

Understanding your pay stub

This tool helps you understand what is in, and taken out of, your paycheck. It helps you figure out what you will take home in pay, which will help you create a budget and manage your money.

For many in transition, their first job brings their first paycheck, and the terms and the amounts on the pay stub are not always easy to understand. Income tax and employee benefit programs can seem like abstract concepts. When you see how your total hourly or yearly pay amount is reduced by taxes and deductions to the “net” or “take-home” pay amount, you can think more realistically about how much money is available for spending and saving.

What to do

This tool helps you see the difference between gross pay and net pay. You can go over all the entries and deductions on the same pay stub. Then, fill in the form with the information from your pay stub.

Based on what you discover through this activity, consider ways to keep the conversation going. For example, you could:

- **Look at the deductions on the W-4 form** to see how much is being withheld.
- **Think about how you can use this information on your take-home pay.** For example, you could think about a realistic budget for ongoing expenses like rent or start to save up for something in the future, like a car.
- **When you receive your W-2 at tax time,** you can see how these deductions are listed. The W-2 form is what you will typically need to file your taxes.

To access a dynamic and fillable version of this tool, visit <https://www.consumerfinance.gov/consumer-tools/educator-tools/your-money-your-goals/companion-guides>



The first step in budgeting is Understanding your pay stub

1. Review the sample pay stub to explore how the paycheck amount is calculated and what the entries mean.
2. Get a copy of your pay stub and fill in the amounts on the second page so you can see what the deductions are and how your "net pay", or the amount you take home, is calculated.
3. Review any employee benefit programs that you may be eligible for at work. Some of those benefits could reduce taxable income and reduce taxes at the end of the year.
4. Look at the deductions on your W-4 form to see how much is being withheld and decide whether you want to change it.

How to read a pay stub

BIG BOX STORE				EARNINGS STATEMENT		
EMPLOYEE NAME	SOCIAL SEC. NO.	EMPLOYEE ID	CHECK NO.	1 PAY PERIOD	PAY DATE	
Casey Smith	123-45-6789	101	123	8/01/21-8/15/21	8/22/21	
INCOME	RATE	HOURS	CURRENT TOTAL	DEDUCTIONS	CURRENT TOTAL	YEAR TO DATE
2 GROSS WAGES			200.00	5 FEDERAL TAX	8.63	93.51
				6 FICA SS TAX	12.40	125.40
				7 FICA MEDICARE	2.90	31.90
				8 STATE TAX	0.74	8.21
				RETIREMENT	20.00	220.00
3 YTD GROSS	YTD DEDUCTIONS	YTD NET PAY		TOTAL	9 DEDUCTIONS	4 NET PAY
2,800.00	479.02	2320.98		200.00	44.67	155.33

1 Pay period

Calendar days included in the paycheck. Your employer sets up the schedule of when you are paid.

Money you've earned

2 Gross wages

How much you made before deductions were taken out.

3 YTD gross

Summary of total gross wages, deductions, and net pay from the beginning of the year to end of the current pay period (year to date).

4 Net pay

Gross pay minus all the deductions. This is your "take-home" pay.

Money taken out of your paycheck

5 Federal tax

Amount withheld for federal income tax. This is deducted each pay period so you do not have a large tax bill when you file your tax return.

6 FICA tax

Amount withheld by your employer to pay your Social Security tax. Social Security primarily provides benefits to retired people and the

disabled. You and your employer both contribute to Social Security, and your paycheck shows the part you pay.

7 FICA Medicare

Amount withheld by your employer to pay your Medicare tax. Medicare is a federal health insurance program generally available to those who are 65 and older or disabled.

8 State tax

Amount your employer withholds to pay your state income tax. (Not all states have income tax.) This is deducted each pay period so you do not have to pay a large amount when you file your tax return.

9 Deductions

Taxes, insurance premiums, and the cost of other programs that are subtracted from your gross wages. (Because contributions to programs like a 401(k) retirement plan or health insurance plans are subtracted before your tax withholdings are calculated, they reduce your tax liability.)

✔ Your own paycheck example

Pay rate: _____	Other deductions: _____
Hours worked: _____	Total deductions: _____
Gross wages: _____	Net pay: _____
FICA Medicare: _____	YTD gross: _____
FICA SS tax: _____	YTD deductions: _____
Federal tax: _____	YTD net pay: _____
State tax (if applicable): _____	

Put your money to work for you

Most employers offer to deposit your paychecks directly into your checking or savings account, instead of giving you a paper check. Direct deposit usually makes your money available faster.

And, you can instruct your employer to split your paycheck between your checking account and your savings account. This can help your savings add up automatically, a little at a time.

Questions about opening a checking or savings account? See Module 8 for information and tools.