

Your First Paycheck

"When I first got my first paycheck, I was just like ... wow, you know? I was doing honest grown folk work and getting paid for it. That meant so much to me."

Walter, Graduate Student/Social Entrepreneur

WHAT IS A PAYCHECK?

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Like any other check, a paycheck is a contract. It is a promise from your employer that you will be able to get your pay, in the amount that they write down on the check, from your employer's bank account. **Your check may eventually expire so be sure to deposit or cash your check and of course keep your check in a safe place until it is deposited or cashed.**

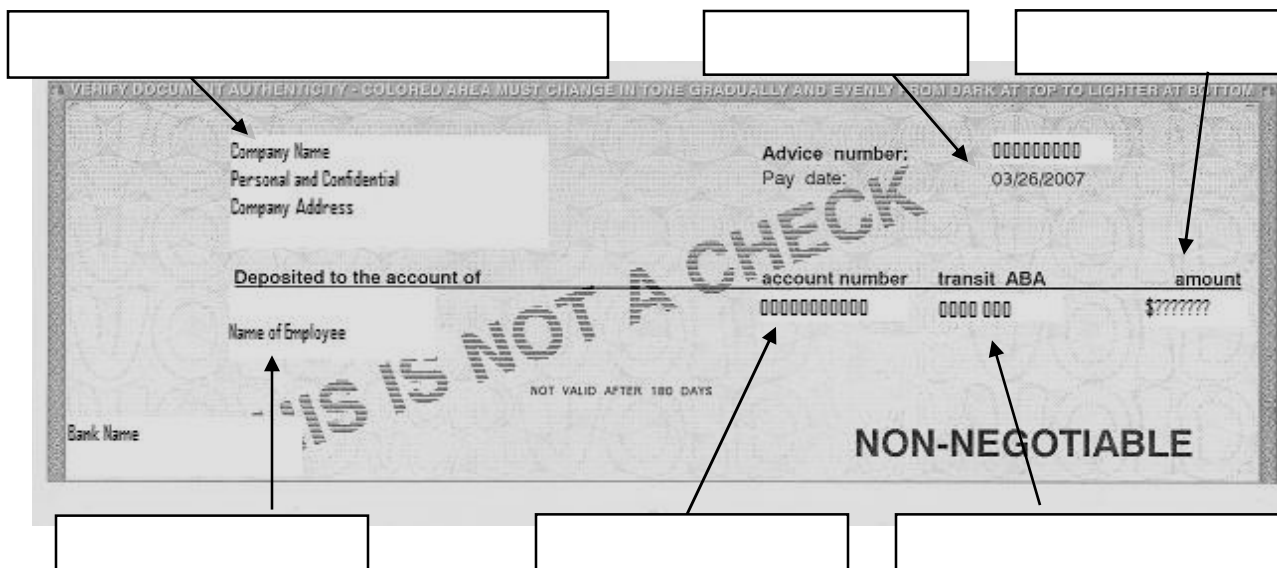
Paycheck Term Choices

- Employee Name
- Employer Name/Address
- Date
- Amount
- Routing/Bank Transit ABA Number
- Account Number

WHAT IS ON A PAYCHECK?

Your paycheck (see sample below) will include your name, the name of your employer and their address, your employer's bank **account number** and your employer's bank **routing transit number (RTN) or bank transit ABA number**. It will also include the date and the amount of the check.

Find each item with your group leader and list the name in the correct blank.



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TAX & EMPLOYMENT FORMS

Even before you start working, you will need to fill out certain paperwork for your employer some of which is related to taxes. Be sure to bring required documentation such as a passport or your school or state ID or driver's license AND your social security card or birth certificate to your orientation or your first day of work. You will generally have to complete an **I9** to verify you are eligible for employment & a **W4** regarding your tax withholding when you are hired.

To complete your tax and employment forms, you will also need to know your **dependency status** or if anyone else claims you on their tax return and if you owed taxes in the past year. (If you think you are falsely claimed on someone's taxes, contact your instructor or see the resource guide for help.)

You will likely receive a **W2** later in the year and may need to complete a tax return so be sure to keep all your employment records & pay stubs.

Learn more at FutureFinanceReady.com. **Select Be Pay Day Ready – Tax Ready.**

(There is also information included in Tax Ready for youth who are independent contractors & receive stipends. They may receive a 1099 & will not have taxes withheld. This means they will need to save funds to pay these later.)

WHERE DID ALL MY MONEY GO?

Jessie earned \$110.40 for his part-time tutoring position, but his paycheck was only written for \$105.35.

What happened to the rest of Jessie's money?

TAXES! TAXES!



Taxes are money charged by the government to cover the costs of things like your police, fire department, schools, the armed forces, etc. Employers ARE REQUIRED to take taxes out of an employee's paycheck.

Even if you do not make enough money to pay federal &/or state income tax, you will have to pay Medicare & Social Security or Payroll/FICA tax. Learn more at FutureFinanceReady.com– Be Pay Day Ready (Tax) prior to your first day of work.

EXAMPLE: From Jessie's paycheck, a total of \$1.74 went to Medicare taxes (to cover health insurance for low-income individuals) and \$3.31 went to taxes for the state.

Find both items below and circle them.

COMPANY NAME ADDRESS		EMPLOYEE NO.	EMPLOYEE NAME		SOCIAL SECURITY NO.	PERIOD ENDING
		000000000	YOUR NAME		000-00-0000	0000-00-00
		DATE PAID	VACATION DAYS*	SICK DAYS*	PERSONAL DAYS*	
		0000-00-00	.000	.000	.000	
EARNINGS	HOURS	CURRENT	YEAR TO DATE	DEDUCTIONS	CURRENT	YEAR TO DATE
P/T TUTORING		110.40		MEDICARE TAX	1.74	10.44
TOTAL PAY		110.40	720.00	STATE TAX	3.31	19.86
				NET PAY	105.35	632.10

**DEAR
DICTIONARY**
Gross Pay = Total
 pay before
 deductions for any
 taxes or health
 insurance costs
Net Pay = Pay
 after any
 deductions

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Because Jessie's paycheck was so small, the tax that he owed the federal government was not taken out of his paycheck. However, he may owe taxes later.

If Jessie earned more, \$700 per month or \$8,400 per year, **using the sample 2017 income tax chart to the right, what would Jessie's federal income tax bracket be? _____.**

What if Jessie gets a raise and goes over the tax bracket limit of \$9,525 by \$1,000, what portion (or percent) would Jessie owe on any money over the tax bracket limit? _____

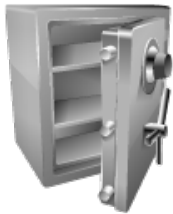
YOU WON'T GET TO TAKE ALL OF YOUR PAYCHECK HOME. DON'T PLAN TO SPEND IT ALL!

*SEE IRS.GOV FOR UPDATED RATES

Sample 2017 Federal Income Tax Rates*	
Taxable Income	Rate
\$0 - \$9,525	10%
\$9,525 - \$38,700	15%
\$38,700 to \$93,700	25%
\$93,700 to \$195,450	28%
\$195,450 to \$424,950	33%
\$424,950 to \$426,700	35%
\$426,700	39.6%

Individuals are sometimes eligible to receive tax credits and/or free tax preparation depending upon income. Find a VITA site and learn more at www.IRS.gov - Search VITA. In Illinois, visit <https://www.goladderup.org/our-services/etap/> to learn about their virtual VITA services.

WHAT SHOULD I DO WITH MY PAYCHECK?



It is best to open a bank account (see Ch 4) and take your paycheck to your bank where you can deposit your paycheck for little or no fees. Depositing some or all of your paycheck in the bank ensures that your money will be safe, and you may earn extra money, called interest (see definition below) (SEE PAGE 27 FOR A LESSON ON OPENING AN ACCOUNT.)

HOW DO I CASH OR DEPOSIT MY CHECK?

To cash or deposit your check, you must sign it. You sign checks above the line on the back of the check. (Try signing a check on the example below.)

ALWAYS sign your check in INK and try to use the same signature.

Banks will ask for identification if you are going to cash a check or ask for money back in cash when you make a deposit. **BRING YOUR STATE ID OR DRIVERS LICENSE!**



SIGN HERE.

Practice signing a paycheck!

KNOW YOUR ENDORSEER - REQUIRE IDENTIFICATION

DO NOT WRITE STAMP OR SIGN BELOW THIS LINE

DEAR DICTIONARY What is a ... ?

BANK ACCOUNT = an account or fund at a bank in which you keep your money

DEPOSIT = to put money in a bank account

WITHDRAW = to take money out of your bank account

CASHING A CHECK = to exchange or sign over a check in your name for cash

INTEREST = a small amount of money that the bank gives you in return for keeping your money there

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BANK TO AVOID CHECK CASHING FEES

PEOPLE WITHOUT BANK ACCOUNTS OFTEN SPEND \$400 PER YEAR ON CHECK CASHING COSTS AND OTHER BANK FEES ALONE!



In the Chicago area, visit GetBankedChicago.com to learn more about how **BANKING CAN PAY OFF FOR YOU!** Learn more about high quality bank accounts in your area.

You can also **VISIT FutureFinanceReady.com & select Be Pay Day Ready** to complete education activities & access to new opportunities such as scholarship competitions.

Some banks can allow you to use **mobile deposit** or deposit your check via your phone. This is very efficient and helps many people to save securely. Remember, IF you DO this, your check HAS been deposited and CANNOT be cashed or deposited again!

BANK TO AVOID PAYDAY LOANS

Payday loans may seem like a quick fix. However, they can end up costing you hundreds of dollars or more! Although the rate in some states like IL for payday loans is capped at 36%, **the effective annual percentage rate (APR) or rate of interest per year on pay day loans in some states can be as much as 400%.**

That means if you borrowed \$100 (your **principal**) each pay period, your **interest** and fees calculated over the course of the year would end up costing you \$400 in charges!

BE YOUR OWN BANK! SAVE MONEY IN AN EMERGENCY FUND TO AVOID THE NEED FOR PAYDAY LOANS DOWN THE ROAD!

Dear Dictionary ...

Interest = Money charged to a borrower by a lender for the use of the lender's money
(*Interest is calculated as a % of principal.*)

**400% INTEREST?!
NO WAY!**

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WHAT ELSE SHOULD I DO WITH MY PAYCHECK?

"My dad said his dad just kept his money under a mattress all those years but...what if the house burned down, what if there was a robbery, that's just not safe...just know that your money is always protected in the bank."
Jill, College Student, Intern

Why does saving and investing matter when I don't make much money yet?

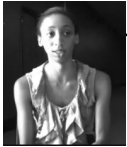
A LITTLE CAN GO A LONG WAY! HOW MUCH DO YOU NEED TO INVEST EACH DAY TO BE A MILLIONAIRE WHEN YOU RETIRE?



ONLY \$7.50 PER DAY!

Have a job? Save some of the money that you earn - even at minimum wage - and you will be on your way to building a saving habit and having money to invest in the future!

YOUR SUMMER JOB COULD BE YOUR START ON THE TRACK TO BECOMING A MILLIONAIRE! SAVE & INVEST FIRST!



Do you have trouble saving?
Make it automatic!

USE DIRECT DEPOSIT! Start automatically depositing some of your paycheck into a savings account.

"... I actually have an automatic savings thing where it puts money into my savings account automatically."

Evan, Young Adult



WHY SHOULD I CONSIDER DIRECT DEPOSIT?

- 1) **Security** = Your check will not be lost or stolen as your money is put **DIRECTLY** and safely into your bank account.
- 2) **Free** = There is generally no charge for direct deposit so you will avoid check cashing fees!
- 3) **Convenience** = You will not waste time going to the bank to make your deposit.
- 4) **Speed** = You will get your money faster as funds are usually available the morning of your payday vs. checks that take 1-2 days.
- 5) **Reliability** = Regulations require that your funds will be deposited correctly and on time.
- 6) **Savings commitment** = It is easier to meet your savings goal using direct deposit. There is less temptation to convert your check into cash and spend it.

¹ Assumes a 7.5% annual return on average over 49 years.

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WHAT IS DIRECT DEPOSIT?

Direct deposit allows your paycheck to be automatically deposited in your bank account electronically.

HOW DOES IT WORK?

Direct deposit is similar to the process used when depositing a check in person. Funds are directed by an **account number** and a **routing number**. However, with direct deposit, the funds are **sent electronically** to your bank from the organization that is paying you through the **National Automated Clearinghouse (ACH)** system. The Federal Reserve Banks and financial institutions process these requests.

Account Number = this # identifies your specific account. (Think of this like your specific street address & apartment #.)

Routing Number/Bank Transit ABA Number = this # identifies your bank. (Think of this like your city's zip code on your address.)

SIGNING UP FOR DIRECT DEPOSIT

When you sign up for direct deposit, your employer will ask you for your bank account information (routing number, account number, etc.) so they will know where to deposit your money.

IS DIRECT DEPOSIT REALLY SAFE?

Yes! Over 30 million people use direct deposit. Of the 1 billion deposits in 1992, 99.9% were executed perfectly. Of the 0.1% that had errors, almost all of these were fixed within one day. (There are government regulations that require errors to be fixed in one day or investigated.)

What is the **National Automated Clearinghouse (ACH)** System?

An electronic network for financial transactions in the United States.

The largest operator of the ACH is the Federal Reserve Banks. In 2011, this network processed 20.2 billion ACH transactions with a total transaction value of \$33.91 trillion.



"The first time I did the internship I did not have direct deposit and I ended up spending all my money. When I got direct deposit, I was like ... I have the control I need. I can save... I got through my first and second semester of college off [the earnings from] one internship ..."

Blake, College Student - Intern

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DIRECT DEPOSIT PRACTICE

Jessie wants to set up direct deposit. He would like to have 50% of his paycheck deposited in his checking account and 50% deposited in his savings account. His savings account # = 2345678901 and his checking account # = 1234567890. His bank name is "The Best Bank". His bank routing # = 987654321.

Complete the sample authorization below for Jessie.

SAMPLE AUTHORIZATION AGREEMENT FOR AUTOMATIC DIRECT DEPOSITS

Company =
Employer or
organization
paying you

Depository =
Your bank or
other financial
institution

I hereby authorize "**Company**", to initiate credit entries for sums to and payable to me to my checking, savings or other account indicated below; and the Financial Institution named below, hereafter called "**Depository**", to credit the same to such account. I also authorize Company to initiate debits for sums due to the Company for erroneous deposit or deposits at the Depository.

Real World Translation
= I agree that my
employer can pay me
in the accounts I list
below. If they deposit
or pay too much
accidentally, they can
take back what they
accidentally deposited.

Bank Name: _____ Routing/Bank Transit ABA No: _____

Bank Account No.: _____ Amount or Percent

Checking: _____

Savings: _____

Other: _____

This authorization is to remain in full force and effect until Company has received notification from me of its termination in such time and in such manner as to afford Company a reasonable opportunity to act on notification or until such time as Company terminates this agreement.

Employee Name: _____

Employee Signature: _____

Date: _____

PAYCHECK JEOPARDY: YOU'RE IN THE MONEY!

- ▶ Question: The best thing to do with your paycheck is to deposit it in a b___ to AVOID check c_____ fees.
- ▶ Question: Currency exchanges will cash your paycheck, but they charge check c_____ fees.
- ▶ Question: A b___ loan is generally less expensive than a payday loan that can sometimes charge up to 400% interest.
- ▶ Question: One of the easiest ways to save is to have part or all of your paycheck deposited automatically. This is called d_____ deposit.
- ▶ Question: Employers ARE REQUIRED to take t_____ out of an employee's paycheck.

