

# EARNING MONEY – WAGES

## Unit Overview

In this unit, the student will learn how wages are earned in business and industry. The components of a paycheck, including benefits and deductions, will also be stressed.

## The Labor Market

According to the Federal Reserve, there are four components that make up business and industry. They are *labor, capital, natural resources and entrepreneurship*.

Click [here](#) to view *The Labor Market* for additional information.

Answer Assessment questions 1-11.

## Wages

### Hourly vs. Salary

Most people begin their work life earning an *hourly wage*. Workers in some jobs such as food service and the trades (carpenter, electrician, etc.) are paid by the hour. In other occupations such as business, medicine, and education, workers are paid a *salary* (a fixed annual sum paid at regular intervals). A salary is usually not an option until you have achieved a certain level of experience, education or skill in the work world. When your job pays an hourly wage, you earn a certain dollar amount for every hour you work. If you work more than forty hours a week, most employers compensate you by paying “*time and a half*” or one and one-half times your usual hourly rate. If you work holidays, some businesses pay “*double time*” or twice your customary hourly rate.

Overtime Pay	
To Figure Time and a Half	
Hourly rate $\div$ 2 + hourly rate = overtime rate	If hourly rate is \$10.00
$\$10 \div 2 = \$5$	$\$5 + \$10 = \$15$ an hour
To Figure Double Time	
Hourly rate $\times$ 2 = overtime rate	If hourly rate is \$10.00
$\$10 \times 2 = \$20$ an hour	

	Hourly Wage	Salary
Advantages	<ul style="list-style-type: none"> <li>\$ Guaranteed a certain dollar amount</li> <li>\$ Usually have a set number of hours to work per week</li> <li>\$ possibility of overtime pay</li> </ul>	<ul style="list-style-type: none"> <li>\$ Guaranteed a certain dollar amount a week no matter how many or few hours are worked</li> </ul>
Disadvantages	<ul style="list-style-type: none"> <li>\$ If you don't work, you don't get paid</li> </ul>	<ul style="list-style-type: none"> <li>\$ Overtime is unpaid</li> </ul>

### The Benefit of Benefits

When asked how much money we make, most of us would answer with the amount we earn such as \$12 an hour or \$30 thousand a year. Equally important are the benefits that go along with the job. According to the U.S. Department of Labor the most common employee benefits are:

**Health Insurance** – Many employers pay all or part of their employees’ medical insurance and some even cover dental along with vision.

**Retirement Plans** – Many employers offer some type of retirement savings plan. With many of these, both the employer and the employee make a contribution.


**Paid Leave** – This benefit includes paid vacations, sick time and personal days.

**Life and Disability Insurance** – We talked about the different types of insurance in a previous unit. Some businesses offer their employees life and disability insurance, which saves the workers additional out-of-pocket expenses.

**Educational Assistance** – Some employers will pay all or part of the employees’ continuing education costs.

*\*\*If you add the costs of these benefits to your salary, you might be surprised how much you are actually earning.*

Look over the following example which illustrates the added profit of benefits.

Ed works as a teacher earning \$34,000 a year. Actually, he earns more than that when you consider his employer's contributions per year:		
Retirement	\$4,760	
Health & Dental Insurance	\$4,100	
Medicare	\$ 493	
Workman's Compensation	\$ 442	
Life Insurance	\$ 33	
<b>Total</b>	<b>\$9,828</b>	
When his benefits are added to his annual salary (\$34,000 + \$9,828), Ed actually earns \$43,828!		

*Answer Assessment questions 12–17.*

### **Wages - Understanding Your Paycheck**

Paychecks are often printed on paper and mailed to employees. However, your employer may also deposit the check electronically in your bank account. You will also receive a **paystub**. This document shows a breakdown of your current and year-to-date income as well as deductions. Learning to read your paystub and understanding the information are important parts of managing your money. Paystubs come in many different formats; however, there are certain components that are found on all paystubs.

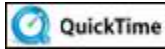


The total amount of money you earn is called **gross income**; the money you actually receive is called **net income**. The reason for the difference in figures is **payroll deductions**. This refers to money taken out of your paycheck for a variety of reasons, including taxes. **Taxes** are fees that support federal, state and local governments. Your paystub also notes any money that you are paying into Social Security and Medicare. A portion of your salary may also go to health care contributions or retirement savings. The charts below provide additional information concerning this significant aspect of your paycheck.

## Paycheck Tax Deductions

TAX	EXPLANATION	OTHER
<b>Federal Income Tax</b>	Fee collected by the federal government to support its programs	
<b>State Income Tax</b>	Fee collected by the state to support its programs	Not all states collect a state income tax
<b>Social Security Tax</b>	Collected by employers and sent to the federal government to provide a small income and other services to the elderly, disabled Americans and orphaned minors	Mandated by the Federal Insurance Contributions Act (FICA)
<b>Medicare Tax</b>	Collected by employers and sent to the federal government to provide medical insurance to the elderly and some disabled Americans	Mandated by the Federal Insurance Contributions Act (FICA)

## Other Possible Paycheck Deductions



Deductions (03:26)

Deduction	Explanation	Other
<b>Retirement</b>	Employee contribution to retirement fund	Collected if employee participates in a retirement system other than, or in addition to, Social Security
<b>Medical</b>	Employee contribution to health care	Collected if employee is required to contribute to health insurance
<b>Savings/Investment</b>	Employee contribution to a his/her savings plan	Usually voluntary
<b>Union Dues</b>	Employee contribution to his/her union	

Along with earnings and deductions, paystubs may also list the following:

**Leave Time:** Vacation hours and sick leave hours are usually included on your paystub. Most employers will detail how many hours have been used to date and how many hours are remaining for the calendar year.

**Important Notices:** Employers often use a portion of the paycheck stub to communicate important pieces of information to their employees such as wage increases, or notifications about tax filings.

## Common Abbreviations Used on Paystubs

<b>FIT, FT, FWT</b> – Federal Income Tax or Federal Tax withheld	<b>FICA</b> – Federal Insurance Contributions Act – taxes collected under this law fund Social Security and Medicare	<b>IRA</b> – Individual Retirement Account – a savings plan that allows employees to make pre-tax contribution to a savings plan
<b>Med, MWT</b> – Medicare tax withheld	<b>SIT, ST, SWT</b> – State Income Tax, state tax withheld	<b>SS, SSWT</b> – Social Security or Social Security Tax withheld
<b>SSN</b> – Social Security Number - a 9-digit number issued to an individual by the Social Security Administration. Its primary purpose is to track individuals for payroll, banking and taxation purposes.	<b>YTD</b> – Year to date - a term used to express the results of an activity in the time between today's date and the beginning of either the calendar or fiscal year.	

### Lets Practice

Let's practice reading a paystub.

### Raymond's Paystub

Business Name							
STATEMENT OF EARNINGS AND DEDUCTIONS							
Earnings	Hours	Amount	Deductions	Amount	YTD Deduct	Contributions	YTD Gross
Salary		2,023.08	FICA	125.43	1,379.73	125.43	22,253.88
			MEDICAL	29.33	322.62	166.20	Current Earnings
			FED TAX	121.37	1,335.07	.00	2,023.08
			STATE TAX	62.11	683.21	.00	Current Net
			LOCAL TAX	90.00	993.08	.00	1,467.08
			RETIREMENT	126.44	1,390.84	76.27	Pay Period Ending
							05/21/11
			Total	556.00	6,124.58	367.90	Pay Date
							05/21/11

Open document **Raymond's Paystub** and follow directions on the document. The document is an Adobe Acrobat file. Click on the pencil icon to open the document. Save the document to a folder on the computer; then enter answers in the textboxes.



Raymond's Paystub

Check your work by opening document [Raymond's Paystub – Check Sheet.](#)

*Answer Assessment questions 18–28.*