Nothing But Net: Understanding Your Take Home Pay

LESSON 13: TEACHERS GUIDE

It can be a big shock when teens receive their first paychecks and realize that a large portion of their earnings is deducted for taxes. This lesson helps students understand how to make sense of all the line items on their paystubs. Students will also analyze earnings statements to determine how setting up automatic savings deposits and adjusting deductions can help them increase their savings.

Topic: Income and Job Paperwork

Time Required: 55 minutes

SUPPLIES:

- Notebooks
- Computers or tablets
- Internet access
- Student activity sheet

PREPARATION:

- Copy student activity sheet

STUDENT ACTIVITY SHEET:

Paystub Puzzles: Putting the Pieces Together

In this activity, students will review sample paystubs and discuss how to maximize their earnings and savings using payroll deductions.

LEARNING OBJECTIVES:

Students will...

- Explore different payroll deductions
- Learn about annual tax returns
- Analyze employer-sponsored savings programs

STANDARDS:

Jump$tart Standards:

- Income Standards 2 and 3

National Economics Standards:

- Standard 13: Income

Common Core ELA Standards:

- Speaking and Listening: Comprehension and Collaboration
- Speaking and Listening: Knowledge and Ideas
- Language: Vocabulary Acquisition and Use

Common Core Math Standards:

- Numbers and Quantity: Quantities
- Modeling

Essential Question | ***"How much money will I take home from my paycheck?"***

Investigate: Paychecks Please

[Time Required: 10 minutes]

1. Begin by telling students they've just received their first paychecks. Next, write the statements below on the board or read them aloud and challenge students to spot the false claim.
    A. My **net income** is the money I get to deposit in my bank account
    B. I don't have to pay taxes because I'm not 18 years old yet
    C. I signed up for direct deposit, so I won't get a physical check with my paystub
2. Encourage students to share their answers. Explain that B is the false statement because even minors have to pay taxes on money they earn.
3. Tell students that today's lesson is about net earnings, taxes and other deductions they may encounter on their paystubs, as well as how they can make the most out of deductions to maximize savings.

Student Preparation: Paystub Puzzles

[Time Required: 15 minutes]

4. Ask students if they've ever seen a paystub before. Have they received one for a part-time job or has anyone in their family shown them one?
5. Next, hand out the student activity sheet ***Paystub Puzzles: Putting the Pieces Together*** and review the first example together as a class.
6. Explain to students what each part of the earnings statement means, and help them understand that **gross income** is what they earn before taxes and **net income** is what they actually get to take home.
7. Next, engage the class in a discussion about taxation. Why does the government require taxes to be taken out of every paycheck? Do students know what services federal and state taxes pay for? Invite students to share their ideas.

TEACHER'S TIPS

What is the Essential Question?
The Essential Question is designed to "hook" the learner, promote inquiry and engagement with the lesson, and allow students to exercise problem-solving abilities. It addresses a larger concept, does not have a right or wrong answer, and requires higher order thinking skills.

Link to Lesson 19:
For more information and activities on taxes, explore the IRS tax tutorials at practicalmoneyskills.com/HS16 and ask students to complete the W-4 simulation at practicalmoneyskills.com/HS17, or check out **Lesson 19** on taxes and inflation.

8. Using the activity sheet, discuss federal, state, Medicare and social security taxes, and help students understand why these taxes are deducted from paychecks. Explain that at the end of the year, employers send W-2 forms that outline money earned and deductions incurred each year. The W-2 is used to file an annual tax return—you will either get a refund on your taxes or owe more depending on how much was deducted from your pay throughout the year.

Challenge: Hunt for Savings

[Time Required: 25 minutes]

9. Explain to students that there are ways to claim tax deductions while maximizing their savings. For example, contributing to a 401(k) or automatic savings deposit increases deductions and also long-term savings. If money is deducted for a medical FSA but the account is unused, minimizing FSA contributions frees up money for long-term savings accounts like a 401(k).
10. Next, split the class into groups of 4–5 and ask each team to review the remaining paystubs on ***Paystub Puzzles: Putting the Pieces Together.***
11. Invite volunteers to share their ideas and engage the class in a discussion about adjusting deductions to maximize savings based on individual needs.

Reflection

[Time Required: 5 minutes]

Ask students to write in their notebooks about the elements they will consider in the future when it comes to payroll deductions. Will they consider contributing to a 401(k), FSA or direct-deposit savings when they earn a paycheck? Why or why not?

TEACHER'S TIP

What is Reflection?
The Reflection part of the class gives students the opportunity to reflect on the bigger-picture meaning of the exercise, and to assimilate and personalize some of the concepts and ideas learned about in the class.

Paystub Puzzles: Putting the Pieces Together

LESSON 13: ANSWER KEY

Sample 1

Dan could increase his savings by not contributing to the medical FSA and health insurance offered by his employer because he is currently included on his parents' health insurance plan. He could use the extra money to take home more net pay or add more money to his deposit savings.

Sample 2

Rachelle could contribute money to the employer-sponsored 401(k) to increase her savings for retirement. She could also increase her savings deposit if she continues to work overtime and has the extra money to put toward savings.

Sample 3

Since Taylor wants to save for a car, he could increase his automatic savings deposit so that he keeps on track to meet his financial goals and to begin saving for retirement.