

# Bringing in the Money: A Look at Personal Income

**SUBMITTED BY:** Wharton, the Muriel F. Siebert Foundation and the New York City Department of Education

**SUBJECT(S):** Personal Finance

**GRADE LEVEL(S):** 9, 10, 11, 12

## ≡ OVERVIEW:

Personal financial decision making begins the day someone has an income and wants to control how the money is saved or spent. Although income is often equated only with a paycheck, it can include commissions, interest, profit from investments and other sources. A graduation gift of money, payment for dog walking, a weekly allowance or a paycheck from summer jobs are all income. This lesson plan helps students define income and where it comes from.

## ≡ RELATED ARTICLES:

- [“The Paycheck Breakdown: What You Earn Is Not What You Keep”](#)
- [“Live Long and Prosper: Planning for a Social Security Shortfall”](#)
- [“How an Investment-minded Student Started Financial Literacy for You”](#)
- [“Career Insight: Jerrold Fine on What It Takes to Succeed on Wall Street”](#)
- [“Brandon Martin: A High School Student’s Taste of Fresh Eggplant and Entrepreneurship”](#)

**Subject:** Learning What Income Is and Where It comes From

**What Students Will Learn in This Lesson:**

Students will learn what income is and where it comes from. The paycheck that people receive for their labor (by providing human resources) is called *earned income*. Earned income can come from a monthly salary, an hourly wage, piecework, or bonuses.

Over and above salaries or wages, some people receive indirect payments or employee benefits that include sick and vacation pay and health insurance. Transfer payments from the government including welfare and other forms of public assistance are also income. Information on the concept of overtime pay, tips and commissions are discussed in accompanying websites.

The student about to receive a first paycheck for summer work often assumes that the amount of the check is calculated by simply multiplying the hourly wage rate times the number of hours worked. The first paycheck is when many young adults learn the difference between net and gross income.

In this lesson, students will also complete an activity that focuses on choosing a summer job using a five-step decision-making process. In addition, students will analyze some of the determinants of income — focusing on choices related to training and education and saving and spending decisions.

### **Exercises for Students to Do in Class:**

1. Write on the board: *What is income in our economy?* Ask students to pair and share what they consider income. Encourage them to reach definitions without using a dictionary and to make lists of what income comprises (e.g., paycheck, allowance, gifts of money, rent from property, interest payments, bonuses). Discuss the lists.
2. Ask students to review their own lists and place an N (income now) next to their present source of income and an F next to the items on their lists that could provide future income. There are some items they might consider as NF (now and future). These lists can be saved and used for discussions in other lessons on how future income is determined by the type of personal financial planning people pursue and choices they make about education, training, saving, spending, and investing.
3. Provide students a working definition of income so that they understand the broad range of what income includes. Explain that for most people the majority of income derives from a paycheck. Ask how many students have ever received a paycheck. Follow up by asking these students if there were any surprises that came with their first paycheck. Responses might include surprise at the amount of deductions for someone working at or just above minimum wage, or the percentage that was withheld for taxes. Others might complain about how much the

employer kept of their money. Some students might express frustration that there was no overtime or sick-day pay.

4. Discuss with students that each paycheck has a stub or section listing the amounts deducted for that pay period. Explain that there are two kinds of deductions: those that are mandatory and those that are voluntary. List the following compulsory (mandatory) tax deductions on the board and ask students to help define what these deductions fund.

- Federal taxes
- Local taxes, [if any]
- State taxes
- FICA taxes: Social Security, Medicare

Have students read the Wharton Global Youth Program article titled, [The Paycheck Breakdown: What You Earn Is Not What You Keep](#). Discuss the checklist on pay stubs offered by the director of education and training at the American Payroll Association.

5. Show a W-4 withholding form. Explain that all employees must complete a W-4 listing the number of exemptions they claim. The number of exemptions helps determine the amount of taxes taken from a paycheck.

6. Explain the difference between gross and net income, and give examples. Explain also the difference between wages and profits.

### **Assignment:**

Students should read the descriptions of the three summer jobs below and — working in groups or in pairs — select the job they would want to do.

#### **Central Gourmet Pizza Shop**

*Counter Person*

30 hours per week, no weekend work

Hourly Wage = \$9.50 per hour

Pay Period = Weekly

Voluntary — All employees (part- and fulltime) can contribute to a savings plan.

Benefits — None

**Claxton Skateboard Shop***Sales and Inventory Work*

35 hours per week, some evenings and weekends

Hourly Wage = \$8.75 per hour

Pay Period = Weekly

Voluntary — All employees (part- and full-time) can contribute to a savings plan

Benefits — 20% discount on purchases

**Wilde's Pet Store***Sales and Animal Care*

40 hours per week, Tuesday through Saturday (daytime only)

Hourly Wage = \$8.25

Pay Period = Weekly

Voluntary — All full-time employees (40 hours a week) can contribute to a savings plan.

Benefits — None

In determining which job they might want, students should consider such things as which pays the most, which requires weekend work, which has opportunities for training, which sounds most interesting, etc. Discuss how students made their choices (what were the criteria they used?). What were the opportunity costs associated with their choices? How did personal goals or values influence the decisions? What were the incentives?

**Using WGYP as a Resource:**

Read [Brandon Martin: A High School Student's Taste of Fresh Eggplant and Entrepreneurship](#)

Discuss what the job benefits are to Brandon Martin, besides his paycheck. Does minimum wage describe the type of job he has? What are the more intangible benefits? What were the 'opportunity' costs to him?

What type of summer job would you be willing to do that paid minimum wage but had other benefits that appealed to you?

**Extending the Lesson**

**Social Security:** Have students interview family members or other adults they know who receive employee benefits from Social Security or Medicare taxes. They might focus their questions on how such benefits can affect an entire family and not just the recipient. Discuss why some people believe that social insurance (i.e., Social Security) is a family affair.

**Payroll taxes:** Have students report on mandatory tax deductions from paychecks. Review “the role of government in the economy”; i.e., how taxes pay for goods and services provided by the government. Ask students to consider the reason why the government does not wait until once a year (April 15) to collect all the taxes. What are the advantages to the government of payroll taxes? Are there advantages for the taxpayer?

**Entrepreneurship and Payroll Taxes:** Have students research how a person who works independently (is self-employed) pays mandatory taxes and might also contribute to a retirement plan. Students could compare the differences between tax payments by a self-employed person and an individual employed by a company.

Another very useful WGYE article for this lesson can be found at <https://kwhs.wpengine.com/2012/07/sharing-your-income-with-uncle-sam-the-realities-of-taxation/>.

### Useful Internet Sites:

**U.S. Department of Labor** information on overtime pay, tips, commissions, bonuses and other forms of payment

**Internal Revenue Service (IRS).** All federal tax forms and instructions can be downloaded as pdf files.

**New York State Department of Taxation and Finance.** Some state tax forms and instructions are downloadable here.

**U.S. Treasury FAQs:** Income Tax, Liability and Payments. This page answers questions relevant to students on payroll deductions, tax liability for part-time work, unemployment insurance, and tip income.

**U.S. Treasury FAQs** on personal finance topics, including banking, saving, investment, insurance, and other issues, are answered on this site.

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