CHAPTER 3: Entering the Workforce

Did You Know?

Employees do not take home every dollar they earn. A percentage of what you earn is deducted as tax to pay for programs such as Social Security and Medicare. It amounts to approximately 7.65% of what you earn. In addition, withholding for income taxes is also automatically deducted from your wages by the federal government and usually by your state as well. Federal taxes range from 10-35% of income, while state taxes can be anywhere from 0-13% (current as of 2018).[6, 7]

When searching for the right job, it's important to consider the entire compensation package offered by a potential employer. By learning to understand various types of compensation and how to calculate the total value of that compensation, you can ensure you are getting the most from the job you choose.

Compensation Basics

Once you have completed your post-secondary education or job training program, you will begin seeking employment. As you look at which jobs to apply for and consider various employment options, understanding the entire **compensation package** being offered and analyzing its value are important parts of the decision-making process.

First, consider employment status:

- **Exempt** employees (also called "salaried") are expected to perform full-time job-related work for a set amount of money, regardless of whether or not they work more than 40 hours.
- **Non-exempt** employees are paid on an hourly basis. In these types of positions, the **hourly wage** can vary greatly, depending on the duties and responsibilities of the job and the policies of that particular company.
- **Contract** or **freelance** workers are generally paid a flat fee for a project or period of time, like a day rate, regardless of the number of hours they work.

Full-time employment is typically considered 40 hours per week, but many salaried workers put in more hours, sometimes many more. On the other hand, federal law requires that non-exempt workers be paid an overtime rate of 1½ times the hourly rate for all time they work in excess of 40 hours each week. While hourly pay may seem to be the better option if one expects to work overtime, the drawback is that exempt employees are often paid for days they are sick or on vacation, whereas non-exempt employees are usually only paid for the hours they actually work.

[6] www.irs.gov/Individuals/Employees/Tax-Withholding
[7] taxfoundation.org/state-individual-income-tax-rates-brackets-2018/

Next, it is important that you clearly understand exactly how you are being paid.

- Your **base pay** rate: For salaried positions, this figure is typically provided as a monthly or annual salary amount. For hourly positions, this amount is provided as an hourly wage. The federal government sets standards for the minimum hourly wage that employers must pay non-exempt employees, but many hourly positions pay well above this minimum.
- Additional earning opportunities are often presented as a **bonus** or **commission**. In both cases, this is money that is offered to the employee in addition to the base pay. Sometimes known as **variable pay**, the employee usually has to earn the bonus or commission by achieving a set objective, like reaching a certain amount of sales, reducing expenses by a specific percentage, boosting department productivity, etc. Bonuses are typically paid as a flat sum, whereas commissions are usually a percentage amount based on the achieved financial goal.

Finally, look at the complete benefits package being offered. This can include:

- **Health insurance** is the primary means that most employers use to assist employees with the costs of medical, dental, and vision care. Employers often pay a part or all of an employee's insurance premiums, sometimes including the cost for their family members' coverage. This means the employee can gain medical, dental, life, vision, and/or disability insurance at a reduced cost or even at no cost. Health care can be expensive, so the types of insurance and amount of money an employer contributes should be carefully considered.

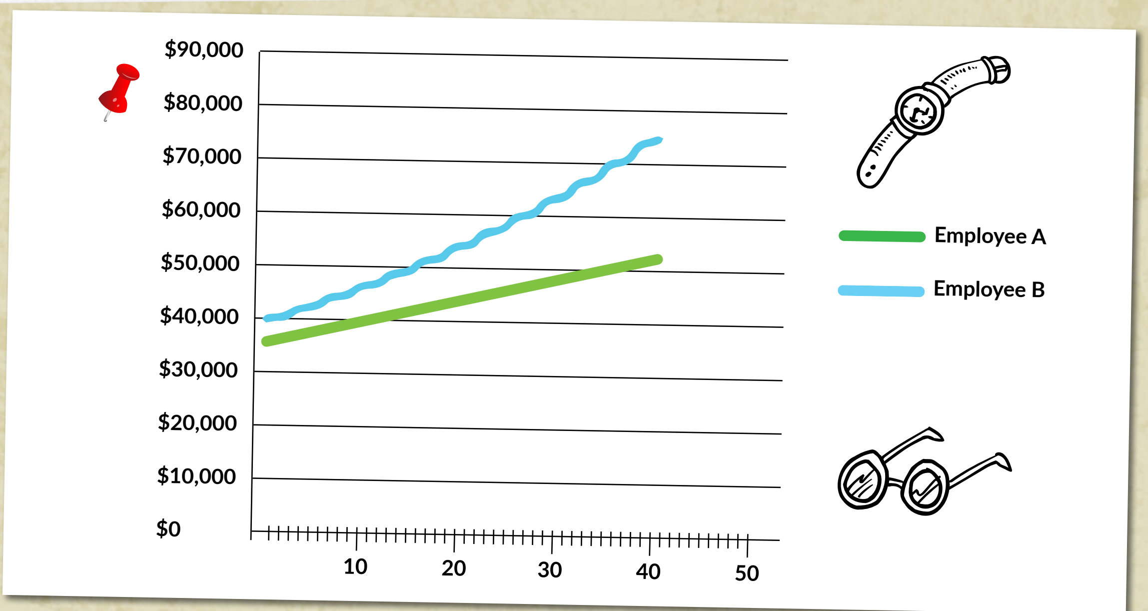
- Another important factor to consider when reviewing a job offer is the amount of **paid time off (PTO)** you will receive. Paid time off can be used for many things — attending to personal business, illness, etc. It can also include set holidays, such as Thanksgiving, where the employee is paid even though the office is closed, or a number of personal vacation days where employees are paid their usual pay even though they are not performing any work.
- Many employers also offer **sick leave**, so that if an employee is ill or temporarily disabled, days may be taken off from work. Some employers offer full or partial payment for a certain number of sick days each year, while others allow employees to take sick days without pay. Some employers will allow staff members to use sick leave to care for a child or relative, as well — this is an important consideration for employees with family responsibilities. Often, companies with a PTO program will combine time allowed for vacation and sick leave.

- Some employers will contribute to your retirement savings through a **retirement matching** program. Typically, the employer will provide access for an employee to open and contribute to a retirement account, such as a **401(k)**. Then, for every dollar the employee saves, the employer will contribute a matching percentage, up to a specified maximum benefit. Some programs may be **vested**, meaning that an employee will need to work for the company for a certain amount of time in order to keep the money that the company has contributed. This is a direct monetary benefit that can have a long-lasting impact on retirement savings.
- **Profit sharing** is another popular benefit that some employers offer. By issuing stocks, bonds, or cash, the employer shares some of the company's profits with employees. Most of the time, this is not a guaranteed benefit. The company must reach a certain profit level before profits are shared with employees.

Special Circumstances

Some workers belong to **labor unions** that negotiate benefits on their behalf. Unions are member-based organizations and are prevalent in certain industries including construction, shipping, film and television, and for many public service fields like teaching and police work. Unionized workers typically pay periodic dues to the union and receive a benefits package that may include health care or health insurance, disability and life insurance, and a pension. A **pension** is a retirement account that is funded entirely by the employer and the recipient is guaranteed a set income amount upon retirement.

A growing subset of the workforce is employed as contract, or freelance, workers (also called "independent contractors"). Freelancers are considered self-employed, and as such, they typically don't receive benefits like health insurance or retirement plans, which saves money for employers. They are also required to pay their own Social Security and Medicare taxes. To offset this, freelancers are generally paid a much higher hourly rate. They also have the flexibility to set their own hours, work for multiple companies, and choose many other aspects of their working conditions. Employers often use a freelance model when a project is temporary or if there isn't enough work to pay a full-time employee.



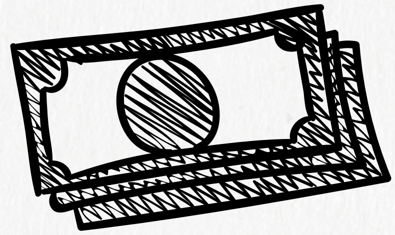
Negotiating

Most workers think they have to accept job offers as they are presented, but you can — and should — negotiate. Your starting salary can have a big impact on lifetime earnings, so it's a critical time to get a boost. In the diagram above, Employee A accepts a job offer of a $35,000 annual salary, and receives a 1% raise each year. Employee B negotiates for a starting annual salary of $40,000. In addition to a 1% raise each year, this employee continues to negotiate and receives a 4% raise every third year. Look at the difference in salary after 40 years, when both employees are ready for retirement. You can also negotiate for increased benefits, like extra PTO, flexible hours, or an additional retirement benefit.

Activity 1

PART 1: COMPENSATION BASICS

Read each of the scenarios below and answer the questions that follow.



SCENARIO 1: Hourly vs. Salary Pay

Job 1: Exempt position, base pay = $2,500/month, average work week = 47 hours

Job 2: Non-exempt position, base pay = $10.25/hour, average work week = 47 hours

- What is the weekly pay for Job 1?

  $____

- What formula did you use for this calculation?

  ____

- What is the weekly pay for Job 2?

  $____

- What formula did you use for this calculation?

  ____

- Which of the two jobs would you rather have? Why?

  ____

SCENARIO 2: Bonus & Commission

Job 1: Your boss offers a monthly bonus of $200 if you obtain five new customers each month.

Job 2: Your boss offers you a 3% commission for every dollar's worth of product you sell.

- Assume you meet the goal of obtaining five new customers per month for 10 of the 12 months of the year. How much would you earn in bonus money for the year?

  $____

- Assume you sell an average of $700 worth of product each week. How much would you earn in commission for the month?

  $____

- How much would that amount to over the course of one year?

  $____

- Based on your calculations, and assuming identical base pay, which of these is a better paying job? Why?

  ____

Activity 1

PART 2: BENEFIT BASICS

Read each of the scenarios below and answer the questions that follow

SCENARIO 1: Insurance Benefits

Job 1: The employer will pay half of the monthly insurance premiums for your medical, dental, and vision insurance. The total cost for these each month is $470. The employer also provides disability insurance at no cost and an amount of life insurance equal to one year's salary at no cost.

Job 2: The employer will pay 75% of the $500 monthly insurance premiums for your medical and dental insurance. Employees can purchase vision insurance for $5 per month and disability insurance for $35 per month, and the employer provides an amount of life insurance equal to the value of 1½ times a year's salary at no cost.

- For Job 1, how much would you have to pay for your half of the medical, dental, and vision insurance and all the other benefits listed?

  $______________________________

- For Job 2, how much would you have to pay for your portion of the medical, dental, and vision insurance and all the other benefits listed?

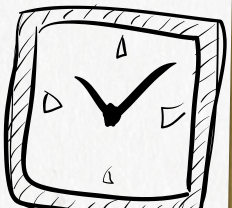
  $______________________________

- All other things being equal, which job would you rather have? Why?

  ____

  ____

SCENARIO 2: Paid Time off



Job 1: The employer offers you five paid holidays, 40 hours worth of paid time off, and two days of paid sick leave each year. All other days missed from work are unpaid. Your hourly wage is $12.00.

Job 2: The employer offers you three paid holidays and 80 hours worth of paid time off to use as vacation or sick leave if needed. All other days missed from work are unpaid. Your hourly wage is $12.00.

- What is the total value of your paid time off for the year for each job?

  Job 1: $_______________ Job 2: $_______________

- Which of these is the better financial offer? Explain why.

  ____

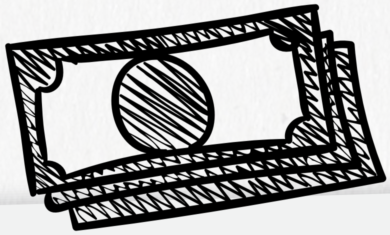
  ____

  ____

Activity 1

PART 3: MORE COMPENSATION OPTIONS

Read each of the scenarios below and answer the questions that follow.



SCENARIO 1: Retirement Matching

Job 1: The employer will match $.50 for every $1 you contribute to your 401k, with a maximum benefit of 8% of your salary per year.

Job 2: The employer matches $.75 for every $1 you contribute to your 401k, with a maximum benefit of $3,000 per year. It is vested over 3 years; if you quit in one year, you can keep 30% of the employer's contribution; 2 years, 60%; after 3 years, you can keep the entire contribution.

Assume that both employers are offering the same salary, $40,000.

- If you are able to contribute $2,000 each year to your retirement, how much will each employer match?

  Job 1: $____________________ Job 2: $____________________

- How much would you have to contribute to maximize your employer's contribution at Job 1? $__________
- How much money in total will have been contributed? $____________________
- How much would you have to contribute to maximize your employer's contribution at Job 2? $__________
- How much money in total will have been contributed? $____________________
- Assuming all other benefits are the same, which package would you prefer? Explain why.

____

____

____

____

SCENARIO 2: Freelance Compensation

Job 1: You are an exempt employee with a base salary of $30,000 per year. You get 2 weeks PTO in addition to your base salary and the employer pays $300 per month toward your health insurance premium, which totals $500. You have to pay a total of $2,295 per year in Social Security and Medicare taxes.

Job 2: You are a freelancer with a base pay of $800 per week, and you work 50 weeks per year. You have to pay $500 per month for health insurance and your yearly Social Security and Medicare taxes are $4,590.

- Which package has a higher total value? Show the math to explain why.

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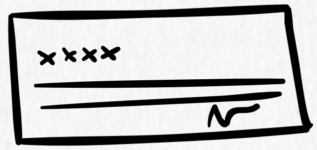
____

____

____

Activity 2

UNDERSTANDING YOUR PAYCHECK



The amount of money your employer sets as your salary is not the final amount of money you will receive in your paycheck. There are a number of deductions and taxes that are removed from the **gross pay**. The remainder — what you actually receive — is your **net pay**. Take a look at this paycheck stub, then answer the questions below to learn more.

1. On the wages side, you can see that this is a non-exempt employee who is paid by the hour and receives 1.5 times her hourly rate for overtime. She also gets holiday pay and reimbursement for tuition as benefits.

2. On the deductions side, you can see the **withholding taxes** and benefit contributions taken out of the employee's pay each week.

3. Exempt and non-exempt workers have **income taxes** taken out of their pay and sent to the federal government, usually the state government, and sometimes to the city where they live or work. They also have taxes deducted to fund the federal Social Security and Medicare programs. These are called **FICA** taxes and amount to 7.65% of the money earned on the first $128,400 of income (current for 2018).

4. These columns show the total amounts for the "Year to Date." After this first paycheck of the year, these numbers will increase each week.

ABC Corp.
450 Chamber Street
Somewhere, USA 00010

Employee's Name: Mary Smith
Social Security #: 999-99-9999
Period End Date: 01/07/20

1 WAGES			CURRENT 4	Y-T-D	2 DEDUCTIONS	CURRENT	Y-T-D 4
Description	Hours	Rate	Amount	Amount	Description	Amount	Amount
Regular	40.00	10.00	400.00	400.00	Federal Withholdings	37.29	37.29
Overtime	1.00	15.00	15.00	15.00	Social Security Tax	24.83	24.83
Holiday				0.00	Medicare Tax	5.81	5.81
Tuition Reimb.*			37.43	37.43	State Income Tax 3	8.26	8.26
					City Income Tax	5.72	5.72
					Other:		
					401(k)*	27.15	27.15
					Life Insurance*	2.00	2.00
					Loan	30.00	30.00
					Dental*	2.00	2.00
					Healthcare*	20.00	20.00
Totals			452.43	452.43	Deduction Totals	163.06	163.06
Taxable Gross			363.85	363.85			
					NET PAY	289.37	289.37

* non-taxable

- How many hours did Mary Smith work last week, including overtime? ____________________
- What benefits does this employer offer? ____________________
- What deductions are non-taxable and subtracted from the gross pay before taxes are calculated? ____________________
  ____
- Does Mary Smith pay taxes on the tuition reimbursement? ____________________
  How can you tell? ____________________
  ____
- How much did Mary Smith put into the 401k? $ ____________________
- How much did she pay for dental, healthcare, and life insurance? $ ____________________
- Using the data from the current pay period, how much will be withheld for this employee's annual federal income and FICA taxes? $ ____________________
- What percentage of the money earned was actually paid to the employee? ____________________%

If you are a freelancer, none of the deductions shown on this paycheck stub will be made for you. You will receive a check for the entire sum of your compensation, whether it is a flat fee or hourly rate, and then *you* will be responsible for filing and paying taxes on your own.

Activity 3

PUTTING IT ALL TOGETHER

Imagine that you currently have a job you enjoy, but have been hoping to find opportunities to increase your income. After interviewing and doing some additional online training, you think you've found the right position. Use what you have learned about making a living to complete the table, and then answer the questions comparing your current job to the new position.

Current Job

- Non-exempt, $14.25 per hour
- Average 44-hour work week
- Up to 5% salary in commission for meeting sales goals
- Currently pay $80 per week for health and dental insurance
- No vision, life, or disability insurance
- PTO is equal to 60 hours annually at your hourly wage
- 5 paid holidays (totaling 40 hours)
- Withholding taxes average $85 per week

Job Offer

- Exempt employee, $2,500 monthly salary
- Average 48-hour work week
- Opportunity for a bonus of up to $150 monthly for meeting sales goals
- Would pay $300 per month for health, dental, and vision insurance benefits
- Disability and life insurance of 1.5 times your salary at no cost
- 5 paid holidays and two weeks (10 days) of paid time off for vacation, illness, etc.
- Withholding taxes would average $320 per month

Use a calculator to enter this data into the comparison chart below, then answer the questions. Use these equations to calculate annual gross pay for each job:

Current Job: (Hourly Pay x 40 hours) + (1.5 x Hourly Pay x Hours above 40) x 52 weeks

Job Offer: Monthly Pay x 12 months

1. What is the annual net pay for your current job? $__________
2. What would be the annual net pay for the job being offered? $__________
3. At which job could you earn more variable pay? How much more?__________
4. Aside from salary, which job offers a better benefits package? Explain why.__________
5. Based on your calculations, which job makes better financial sense, your current job or the job offer? Explain why.__________

	CURRENT JOB	JOB OFFER
Annual Gross Pay	$	$
Annual Bonuses/Commissions	$	$
Annual Health & Dental Cost	$	$
Disability/Life Insurance	$	$
PTO Per Year (hours)	$	$
Tax Withholding Per Year	$	$
Net Pay	$ 0.00	$ 0.00

Bonus Round: **You have decided to take the new job, but plan to negotiate for a better compensation package. Make a list of three areas where you would like to negotiate and explain why you think you should receive more compensation.**

1. __________
2. __________
3. __________

CHAPTER 4: Taxes

Did You Know?

In fiscal year 2018, the federal government spent $4.11 trillion, amounting to 20 percent of the nation's gross domestic product (GDP). Of that $4.11 trillion, $3.33 trillion was financed by federal revenues.[7]

Benjamin Franklin once said, "In this world nothing can be said to be certain, except death and **taxes**." Truly, taxes are a part of everyday life. We pay taxes on the things we buy, and on the money we earn. We pay taxes on the property we own and inherit. But what are taxes? It is through taxation that federal, state, and local governments are able to provide programs and services that benefit their citizens and others. These include roads and highways, public education, financial assistance for those affected by natural disasters, police protection, the military, and other services. As you head out into the workforce, it's important to understand how taxes and tax laws can affect your earnings and spending habits.

Types of Taxes

You are probably already familiar with **sales tax** and **excise tax,** which are paid when you purchase goods like clothing and gasoline. Most people who own real estate are also subject to **property taxes**, which are typically paid to a state, town, or county. In general, at least 30% of the money collected from property taxes is used to pay the cost of running public schools in that city or county. Property taxes are based on the **assessed value**, which is often less than the **market value** of a property.

Payroll taxes are the federal, state, and local taxes paid on income and to support the Social Security and Medicare programs. Employees pay a tax rate of 6.2% for **Social Security**, which is matched by their employers, and which is only applied to the first $128,400 of wages (as of 2018; the cap gradually increases each year). Employees pay an additional tax rate of 1.45% for **Medicare**, which is also matched by employers; there is no income limit on this tax. The two are usually calculated together, at 7.65%. Independent contractors (freelancers) pay both the employee taxes and the employer portions of these taxes, for a total of 15.3%.

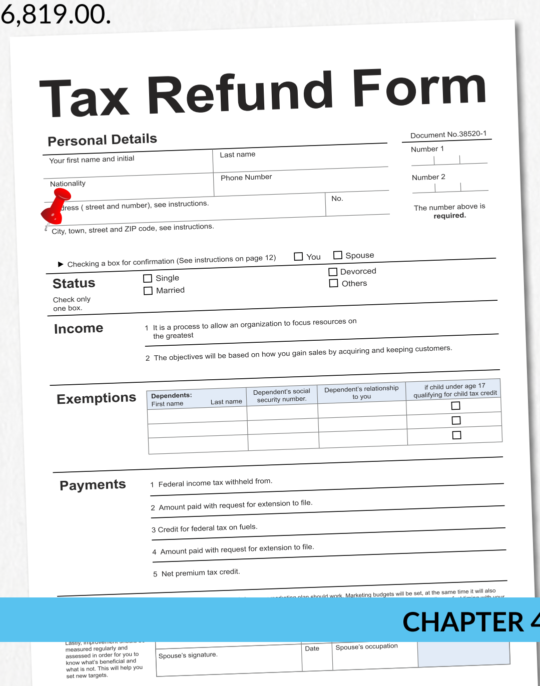
Other taxes include **estate taxes**, which are paid when someone inherits property or a large sum of money; licenses and occupational fees paid by certain types of businesses to the state in which they operate; and registration costs for cars, boats, and other vehicles.

Income Tax

The biggest tax paid by most people is **income tax**. Income taxes are typically charged by federal and some state and local governments and are based on the wages, salaries, tips, and investment income earned by an individual during each calendar year.

When you begin working, you will fill out a **W-4** form that identifies, among other things, the number of **dependents** you are supporting with your salary, and where you live and work. Your employer will use this information to take money out of each paycheck and submit it, as a tax payment, to the **U.S. Treasury** through the **Internal Revenue Service**. At the end of the calendar year**,** each worker must then file a **tax return** that shows how much income you earned and how much income tax you must pay.

Income tax varies from person to person, calculated as a percentage of earnings. In the U.S. we use a **progressive tax rate**, meaning that the higher the taxable income, the higher the tax rate. Tax rates also depend on whether you are single, married, or widowed. For example, a single adult earning $60,000 per year would owe $9,139.50, while a married couple earning the same combined income would owe $6,819.00.



[7] FY2018 spending: www.usaspending.gov; FY2018 GDP: www.bea.gov/news/2019/gross-domestic-product-4th-quarter-and-annual-2018-third-estimate-corporate-profits-4th; FY2018 revenue: www.thebalance.com/current-u-s-federal-government-tax-revenue-3305762

The amount of tax you owe is also dependent on a number of special circumstances. The government allows people to deduct certain expenses, like student loan interest, from taxable income. Other items, like childcare costs, are subtracted from the amount of tax you owe, after the tax rate is applied.

- A tax **deduction** is an amount of money that is subtracted from your taxable income, before the tax rate is applied. So, if you earn $100,000 and have $30,000 in deductions, your **taxable income** is only $70,000. Federal laws allow taxpayers to deduct what they've paid for:
  - State taxes and property taxes, up to a total of $10,000 (as of 2018)
  - Interest on mortgages and student loans
  - **Charitable donations**
  - Medical expenses that total more than 7.5% of income
  - Certain business expenses, such as work travel and industry memberships
- **Itemized deductions** are expenses that taxpayers list and deduct from their income. When a taxpayer's itemized deductions add up to less than a certain amount, a standard deduction is applied. Currently that amount is $24,000 for married couples filing jointly and $12,000 for single workers (as of 2018).
- A **tax credit** is an amount of money that is subtracted from your tax bill after it is calculated based on your taxable income. Tax credits are often more valuable than deductions because they reduce your taxes dollar-for-dollar, while tax deductions reduce it only by lowering your taxable income.

This can seem complicated, but it comes down to five steps:

1. Add up your gross income. You will receive reports from your employer and any other sources of income that detail how much money you earned:
   - Employment income is reported to you and the IRS on a form called a **W-2**.
   - Income from investments, inheritance, and real estate is reported on a form called a **1099**. Freelance income is also reported with a 1099 form.
2. Determine your taxable income by subtracting any applicable deductions.
3. Multiply taxable income by the applicable tax rate.
4. Subtract any credits from the amount you owe.
5. Remember how you had tax withheld from each paycheck during the year? Once you determine how much money you owe in taxes, the final step is to subtract the amount you already paid through withholding from the amount you owe. If your employer withheld less than you owe, you'll have to pay the difference when you file your tax return. If your employer withheld more than what you owe, you'll get a **refund**.

Activity 1

TACKLING TAXES

Property and Other Taxes

Calculate the taxes for each of these scenarios.

SCENARIO 1:

Your parents own a home with an assessed value of $175,000. The annual property tax rate in your county is 1.2%. Calculate the annual property taxes for the house:

Assessed value $________ x Tax Rate ____% = Annual Taxes $0.00

SCENARIO 2:

You live in a home with an assessed value of $115,000. Last year, you paid $1,500 in taxes. This year, the property tax rate is going up to 1.75%. How much more will you pay in annual property taxes for the house?

Taxes at new rate $______________ – $1,500 = $______________

SCENARIO 3:

You own two vehicles, one with an assessed value of $1,500 and another with an assessed value of $9,250. The vehicle tax rate in your county is 2%. How much tax will be due for both vehicles together? $______________

Income Taxes

Use what you've learned about the federal income tax to help the Robinson family figure out what they owe.

The Robinsons, a family of five with both parents working, earned a total of $125,000 this year and had the following expenses:

- Property taxes paid: $8,000
- Mortgage interest paid: $9,000
- State/city taxes paid: $5,000
- Charitable contributions: $700
- Medical expenses: $1,500
- Childcare: $10,000

1. What are the Robinsons' total deductible expenses? $______________
   How did you calculate this number?____
2. Are the Robinsons' expenses higher or lower than their standard deduction? Calculate their taxable income accordingly:
   $125,000 – $______________ = $______________

Activity 1

TACKLING TAXES (CONTINUED)

3. Use the tax bracket chart below to calculate the amount of tax due on the Robinsons' taxable income before credits are taken:

   10% x $19,050 = $________ +12% x ($77,400 – $19,050) = $________ +22% x ($________ – $77,400) = $________

   TOTAL = $ 0.00

4. The family discovers that they are eligible for several credits — a $2,000 **child tax credit** for each of their three children, and 25% of childcare costs up to a total of $6,000. What is the total amount of annual tax they now owe? $____________

5. Assume that one of the parents earns an income of $69,000 annually, and receives a paycheck every two weeks. The employer deducts $299 for federal taxes and $109 for state taxes from each paycheck. The employer also deducts $75 for health insurance.

   - Determine the amount of each paycheck before taxes are withheld: $69,000 ÷ 26 = $____________
   - Calculate the total deductions made from each paycheck, including payroll taxes.
     Federal tax $__________ + State tax $__________ + FICA taxes (.0765 x $__________ =) $ 0.00
     + Health insurance $_________ = Total deductions $ 0.00
   - Subtract this number from the gross paycheck amount to find the take-home pay. $____________
   - Calculate the amount of federal tax that has been withheld from this parent's paychecks for the year. $___________

6. Suppose that the other parent had $180 withheld for federal taxes from each of 26 paychecks throughout the year. How much total federal tax has already been withheld for the second parent? $____________

7. Add the total federal tax that has been withheld for both parents. Is it more or less than the family owes for annual federal taxes?____________ What will happen to the difference?________________________________

Tax Bracket Chart

Individual Taxpayers		Married Individuals Filing Joint Returns and Surviving Spouses	
If Taxable Income Is Between:	**The Tax Due Is:**	**If Taxable Income Is Between:**	**The Tax Due Is:**
0 - $9,525	10% of taxable income	0 - $19,050	10% of taxable income
$9,526 - $38,700	$952.50 + 12% of the amount over $9,525	$19,051 - $77,400	$1,905 + 12% of the amount over $19,050
$38,701 - $82,500	$4,453.50 + 22% of the amount over $38,700	$77,401 - $165,000	$8,907 + 22% of the amount over $77,400
$82,501 - $157,500	$14,089.50 + 24% of the amount over $82,500	$165,001 - $315,000	$28,179 + 24% of the amount over $165,000
$157,501 - $200.000	$32,089.50 + 32% of the amount over $157,500	$315,001 - $400,000	$64,179 + 32% of the amount over $315,000
$200,001 - $500,000	$45,689.50 + 35% of the amount over $200,000	$400,001 - $600,000	$91,379 + 35% of the amount over $400,000
$500,001 +	$150,689.50 + 37% of the amount over $500,000	$600,001 +	$161,379 + 37% of the amount over $600,000