

Understanding your paycheck

Do you...

Know what factors affect your take-home pay?

Know the difference between your gross pay and net pay?

Risks to consider in not understanding your paycheck

Having more tax than necessary withheld

Accuracy of pay and other benefits

Understanding your paycheck

Most paychecks have two parts—your check stub and your paycheck. Your paycheck is your net pay, the money that is available for you to spend. (If you have your pay directly deposited to your bank account, your paycheck will be a copy.) Your pay stub shows all of the deductions from your paycheck and will look similar to the example on the next page. Each pay stub includes the following sections:

① Exemptions and allowances

Located at the top of your pay stub, is your Social Security number (only the last four digits may appear for privacy protection). You'll also see your taxable marital status (single, married, etc.) and the number of federal and state exemptions. Exemptions are claimed for yourself, your spouse and each dependent. Exemptions reduce the amount of income taxes that are deducted from your paycheck. To estimate your net paycheck, do an Internet search for "paycheck calculator."

② Earnings

The earnings section is divided into three main categories: regular pay, overtime pay, and holiday pay. Each pay type will show how many hours you worked and the total amount you earned for the pay period. You'll also see a year-to-date total of all your earnings. Your gross pay is the amount you earned before taxes and deductions. Your net pay is the amount available for you to spend.

DEDUCTIONS

③ Federal taxes

You'll see a deduction for federal income tax which reflects taxes that fund the federal government. Federal tax rates are from 10 percent to 35 percent of your income. The more money you make, the higher your overall tax rate will be.

④ State income taxes

Most states have income taxes that are collected to fund your state government. However, some states do not have income taxes. State income tax rates are as high as 11 percent. To learn more about your state's income tax rates, type your state name and the words "income taxes" into any search engine. Your state's tax collector will usually appear within the first few entries.

⑤ Federal Insurance Contributions Act (FICA)

FICA taxes are the Social Security tax and the Medicare tax. Social Security taxes are paid by you (and an additional amount is paid by your employer) to the federal government to fund your Social Security. Social Security is meant to cover part of your retirement living expenses, not all of your retirement expenses. The Social Security tax is 6.20 percent of the first \$109,000 of income (as of 2011). This amount increases each year.

The Medicare tax covers a portion of your health insurance during retirement. This tax is 1.45 percent of all income.

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To learn more about FICA taxes visit www.ssa.gov and type "FICA" in the search engine.

⑥ Other taxes

Some cities have income taxes and some states have other taxes that may be deducted from your paycheck.

⑦ Other

These are deductions initiated by the employee such as retirement account contributions, stock purchase plans, etc.

OTHER BENEFITS AND/OR DEDUCTIONS

⑧ This area will include employer-paid benefits such as health insurance, disability insurance and life insurance. You may also see the number of vacation and other paid time off hours you have available.

NET PAY

⑨ This is the amount that is available to you, usually known as your take-home pay.

XYZ Corporation
100 Corporation Crt.
New Town, USA 10000

Taxable Marital Status: Married

① Exemptions/Allowances:
Federal: 3
State: 2

Social Security Number: 999-99-9999

Earnings Statement

Period Beginning: 00/00/0000
Period Ending: 00/00/0000
Pay Date: 00/00/0000

JANE SMITH
101 MAIN STREET
ANYTOWN, USA 12345

② Earnings	rate	hours	this period	year to date
Regular	10.00	32.00	320.00	16,640.00
Overtime	15.00	1.00	15.00	780.00
Holiday	10.00	8.00	80.00	4,160.00
Gross Pay			\$452.4	23,525.80

Deductions	Statutory	
③ Federal Income Tax	- 45.22	2,351.44
④ State Income Tax	- 17.37	903.24
⑤ Social Security Tax	- 29.83	1,551.67
⑥ Medicare Tax	- 6.96	362.89
⑥ Additional Taxes will appear here		
⑦ Other		
Medical	- 30.00*	1,500.60
Dental	- 5.00*	260.00
401K	- 28.85*	1,500.20
Stock Plan	- 15.00	780.00
Life Insurance	- 5.00	260.00
⑨ Net Pay		\$269.20

* Excluded from federal taxable wages

Your federal taxable wages this period are \$388.58

<p>XYZ Corporation 100 Corporation Crt. New Town, USA 10000</p>	<p>Payroll check number: 02470383 Pay date: 00/00/0000 Social Security No. 999-99-9999</p>
<p>Pay to the order of JANE SMITH</p> <p>This amount: TWO HUNDRED SIXTY NINE AND 20/100 DOLLARS \$269.20</p>	
<p>SAMPLE NON-NEGOTIABLE VOID VOID VOID</p> <p style="text-align: center;">VOID AFTER 180 DAYS</p> <div style="text-align: right; margin-top: 10px;"> </div>	

ABOUT ECMC

Educational Credit Management Corporation (ECMC) is a nonprofit company providing services in support of higher education finance. We work to support college access and success, and we provide students with tools and resources for planning and paying for college. The ECMC Personal Finance Management Series is designed to help you make informed decisions about your financial future.