



# PUTTING YOUR *Paycheck* TO WORK

FEDERAL RESERVE BANK OF KANSAS CITY

FACT SHEET 3

## MANAGING YOUR PAYCHECK - *DEDUCTIONS*

*Your employer is required to withhold money for items such as taxes, Social Security and Medicare. Additionally, with your consent, your employer can deduct medical insurance, parking fees or savings programs. It pays to understand how each of these items affects your paycheck — and how you can manage them to best meet your needs.*

### DEDUCTIONS: WHAT ARE THEY FOR?

You can have deductions from your paycheck for many different reasons. In general, deductions from your payroll make it more convenient for you to pay for a service or product. One example could be for services that your employer offers, such as a uniform cleaning service, reduced price meals, or a parking permit.

Other deductions can be for benefits offered by your employer. You may be able to purchase medical insurance, life insurance and contribute money to flexible spending accounts for medical and childcare needs. Your employer may also offer different types of retirement savings plans that you can contribute to through deductions.

While these services and benefits do cost money from your paycheck, they may be more affordable than you think. You need to consider the cost and how it will affect your taxes and net pay.

### BEFORE TAX AND AFTER TAX DEDUCTIONS: WHAT IS THE DIFFERENCE?

You may have some benefits available that can be paid for before your taxes are calculated. This reduces your taxable income and lowers the amount of taxes deducted from your paycheck. The benefit will feel like it cost less because it will reduce your taxes. In the end, the cost of the benefits may be less than you think because of the tax savings.

Several common before-tax benefits include medical insurance, retirement plans, commuting expenses, and flexible spending accounts for health care and childcare expenses.



## MANAGING YOUR PAYCHECK - DEDUCTIONS

### REVIEW BENEFITS BEFORE MAKING A DECISION

Carefully review any deductions that you have from your paycheck. Check with your employer to learn about the different benefit plans offered through payroll deduction and how those costs may affect both your taxes and your net pay.

However, if you do sign up for a benefit, be sure that you use it to get the most from your savings. Several online paycheck calculators are available to help you see the impact of benefits on your paycheck.

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### ACTIONS TO GET MORE FROM YOUR PAYCHECK

1. *Check with your employer about the benefits offered*, such as retirement programs, medical insurance, and tuition reimbursement. A benefit may make only a small difference in your net pay because of its effect on your tax withholdings.
2. *Contribute to an employer-sponsored retirement savings plan* – especially if your employer offers to match part of your savings.
3. *Use a free online paycheck calculator* to help you determine the impact on your paycheck.



### VISIT [HTTP://PAYCHECK.KCFED.ORG](http://PAYCHECK.KCFED.ORG)

for additional information and resources about understanding and managing your paycheck. This publication presents general information of interest to the public. It is not intended to provide specific advice or recommendations. *Fact sheets in the series "Putting Your Paycheck to Work" include:*

- *Understanding Your Paycheck*
- *Managing Your Paycheck – Withholdings*
- *Managing Your Paycheck – Deductions*
- *Getting Your Paycheck: Direct Deposit, Check or Payroll Card*
- *Expanding Your Paycheck: Benefits and Services to Consider*
- *Ten Actions to Get More from Your Paycheck*

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