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A Paycheck is a paycheck is a paycheck, right? **Wrong!**

Ok so you get a paycheck. It is mailed to you, sent by email or handed to you by your arch-nemesis (your supervisor). Or maybe you are the person handing them out. Either way, the scenario is the same. You have in your hand or inbox a document showing you what you were paid. And to some, quite mysteriously, there is money taken out of your earnings and given to the government, or whoever, and it reduces the amount that you have to shop, save, or pay bills with. It could happen to you every week, every other week or each month. And you take that money that is left over and do with it whatever you chose. So why should you care where the extra money goes? It's gone, right?

But here is the thing....where did it go? Did it go in the right amount? How does it affect you? Your spending habits, your budget, and the way you save for the future? It's gone, right? So who cares where it went, it's not coming to you, right? WRONG!

I'm not going to be one of these people to tell you that you can't afford things, or will ring bells and make funny noises to indicate that something to do with your finances should be important to you. But I will tell you this – it's your money and you need to know where it goes and why.

Now, most of us are savvier about money than say our mothers. (Sorry Mom!) Or we think we are. I was recently working with my mother going through her financial paperwork and was surprised about the things I take for granted as common knowledge that she was not aware of. She is a smart woman, so I was a little surprised. But then my husband and I were planning out some additional savings strategies and again things I take for granted he was not aware of. So we might be ahead of our Mother's generation in terms of being more financially independent, but ask yourself, where does the money that comes out of your paycheck go? Do

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you know? Do you know what all of those fancy little acronyms mean? And why should you care?

First: the paycheck. Here is a sample of a check stub for us to use as reference. And yes, we are going to go through it line by line. But I promise it won't be torture. We'll make it quick and then talk about why you should look at this every pay period and how it affects you.

Employee # 0052	Company Name Meg's Boutique		MEG EYNON 1234 ANYWHERE AVENUE WEST CHESTER PA 19380				
Period End	Dept #	FW= M 01					
12/31/08	100	SS# xxx-xx-0123					
Earnings		Taxes		Deductions		Year to Date	
SAL1	969.00	FWH	52.67	MED125	139.46	GROSS	969.00
		FICA	51.43	LST	2.17	FWH	52.67
		MEDFICA	12.03			FICA	51.43
		ST	25.47			MEDFICA	12.03
		WCHPA	8.30			ST	25.47
		PA UNEM	.58			LOCAL	8.30
						UNEMPL	.58
						MED125	139.46
						LST	2.17
GROSS PAY \$ 969.00		TOTAL \$ 150.48		TOTAL \$ 141.63		CHECK #	NET PAY
						01358	676.89

So, what should you look at when you receive your pay stub? You may not like my answer, but the answer is everything. Let me ask you a question. If you lost \$141.63 from your wallet would you care? Would you look for that money? Be honest with yourself, would you panic? Now I am not saying that you have lost this \$141.63 from your pay, but if you don't know what it is or where it goes, it is as good as lost.

So now for the fun! Let's go through this pay stub line by line so that you can understand what you are being paid and where those deductions end up.

The first box is Emp#. This is your employee number that is assigned through payroll. This one does not have relevance unless your HR department asks you to supply this to them as a routine part of how they identify you before speaking with you about a problem or question with your pay.

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The next box is Company Name. On our example it says "Meg's Boutique". This is pretty straight forward. But if you were being paid by The Payroll Factory, that box would say PRFUSA, Inc. Why? Because our company has a legal name and a "doing business as name". It is important for you to know what the legal name of the company you work for is if you have an issue or a problem. An example of an issue or a problem that would be affected by you knowing your company's legal name would be if you needed to apply for Worker's Compensation or Unemployment. Again, why? Because these agencies refer to the company you work for by their legal name. If you do the same you will avoid confusion when dealing with them.

The next box is Period End date. This box is important to check because it states the period for which you are being paid. You may ask yourself, who cares? The answer is –you should. Does the amount being paid agree with the period that you worked for? In our scenario we have a salaried individual but if you were being paid by the hour, how can you know you have been paid for the hours you worked unless you know what period your employer is paying those hours for?

The next box is Dept#. Even I will admit that this one is not too important unless your employer deducts things from your pay for working in a specific department. For instance, in restaurants employers may deduct an amount from your pay for uniform maintenance or you might have a deduction from your pay if a department in that restaurant is allowed to eat lunch while working and the employer deducts a flat amount for food costs.

Our next box is the mystery box! It says FW =M 01. Is it an algebraic formula? Is it something Einstein invented? No, this is actually an important box! The FW stands for Federal Withholding. The M stands for Married and the 01 is the number of dependents that is being claimed on form W4. This box drives what comes out of your pay for Federal Withholding and can determine the all important game of whether or not you receive a refund after filing your annual tax return or whether you will have to send money into the IRS.

What is important to know about this is that the Federal Withholding taken from your pay each pay period is based on a tax table. So the way this calculates is any payroll system will look at your gross pay, the frequency you are paid (weekly, every two weeks, etc.), and what you claimed on your W4 to see how much tax to take from your check.

The tax table calculates based first on whether you are claiming the status of Single or Married and then on the number of allowances you have claimed, in our case 01. The general rule of thumb is that Single claiming 00 allowances takes the maximum tax and Married with more allowances takes less and less tax. We will get further into this in the why you should care portion of this article.

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Our next box SS# xxx-xx-0123 again looks something we learned in high school algebra. It's not. It is your social security number. What do you need to know about this? You need to know that this is the way it should look on your check stub. Or it could look like: ***-**-0123. Or it could be all exes or all *s. What you should NEVER see on your check stub is your full social security number printed out.

Our next box is your name and address. This one is only of concern to make sure that it is correct. Sounds simple. Make sure it stays simple. Your company may have different policies of how they get information to you. Most will mail at least your W2 form directly to you at the end of each year. So make sure your information is current so that there is no disruption to you receiving important tax information. If you move, alert the appropriate person in your company as soon as possible so that they can get your payroll records updated.

Under your name and address are two boxes: check # and net pay. The check number is not something that you need to look at. It is the check number assigned by your company. If you misplace a check or need to speak to someone regarding your check they can look up the information they need in their records. The net pay is the amount of pay that you will take home after taxes and deductions have been taken from your pay.

Our next box is the earnings box. Stay with me here we are getting to the good stuff! This box tells you how much you are being paid before taxes and other items are deducted from your pay. In this pay stub we have a salary amount (Sal1). However, if you are paid by the hour, you will want to make sure the hours you told your employer you worked and the hours on your pay stub match. Mistakes can happen in processing payroll, they are not intentional. It is your responsibility to check your pay stub and let your employer know if there was an error in reporting your hours to the payroll company.

Other types of earnings may include commissions, bonuses, and even reimbursements for telephone usage, mileage or office supplies purchased.

The next box is labeled taxes. We are going to go through each item in this box to explain the different payroll taxes.

- FWH = Federal Withholding. We gave the example of this above when looking at the SS# box. This is your Federal Income Tax being withheld from your pay each payroll period.
- FICA = This tax is the Federal Insurance Contribution Act tax. It is taken at a flat percentage of 6.2% up to an annual earnings cap. These taxes are taken to provide a variety of benefits to qualifying workers and their families through the program known as social security.
- MEDFICA = This tax falls under the Federal Insurance Contribution Act and allows an additional 1.45% of your pay to be withheld for Medicare, which

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provides health insurance for qualifying disabled workers and people 65 years of age and older. There is no earnings cap with this tax.

- ST = State Withholding. Here in Pennsylvania this is a flat percentage tax. However, in many states the withholding works much like the Federal Withholding tax. It is based on what you claim on your state W4 form. Again the principle is the same, the tax table calculates based first on whether you are claiming the status of Single or Married and then on the number of allowances you have claimed, in our case 01. The general rule of thumb is that Single claiming 00 allowances takes the maximum tax and Married with more allowances takes less and less tax.
- WCHPA = This is the local tax where my company in this example is located. In Pennsylvania there are thousands of local taxes. They range from .5% to the Philadelphia wage tax that exceeds 3%. The tax is based on where you are employed and not where you live. The next state close to Pennsylvania in the number of local taxes is Ohio. Many from this area would be surprised to know that many states have no local taxes.
- PA UNEM = This tax is the Pennsylvania employee share of unemployment. This tax can come and go. In times of high unemployment percentages the State deducts this tax from employees to help offset the cost of the payment of unemployment to those who do not have work. Other states have similar taxes and some also have employees contribute to disability and state paid health care.

Next is our deductions box. There are two deductions here as an example of what you could expect to see.

The first deduction is labeled MED125. Med125 refers to medical insurance premiums that are deducted from your pay and that are run through a Section 125 plan as defined by the IRS. What does this mean to you? If you have a health insurance premium deducted from your pay there are two ways to do it. One is a standard deduction that comes out of your pay after all of the taxes have been deducted. The other is through a Section 125 plan. If your company has an established 125 plan then your health insurance deduction comes out of your pay before taxes and is not subject to payroll taxes. If you are not sure what your company offers ask someone in your HR department. Using a Section 125 plan saves employees the cost of paying taxes on their health insurance contribution deductions.

The next deduction is labeled LST. This is the Local Services Tax for Pennsylvania. The local services tax is a tax that is deducted from your pay up to a maximum of \$52.00 per year. It is collected on a pro-rata basis that is determined by the number of payroll periods established by an employer for a calendar year. This tax is used to help offset the cost of emergency services and also is used to reduce property taxes through homestead acts in certain municipalities.

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Our final pay check stub box is Year to Date. Ok, we are almost done here! This is just a total of what has been paid to you and what has been deducted from your pay for the year.

So, now the all important part of this exercise. **Why should you care about all of this and how does it affect you?**

Well, to start this is your money. And yes it is important to know where it goes. This is really not the day and age where a woman is kept in the dark and her husband takes care of all of the financial responsibilities while the woman takes care of the house and children. Most families are made up of two working parents. For most it is a necessity to meet the rising cost of food, fuel and health insurance and it is not an option for many mothers to stay at home. It is also unfortunate that the divorce rate in our country continues to rise but it also means that women, like it or not, are almost forced to be financially savvy. So let's get started on the importance of understand how your money comes and goes through a paycheck and why you should care.

You earn an amount from your employer. You submit a time sheet or some type of data to your employer letting them know what work you have accomplished or the hours that you have worked. They take that data and process it through payroll. You then receive a net amount and it is direct deposited in your bank or you take a check to the bank and deposit it each pay day. We have established that there are taxes and deductions taken from your pay and you get what is left over. Now here is why it matters.

Unlike the popular thought that taxes and deductions are taken from your pay and there is not much you can do about it, ***there are portions of your pay that you can directly control to put more money in your pocket now!***

We are going to reference back to those pay check boxes again and go through the portions of those taxes and deductions that you have control over. I know what you are thinking! Not the boxes again, but bear with me. There will be strategies to help you put money into your family's hands. It will be up to you to decide what strategies to use and what your comfort level will be with their affect.

So let's get started.

Ok, the first thing you should take a serious look at is your Federal Withholding. Let me ask you a question; are you one of those folks that get a huge refund when you send in your Federal tax return? If you are, you might want to think about what you are doing. By allowing the federal government the use of your money throughout the year you are missing opportunities. Do you have credit card debt? Is the credit card company charging you interest on your outstanding balance? Then why "loan" the IRS your earnings when you have debt to pay? Yes you get a big refund at tax

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time, but what if you had use of that money throughout the year? What would you do with it? Could you pay down debt? Invest it? If you invest this money, even in a money market account you could be earning money with these funds instead of allowing the federal government to use it and then pay it back to you later.

You have to be careful with this one. Think about your comfort level. Are you comfortable using that money throughout the year or do you have a need to get this all in one lump sum? If you are not a disciplined saver then that lump sum return of your money might be attractive to you. You also have to make sure that if you decide to take that money now that you check with your accountant or with an online paycheck calculator at the very least to make sure you don't reduce your Federal Withholding too much and end up owing money at the end of the year. That will certainly not help you achieve your personal financial goals, not to mention the IRS frowns upon you owing them money. Ironic, isn't it?

There is another item on your paycheck that is important and can keep money in your pocket - it is your social security number. When we went through the individual boxes on our check stub I stated that you should NEVER see your entire social security number on your check stub. Instead, the number should be masked by stars or exes. Why? Because identity theft is a real threat in our society. So if your paycheck is lost in the mail, that is bad enough, but if your social security number is on it you are just asking for trouble. Check your latest check stub. If you see your social security number on your check contact your payroll administrator right away and they can have that number masked. It should be standard practice with payroll providers, but some are not paying attention to those trends that can affect the end user, namely, you.

Another item that can save you considerable money is that MED125 deduction. A lot of companies have their employees pay a portion of the cost of health insurance. With the increasing cost of health premiums it has become a necessity for most companies. But how can you paying toward your health insurance save you money? Remember this health insurance deduction is taken from your pay and is not taxed.

You cannot assume that if you have a health insurance deduction that it falls under a Section 125 plan. You have to ask your employer if they have this plan. If they don't you could ask them to research one. In the past it was a headache for companies to maintain a 125 plan. But now a plan that only contains health insurance premiums or a premium only plan has little administrative headache to it if your part of a company with under 99 employees.

Also, another way to save money through payroll is to ask your HR or payroll contact if your company has a Full Flex Plan as part of their 125 plan. What does this mean? A Full Flex Plan or A Flexible Spending Account as a part of a 125 plan gives you a great opportunity to save money. It allows you to have a predetermined amount withheld from your pay each year to pay for various medical needs. If you

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are having elective surgery, it could be run through the Flex account at your work, so you don't pay tax on that amount. Many Flex accounts have a list of items that you could put this money toward, such as, contact solution, certain over the counter medications, and even nicotine patches are reimbursable. The thing to watch with Flexible Spending Accounts is that they are what is called "use them or lose them". So if you have \$2000.00 deducted from your pay each year, but only submit reimbursements for \$200.00 then you lose the \$1800.00 you contributed. Check with your HR or payroll administrator to find out the rules to your company's Flexible Spending Account.

Another expense that you could be running through payroll using your company's Section 125 plan is Dependent Care. So if you have children that go to a day care facility during the week the amount that you pay to the day care could be run through your pay check and be deducted from you untaxed.

So to summarize this Section 125 plan, when these items are run through your paycheck on a pre-tax basis (meaning the amounts deducted from you are not taxable) you in effect save approximately an automatic 12-15% on health insurance, medical necessities, and child care. Really think about that statement. If you child's day care asked you if you wanted to save 15% on their fees, would you look into? If a pharmacy offered you savings of 15% off of all purchases would you go to there? This is like an automatic paycheck coupon to save your family money.

My final suggestion is what is missing from our check stub. There is no 401(k) or Simple IRA deduction on our stub. These are savings for retirement accounts that are taken from your pay and are not subject to Federal Withholding. If your company offers one of these options look into it. 401(k) plans are run according to the way your company sets them up, so the rules are not standardized. However, many companies offer what is called an employer match for deductions that you make into this type of retirement account. If your company does offer a match then this is instant earnings on your contributions. Simple IRA plans require an employer match so you are guaranteed to have an immediate return on your investment.

Consider carefully before you decide that you are not going to participate in one of these plans. If you put aside even a small amount I would venture to say that you are not going to miss that money on a per pay basis and it will go to securing you financial freedom when you retire.

So now your paycheck should not just be a piece of paper to you. The mystery of what is taken out and why has been explained. I would challenge you to think about some of these strategies for putting money back into your pocket to see how you can save your family money through payroll. Of course, everyone's financial situation is different, so review these strategies with your financial professional before implementing them.

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I would also challenge you to look at your pay stub each pay period. The more you look at it the more familiar you become with it and you will start to know what to expect. When you know what to expect then you will get a feel for what you are paid, when you are paid and how you are paid. Knowledge is one of the first steps toward becoming more financially savvy.

About the author

Meg Eynon is the Vice President of The Payroll Factory and has over thirteen years of experience working with businesses to implement procedures that help manage the process of producing payroll.

Special Offer:

Have you ever said to yourself "There has to be a better way of doing payroll"? I'm here to tell you that there is. If you are tired of being treated like a number instead of a person or if you just know that there has to be an easier way for you to submit payroll to your service provider then call me. For a limited time I am offering a free 30 minute consultation to review your company's payroll and find you ways to save time and money! I can be reached at 610.644.4569. This offer is good until May 25, 2011. Don't miss the opportunity!

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The information contained in this article is to be used to provoke a conversation with your financial professional. Any suggestions by the author need to be reviewed by your accountant or financial advisor to make sure that these strategies are appropriate for your financial situation before being implemented.