

# Jobs and Money Lesson 3: What's Yours and What's Not: Paychecks and Deductions

**SUBMITTED BY:** K@WHS Summer 2011 Instructor

**SUBJECT(S):** Personal Finance

**GRADE LEVEL(S):** 9, 10, 11, 12

## ≡ OVERVIEW:

In this lesson, students will analyze a pay stub and think about how net income and gross income can fluctuate. The primary purpose is to think about which deductions are voluntary, which are involuntary and why. The second purpose will be to get them to use the rational decision-making process to evaluate the different retirement savings options: 401K and IRA. If the teacher wants to make the lesson more challenging, students can also think about Roth 401Ks and Roth IRAs.

## ≡ NBEA STANDARD(S):

- Personal Finance, I. Personal Decision Making
- Personal Finance, II. Earning and Reporting Income
- Personal Finance, IV. Saving and Investing

## ≡ RELATED ARTICLES:

- ["You're Fired! Now What?"](#)
- ["The Value of a Summer Job"](#)
- ["The Paycheck Breakdown: What You Earn Is Not What You Keep"](#)
- ["Educator Toolkit: The Future of Work"](#)
- ["CEO Katlyn Grasso Connects Young Women with Executive Role Models"](#)

**Common Core Standard(s):**

Reading Informational Text—RI.9-10.1.; RI.9-10.2.

Speaking and Listening—SL.9-10.1.

**Purpose:**

- After this lesson, students will be able to read a pay stub.
- They will understand the difference between voluntary and involuntary deductions.
- They will use the rational decision-making model to think about voluntary deductions and how to think about the kinds of deductions they can sign up for.

The purpose will be to increase their financial literacy in regards to paychecks, deductions and long-term savings plans.

**Other Resources/Materials:**

Computer/Internet/Projector

**For teacher:** [Wikipedia 401K IRA Matrix](#)

**For Teacher:****Background Material on Involuntary Deductions**

FICA from Wikipedia: The Federal Insurance Contributions Act (FICA) tax is a [United States payroll](#) (or employment) [tax](#) imposed by the federal government on both employees and employers to fund [Social Security](#) and [Medicare](#) —federal programs that provide benefits for retirees, the disabled, and children of deceased workers.

FWT stands for Federal Income Tax Withholding. You may or may not get some or all of this back when you file a tax return next year. You can also choose to give more money for this.[Example: If you are going to make under \$5500 or so for the year and your parents claim you, you can file a new W4 and claim “Exempt” and cease this withholding.]

SWT stands for State Income Tax Withholding. Similar to FWT but for state. Certain states don’t have income taxes like Alaska, Florida, Nevada, South Dakota, Texas, Washington, Wyoming.

## Background Material on Voluntary Deductions

What is a 401K? See WGYP Video [401K](#)

What is an IRA account? See WGYP Video [IRA](#)

### **Activity:**

This lesson has 5 parts: Introduction; Silent Reading; Class Discussion; Small Group Work; Closing Discussion.

#### *Introduction (5 min)*

Ask students to look at any pay stub example. Teachers should identify a pay stub that seems relevant and appropriate for their context. I would encourage teachers to find one online or in a finance textbook.

- Look at the stub together as a class. Study the gross earnings and the net earnings; analyze the deductions.
- Explain to students the difference between voluntary and involuntary deductions as well as pre-tax and post-tax deductions.
- Point out the different kinds of involuntary deductions that can be subtracted: SWT, FWT, FICA, etc.
- Think together about what is the gross income versus the net or take-home amount. Why is there such a difference?

#### *Silent Reading (10 min)*

Ask students to read the article “Paycheck Breakdown” silently. After they are done, ask one student to write what the students understood from the article on the board. Answer any questions they may have about the article.

#### *Class Discussion of Paycheck Stub with 2 Parts (10-15 min)*

The primary purpose of breaking down this discussion is to talk about voluntary and involuntary deductions separately. As the teacher discusses voluntary deduction, she/he will need to define the terms: 401K and IRA for the students. The teacher should show the K@WHS glossary videos at this point and elaborate on the definitions as is necessary. She/he should emphasize the major

difference between the two, that the 401K is only available through one's employers while anyone can sign up for an IRA account.

*Part 1:* Ask them how they feel about the way voluntary and involuntary deductions are made. Why do we pay taxes? This discussion will be for part 1 of the lesson: to clarify any questions about involuntary tax deductions. It will be important to explain the differences between federal and state taxes FWT and SWT; FICA in regards to Social Security, Medicare]

*Part 2 of Class Discussion:*

Ask students to think about other kinds of deductions such as retirement savings deductions. How can they have control over the deductions and the way their money is used for long-term savings?

*Small Group Work (10 min)*

In small groups, re-introduce the 7 steps to rational decision-making from the first lesson of the unit. Use it as a framework for the day's lesson on discussing savings and investment options. Ask students to focus on Step 2, 3, 5 and 6.

1. STEP 2: Gathering information about savings and investments. Ask students to write down a short description about each retirement vehicle discussed earlier: 401K, IRA, general savings account. What other kinds of options are out there? This can be done on notebook paper or the board. (If students have access to individual computers, they can do a quick online search.)
2. Skip to STEP 5 of process: Ask each group to come up with criteria for how to evaluate the kinds of options they found.

*Class Discussion (5 min)*

1. STEP 6: Bring in all groups to make a decision or debate about what are some strategies for them to have greater control over their payroll deductions. If students disagree, discuss the reasons for disagreement.

(45 min)

**Tying it all Together:**

In this lesson, students work together to think about how payroll deductions are taken out. They also understand how they can exercise greater control over this process.

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