

# Understanding a Paycheck

Wow! The old saying, "hard work pays off" is surely true. The Crane Folding Factory was a success. You went above and beyond your **production goals**. You were able to make more cranes than you committed to making. Focusing on one job on the **assembly line** helped everyone to accomplish the goals. Never before has one class of 4<sup>th</sup> graders folded over 1000 paper cranes in one day. That was a phenomenal job!!!

It's payday and soon you'll be cashing your checks. How did the CEO of Hartman's Crane Folding Factory figure out your check? Why did you make the amount that you did?

In the real world everyone earns a different amount of money. Some people are paid on a **salary**, like your teachers, and some people are paid hourly, like someone who works in a factory. On a salary, the employee makes a certain amount of money no matter how many hours he or she works. An hourly employee makes a certain amount per hour. A full week is considered 40 hours. Any work after 40 hours is considered **overtime**.

Those who work extremely hard can sometimes end up with **bonus pay**. The **employer** sees that the employee did an exceptional job and gave him extra money on his paycheck. Bonuses were given for exceeding your production rate. For every 5% above your production goal, you earned an additional \$100.00.

Sometimes an employee works for commission and a base rate. Commission is a percentage of sales. For example, if you sold a crane for \$10.00, your commission will be \$1.00 at a 10% commission rate. So if you sold 10 cranes for \$10.00 each, you would have \$100.00 dollars in sales, but your **commission** (the money on your paycheck) would be 10% of \$100.00, which is \$10.00. The **base rate** is an amount you get for just coming to work for the day.

In a great situation, an employee can make some extra money with **gains sharing**. Gains sharing is when the factory

makes so much that they share the **profits**, or money that is made, with the employees of the factory.

We are going to pretend that you worked in the factory a full two weeks. Every employee in Hartman's Crane Folding Factory earned a base rate, a commission on the number of cranes, and bonuses for exceeding your production rate. Some in the factory had the opportunity to earn overtime pay and some earned gains sharing. When you add all the pieces together you get your **gross pay**. In this case, gross pay does not mean that it is yucky. As a matter of fact, it means that it is the total of all the money you made for the pay period. This is the amount you make before you have to pay taxes.

Everyone who has a job has to pay taxes. You have to pay taxes to the federal government and to the state government. That is how the government makes money and pays for what they need to help the people. The federal government takes about 23% of your gross pay and the state government takes about 7% of your pay. Percentages are a little hard to understand, so here is another way. If your pay was divided into ten equal parts, you would get seven parts and the government would get three parts. The amount that you see on your paycheck is your **net pay**, or the amount you get to take home after the taxes are taken out.

After a person receives a paycheck, that person needs to make sure to pay their **bills**, or the amount of money they owe to someone. You will have the opportunity to spend your money in math class. Before you get what you want, you have to pay three bills: your housing bill, your transportation bill, and your food bill. These are all necessary for living and before you can have fun with your money, it is important to make sure you have these three things. After paying these bills, you can go shopping at the store, plan a vacation, or give to charity (a place in need of money and that helps people).

Have fun budgeting and spend wisely!!!

Name \_\_\_\_\_

Homeroom \_\_\_\_\_

## Paycheck Vocabulary

Directions: Write the letter of the definition on the line that matches the word.

- |                       |  |
|-----------------------|--|
| _____ production goal | a. amount paid for working for the day                   |
| _____ salary          | b. the total amount you earn in a pay period             |
| _____ overtime        | c. doing one job in a line                               |
| _____ employer        | d. the person who runs the business                      |
| _____ employee        | e. sharing the money with the employees                  |
| _____ assembly line   | f. a percentage you make from each sale                  |
| _____ bonus pay       | g. the amount you decided to try to make                 |
| _____ base rate       | h. the amount you get on your paycheck after taxes       |
| _____ commission      | i. working more than 40 hours                            |
| _____ gains sharing   | j. the amount you make no matter how many hours you work |
| _____ profits         | k. the amount of money the company makes                 |
| _____ net pay         | l. the extra money you make for doing a good job         |
| _____ gross pay       | m. the person who works for the factory                  |