you get a job, an employer will ask you to fill one out. Explain that the W-4 is where personal exemptions are defined and that employers use the form to evaluate a new employee's tax situation and to determine how much tax money should be withheld from a paycheck. Next, have students explore the concept of personal exemptions by using an online paycheck calculator. Challenge students to change the number of exemptions and recalculate, assessing and recording the fluctuations in federal and state withholdings when exemptions are changed.

Next, **ask students:** *What do you do with a paycheck once you receive it?*

Have students complete part two of the **Paycheck Pros** handout, and invite volunteers to share their answers with the class.

Encourage students to contemplate the benefits of directly depositing paychecks versus check cashing. (For example: depositing money into a bank account or a payroll card can be less expensive than check cashing because you can pay costly fees for cashing a check.) Explain if you are converting your entire paycheck into cash, it may be harder to safely save money for the future.

MONEY SMART TIP!

Share with the class the U.S. Treasury’s Go Direct website (www.godirect.org) and inform students that it is a resource for direct deposit for recipients of federal benefits.

INDEPENDENT EXPLORATION
Decoding Paychecks

15 MINUTES

| Solve That Paycheck Problem | | | | |
|-----------------------------|--------------------|------------------|-----------|-------------------|
| Gross and Net | Fixed and Flexible | Paycheck Anatomy | Job Lingo | Name that Acronym |
| \$100 | \$100 | \$100 | \$100 | \$100 |
| \$200 | \$200 | \$200 | \$200 | \$200 |
| \$300 | \$300 | \$300 | \$300 | \$300 |
| \$400 | \$400 | \$400 | \$400 | \$400 |
| \$500 | \$500 | \$500 | \$500 | \$500 |

Note: These activities are more independent than the Guided Exploration activities and may be used as homework assignments, collaborative group work, or independent study.

Distribute the *Paycheck Puzzle* handout and divide the class into small groups to complete the activity.

Alternatively, the paycheck on this handout may be used to play an interactive game with the *Solve That Paycheck Problem* presentation slides. Teachers may also create their own series of questions based on paycheck categories (For example: gross and net pay, fixed and flexible deductions, items on a paycheck, etc.) by using online templates (For example: www.lifewire.com/free-jeopardy-powerpoint-templates-1358186).

If having students work independently, invite them to share their answers and engage in classroom discussion. If using handout as a game, spend time discussing the answers so students develop a clear understanding of each component of Sakina’s paycheck.

WRAP UP
Take-Home Pay

5 MINUTES

Close the lesson by asking students to reflect on factors that affect final take-home pay. This can be done as a whole-class discussion, or individually with students writing down a list of factors on a separate piece of paper.

Extended Exploration

Note: Use the following ideas to extend financial literacy concepts throughout the school year within core content areas through English Language Arts, Math, Social Studies and Economics, and Technology activities, projects, and discussions. Duration of activities will vary.

ENGLISH LANGUAGE ARTS

Writing Prompts:

Should the wealthy pay taxes at higher rates or will raising taxes on the wealthy have a negative impact on the economy? Choose a position and support your argument.

Reflect on and explain the purpose of Article 1, Section 8, Clause 1 of the United States Constitution: “The Congress shall have the Power to lay and collect Taxes, Duties, Imposts and Excises to pay the Debts and provide for the common Defense and general Welfare of the United States.”

Suggested Readings:

Teens and Income Taxes: The Five Most Significant Things Your Teen Needs to Know About Income Taxes by The Balance. An overview of income tax tips to share with young adults.

www.thebalance.com/teens-and-income-taxes-2610240

Why Do I Have to Pay Taxes? by the IRS: A brochure that explores the purpose of taxes and how tax money is used.

www.irs.gov/pub/irs-pdf/p2105.pdf

MATHEMATICS

Activity/Project Ideas:

Challenge students to calculate net pay with different variables and deductions, such as education credits, charitable contributions, or child credits (visit the IRS for a complete list of credits and deductions at www.irs.gov/Credits-&-Deductions). Have students practice calculating net pay first on their own and then with the use of online calculators.

SOCIAL STUDIES AND ECONOMICS

Discussion Topics:

Have students review a current events article addressing tax evasion or tax avoidance, such as one highlighting tax problems for a celebrity, athlete, or public figure. Use the article to discuss how tax evasion or avoidance affects the greater economy and what punishments one faces for such acts.

Activity/Project Ideas:

Challenge students to research the United States Constitution and define and then discuss the articles and amendments that relate to tax issues, such as the Sixteenth Amendment (“The Congress shall have the power to lay and collect taxes on income, from whatever source derived, without apportionment among the several States, and without regard to any census or enumeration”).

TECHNOLOGY

Online Resources:

Income Tax Tools and Calculators: A series of calculators that can be used for income tax calculations, such as a 1040 tax calculator, and estimating self-employment taxes.

www.360financialliteracy.org/Calculators

Refund Rush Game by Financial Entertainment: An interactive game that allows students to make decisions on how to save and spend tax refunds.

How to Decode Your Paycheck by The Mint: Tips on how to read a paycheck and understand deductions.

www.themint.org/teens/decoding-your-paycheck.html

Classroom activities from the Consumer Financial Protection Bureau (CFPB)

The CFPB has developed a set of classroom activities to help teachers develop and support the building blocks of financial capability in their students. Each activity is designed to be completed within a single class period and includes a teacher guide and supporting student material. Some specific activities that are relevant to this lesson include:

Choosing how to get paid

Students explore a range of common payment methods and schedules employers use and consider the pros and cons of each. They then apply their learning by voting on their preferred methods in a class-wide poll.

www.consumerfinance.gov/practitioner-resources/youth-financial-education/teach/activities/choosing-how-to-get-paid/

Investing taxes in your life

Students play a game to explore how tax revenues pay for various events and services they encounter in daily life.

www.consumerfinance.gov/practitioner-resources/youth-financial-education/teach/activities/investigating-taxes-your-life/

Understanding jobs, teens and taxes

Students review Internal Revenue Service webpages and respond to questions to explore the relationship between working and taxes.

www.consumerfinance.gov/practitioner-resources/youth-financial-education/teach/activities/understanding-jobs-teens-taxes/

Answer Key

Student Handout 1:

Paycheck Pros

What is Isaac's net pay? **\$121.10**

Scenario 1: Tony

How much does Tony pay each month to cash his paychecks? **\$20–\$25**. Typically, \$20 a month (4 weeks x \$5 per week = \$20). However, there may be a few months when he pays \$25, depending on which day he cashes his check.

How much does Tony pay each year? **\$260** (52 weeks x \$5 per week = \$260/year)

Scenario 2: Lamar

How much did Lamar pay this month in fees when using his stored-value card at an ATM?

\$8 (4 transactions x \$2)

How much would Lamar pay each year in fees if he used his stored-value card at an ATM an average of four times each month?

\$96 (\$8 x 12)

Scenario 3: Sylvia

How much does she pay to maintain her checking account?

\$18 (for the checks), because she is able to avoid the monthly maintenance fee.

Comparing Scenarios

How much can Tony save each year if he opens a checking account and pays what Sylvia does?

Tony could save \$242 a year (\$260 – \$18).

Even if Tony pays a \$6 monthly fee for a total of \$72 a year, plus the cost of the checks (\$18), how much could he save each year?

\$170 (\$72 + \$18 = \$90 – \$260 = \$170)

How much can Lamar save each year if he opens a checking account and pays what Sylvia does?

\$78 (\$96 – \$18)

Student Handout 2:

Paycheck Puzzle

1. Why is my net pay different from my gross pay?
Net pay is after tax deductions, which are used to help support national programs such as Medicare and Social Security, as well as state and city public services, including maintaining highways, schools, and libraries.
2. Can you explain to me how my net pay is calculated?
$$\text{Gross Income} - \text{Deductions} = \text{Net Pay}$$
3. What do each of the different deductions on my paycheck mean? Can you explain them to me?
Federal and State Income Tax: tax paid on earned income to support national and local public services
Medicare Tax: tax paid to support the Medicare government program to provide medical care for retirees and others who qualify
Social Security: tax paid to support the Social Security government program to provide financial assistance to retirees and others who qualify
Savings: directly depositing earned income into a personal savings or retirement account
4. Do I have any control over the amount of deductions on my paycheck?
While Sakina is required to withhold federal and state income tax, Medicare, and Social Security, she is able to control the amount of money that goes directly into savings.



Lesson 6: Bread-and-Butter PAYCHECK PROS

Name: _____

PART 1: GROSS VERSUS NET INCOME

Gross income is your total income before deductions.

Net income is your total income after deductions (for example: federal and state income taxes, Social Security taxes, retirement savings contributions, and premiums for medical insurance).

$$\text{Gross income} - \text{deductions} = \text{Net income}$$

MEET ISAAC

Isaac earns \$10 an hour. During his last pay period, he worked a total of 16 hours. Below is the list of his deductions. Help Isaac calculate his net pay.

Gross pay: \$160.00

Deductions:

Federal Income Tax: \$20.00

State Income Tax: \$7.50

Social Security: \$9.00

Medicare: \$2.40

Show your math

What is Isaac's net pay?

PART 2: YOU HAVE A PAYCHECK...NOW WHAT?

What are your choices once you receive a paycheck? Read each scenario and answer the questions to compare costs and determine who saves more money once they receive his or her paycheck.

Scenario 1: Tony

Tony does not have a bank account so he pays a fee to cash his weekly paycheck. The place he cashes his check charges Tony \$5 to cash every check.

How much does Tony pay each month to cash his paychecks?

How much does Tony pay each year?



Lesson 6: Bread-and-Butter PAYCHECK PROS *(continued)*

Name: _____

Scenario 2: Lamar

Stored-value cards, or prepaid cards, generally allow you to spend only the money deposited on the card. Payroll cards are one of four main types of stored-value card. They are used by an employer to pay wages instead of giving you a paper paycheck. Payroll cards are different from other types of stored-value cards because you do not need to purchase them or pay activation fees, since your employer provides the card.

Lamar opts to have his paycheck deposited onto a stored-value card that he purchased for \$5 because his employer does not offer payroll cards. Money can be “loaded” onto the card via direct deposit or by going to certain stores. It has a major credit card issuer logo on it, so he can use it anywhere, just as with a credit or debit card. Lamar can use his stored-value card at an ATM, but the card issuer charges \$2 for every ATM transaction. Lamar mostly uses his card at stores, where he slides his card through the point-of-sale (POS) terminal, but this month he used the ATM four times.

1. How much did Lamar pay this month in fees when using his stored-value card at an ATM?
2. How much would Lamar pay each year in fees if he used his stored-value card at an ATM an average of four times each month?

Scenario 3: Sylvia

Sylvia has a checking account. The bank charges a monthly fee of \$6 unless she uses direct deposit or her debit card more than five times per month.

1. If Sylvia uses direct deposit or her debit card frequently and she uses no more than one box of checks every year, which cost her \$18, how much does she pay to maintain her checking account? (Show your math.)

Comparing Scenarios:

1. How much can Tony save each year if he opens a checking account and pays what Sylvia does?
2. Even if Tony pays a \$6 monthly fee for a total of \$72 a year, plus the cost of the checks (\$18), how much could he save each year?
3. How much can Lamar save each year if he opens a checking account and pays what Sylvia does?



Lesson 6: Bread-and-Butter PAYCHECK PUZZLE

Name: _____

Hi! I'm Sakina. I'm 21 years old and I just graduated from cosmetology school. I recently started my first job and it's so exciting to be earning a paycheck! I work in a salon about 15 hours a week answering phones and cleaning up. Sometimes I get to help shampoo customers, and I love that! My goal is to have my own stylist chair someday, so I love it when I can help with customers every day. I make \$12.50 an hour, but it seems like my paycheck doesn't go very far. I'm just not sure where all my money goes and why I don't get to keep the full \$12.50 an hour.

Can you help?

Review Sakina's paycheck and paystub below and help answer her questions.

- I thought I was earning \$12.50 an hour, but my paycheck is less than that.
Why is my net pay different from my gross pay?
- I'm not sure how my net pay is determined.
Can you explain to me how my net pay is calculated?
- What do each of the different deductions on my paycheck mean?
Can you explain them to me?
- Do I have any control over the amount of deductions on my paycheck?

| Employee No. | | Employee Name | | Social Security No. | | Period Beg. | | Period End | | Check Date | |
|--------------|--|--------------------|-------|---------------------|---------------------------|-------------|----------------|----------------|--------------|------------|--|
| 543210 | | Sakina Bhat | | xxx-xx-4321 | | 09/01/2019 | | 09/07/2019 | | 09/07/2019 | |
| Earnings | | Hours | Rate | Current Amount | Withholdings/Deductions | | | Current Amount | Year to Date | | |
| Regular pay | | 15.00 | 12.50 | 187.50 | Federal Income Tax: State | | | \$14.42 | \$14.42 | | |
| | | | | | Income Tax: Medicare | | | \$5.00 | \$5.00 | | |
| | | | | | Tax: Social Security Tax: | | | \$2.72 | \$2.72 | | |
| | | | | | Savings: | | | \$11.63 | \$11.63 | | |
| | | | | | | | | \$0.00 | \$0.00 | | |
| Gross Pay | | Current Deductions | | Net Pay | YTD Earnings | | YTD Deductions | YTD Net Pay | Check No. | | |
| 187.50 | | 33.77 | | 153.73 | 187.50 | | 33.70 | 153.73 | 2756 | | |