

**When you get paid every two weeks,
do you ever wonder where all your money goes???**

Here is an article to help us all understand how to read our pay statements.

**Call you counselor if you want help with
understanding your pay statement!**

YOUR PAYCHECK EXPLAINED

(ARTICLE FROM BMPowered BY BANKMOBILE - AUGUST 3, 2015)

Making bank – it's the reason you get up and go to work every day. Getting your first paycheck can be an amazing feeling of accomplishment. But often that feeling is brought to a screeching halt once you get deposit the check into your online checking account and see how much you're actually taking home at the end of the day. Where did all your money go? The answer is found within your paycheck stub.

Your Paycheck Stub

To figure out how your paycheck works, you'll need to look at your paycheck stub – a.k.a. the explanation statement. Not all paychecks are alike, but they have very similar elements that all employers must include legally, like this example below.

ACME

PAYROLL ACCOUNT

EMPLOYEE JONATHAN R. DOE
SSN 123-45-6789
PAY PERIOD 3/4/99 TO 3/15/99

PAY DATE 3/15/99
CHECK NO. 060432

② NET PAY \$644.41

EARNINGS			TAXES WITHHELD			OTHER DEDUCTIONS	
Description	Hrs.	Amount	Tax	Current	YTD	Description	Amount
REGULAR	80	800.00	FED INCOME TAX	102.40	307.20	401 (K)	35.00
OVERTIME	5	75.00	SOCIAL SEC	54.25	130.20		
			MEDICARE	12.69	30.45		
			STATE INCOME TAX	26.25	63.00		
CURRENT		875.00					
YTD		2100.00					

Gross Pay vs Net Pay

Gross pay is the total amount of income you've earned for a specific pay period. You may get paid weekly, bi-weekly, bi-monthly, or even monthly. To figure out how much your gross pay is, multiply your hourly rate by the number of hours you've worked. Sometimes you may get a higher rate for working overtime or on holidays, so make sure to account for those instances.

After all of your deductions and withholdings are taken out from your gross pay, you're left with your net pay. Your net pay is the amount of income you get to take home, which is why many people refer to this as your take-home pay.

Taxes

So why is your net pay so much lower than your gross pay? This answer starts with taxes. Here are the three categories of taxes that may come out of your paycheck:

1. Federal Taxes

Remember when you were hired and had to fill out all that paperwork? One of the forms you are required to fill out as an employee is called a W-4. This form will tell the government how much money should be taken out of your income to cover your federal taxes. This is called federal income tax withholding. When it's time to file your taxes at the end of the year, the amount they already took will go towards your total owed. Generally speaking, if you decide to let them take out more, you may get a bigger refund. Take out less – you could end up owing at the end of the year.

2. State Taxes

Now that the federal government got their share, it's time for your state to take a piece of the action. Many states require you to pay state tax, and the rate will vary by state. This [interactive state taxes map](#) will allow you to check out the rates in your state easily. There are a handful of states that don't tax your income at the state level including Alaska, Florida, Nevada, South Dakota, Texas, Wyoming and Washington. Tennessee and New Hampshire only tax dividend and interest income. If you live in a state with state income tax, this will get deducted from your paycheck to cover any taxes you may owe at the end of the year when you file your tax return.

Personal income tax

Minnesota collects income taxes from its residents utilizing 4 tax brackets.

For single taxpayers:

- 5.35% on the first \$25,070 of taxable income.
- 7.05% on taxable income between \$25,071 and \$82,360.
- 7.85% on taxable income between \$82,361 and \$154,950.
- 9.85% on taxable income of \$154,951 and above.

(Taken from <https://www.bankrate.com/finance/taxes/.sate-taxes-minnesota.aspx>)

3. Local Taxes

You may also be required to pay local tax. It's not so common, but some counties, cities and even school districts may require you to pay this tax. If so, you'll see this as another deduction on your paystub.

"In this world nothing can be said to be certain, expect death and taxes." –Benjamin Franklin

Social Security

Another deduction that you'll see is your contribution towards the federal government's Social Security program. You'll be required to have a percentage of your income (currently 6.2% in 2015) to be withheld to help fund this program. Your employer must also kick in 6.2% for each of their employees.

The Social Security Administration reported that the average monthly Social Security benefit for a retired worker in 2011 was \$1,177 per month. With all the controversy surrounding this program, we highly suggest that you start saving for your own retirement separately, just in case this fund runs dry by the time you're ready to retire. *If you start young, you can retire with a million bucks on just a \$27,000 salary!*

Medicare

Another government program that you'll need to pay into is Medicare, which is our nation's health program for the elderly and disabled. This deduction accounts for 1.45% of your paycheck.

Year-To-Date

To see how much you've paid towards each of these withholding categories, look on your paycheck stub for the year-to-date fields. This will show you how much you've paid for the entire year and can be helpful when assessing if you're withholding enough for taxes.

Optional: Insurance & Medical Expenses

Got insurance? If you're on your employer's insurance plan, this optional deduction can come directly out of your paycheck to cover your medical, dental and life insurance premiums. You may also be able to take advantage of a flexible spending account (FSA), or a health savings account (HSA). These accounts allow you to pay for qualified medical (and sometimes childcare) expenses with pre-tax dollars.

Optional: Retirement

Like we suggested before, you'll want to set up your own retirement plan, and start young so you're not reliant on Social Security payments. You can allocate a portion of your income to go directly into your 401(k) or 403(b) retirement savings plan. Many employers will match your percentage as an added benefit to working for them. Some companies require that you work for a certain period of time before they will start kicking in their share. If you don't take part in this program, you'll lose the employer match, which is in essence, free money. Don't leave that money sitting on the table!

So that's the breakdown of your paycheck and how to decode your paystub. If you have questions about the amount being taken out find errors, get in touch with your company's human resources department.