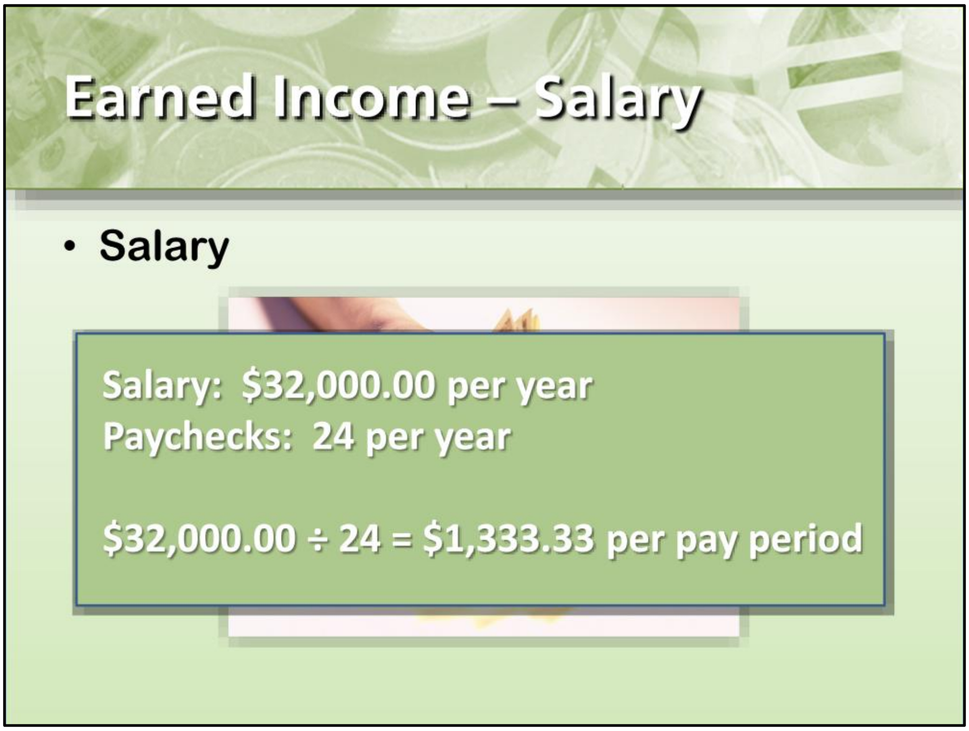
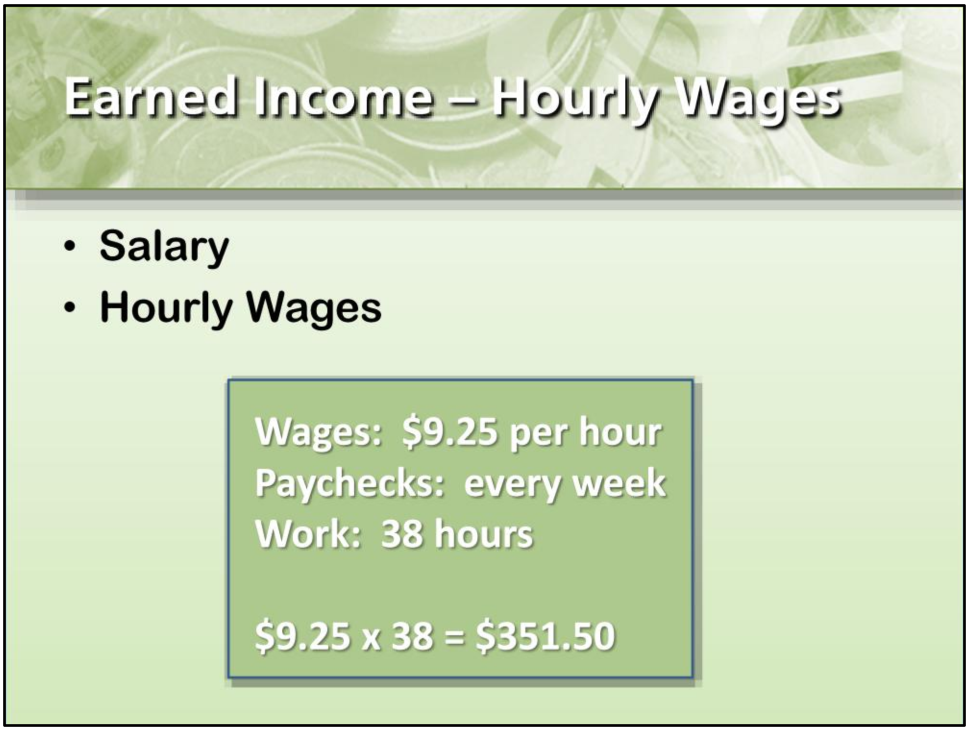
Earned Income



Earned income is just that – money that you must work for to receive. Earned income results from people selling productive resources. These include their labor, capital, natural resources, and entrepreneurial talents. Earned income usually comes from your employment, but is calculated in different ways. When you get your first job in your chosen career field, you will be quoted an amount of money that your employer will pay you for your efforts. Salary is the price of labor that is quoted in a flat amount. In other words, salary is not calculated based on the number of hours you work. If your employer says you will be paid $32,000 per year, that amount will be divided into the number of paychecks you will receive in a year. For example: If you are going to paid twice a month (semi-monthly), you will receive 24 paychecks in one year. To calculate the amount earned for each paycheck, you need to divide $32,000 by 24, which is about $1,333.33 per pay period. Keep in mind, that you will not actually receive that amount each pay period. We will review taxes and other things that reduce your actual paycheck in another presentation.



Hourly wages are also the price of your labor, but they are earned a little differently than salary. If you have a job while you are still in school, you are probably familiar with this type of income. Your employer will tell you how much you will get paid for each hour you work. Then you have to multiply your hourly rate by the number of hours you work to figure out the amount of income you earned. For example: Suppose your employer says you will earn $9.25 per hour and you will be paid every week. If you work 38 hours this week, you can calculate your earnings by multiplying 38 times $9.25 per hour for a total earned of $351.50. Again, we will talk about the amount you will actually bring home in another presentation.

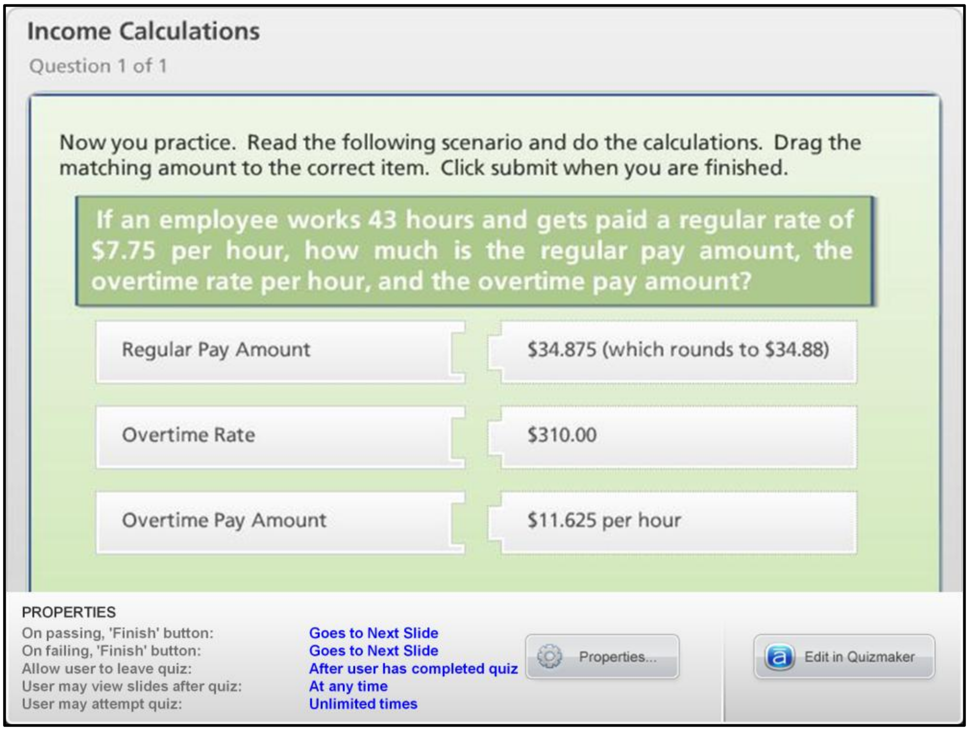
Earned Income - Overtime

- Salary
- Hourly Wages
- Overtime

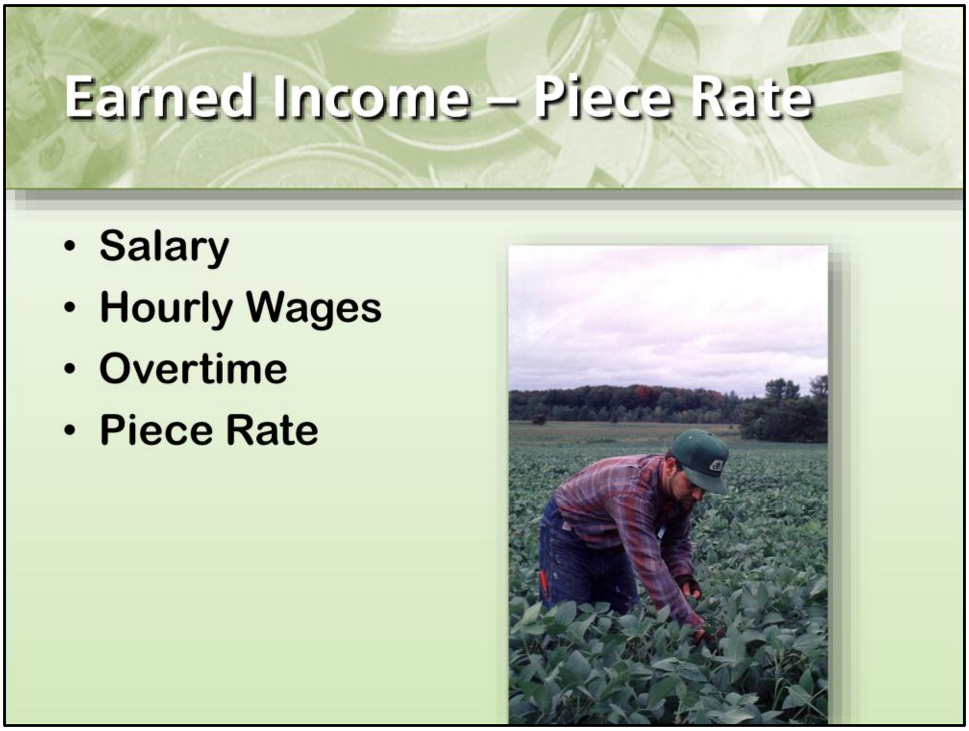
Overtime Rate: $9.25 x 1.5
Hourly Overtime Rate: $13.875

5 overtime hours at $13.875 = $69.375

Overtime is pay that you receive when you work more than 40 hours in one week. Many times when someone is paid a salary, he or she doesn't get overtime pay. Teachers, for example, do not get paid overtime for grading papers or writing lesson plans after school hours. Overtime is calculated by multiplying the regular hourly rate by 1.5. This is called time and a half. Using the example above, the overtime rate would be $9.25 times 1.5, which would give an hourly overtime rate of $13.875 for each hour over 40 hours. Even though the overtime rate is money, it is not rounded to two decimal places because then the employer would be overpaying an employee by half a penny for every overtime hour. With lots of employees, that extra half a cent can really add up. So, if an employee worked 5 overtime hours at the $13.875 rate, the overtime pay would be 5 times $13.875 for a total of $69.375. After calculating the total, then you round to two decimal places. So, this employee would receive an extra $69.38 of overtime pay.



Now you practice. Read the following scenario and do the calculations Drag the matching amount to the correct item. Click submit when you are finished to check your answers.



Piece rate is similar to hourly wages except instead of getting paid based on the number of hours you work, you would be paid based on the number of pieces you produce correctly. In other words, the more you produce, the more money you make. This type of pay is used mostly in manufacturing occupations. By paying employees by the piece, employees are encouraged to produce more in order to make more. In other words, the pay is an incentive to work harder. Remember, when employees produce more in the same amount of time, that reduces production costs for the employer. Employees will tend to work harder, reduce waste, produce better products, take fewer breaks, and overall be more productive when they are paid by the piece rather than by the hour. All of these factors benefit the employer. Think about it. Before you decide to take a job with a wage based on piece work, make sure that you are being compensated justly. Do the math. Determine how many "pieces" you can realistically create in an hour. Divide that number by the hourly amount you wish to be paid. For example, let's say you want to be paid $10.00 an hour. You can create 20 pieces per hour. You would need to be paid 50 cents per piece to reach your desired level of compensation.

There are also other ways to earn income. Some professions receive tips on their job. These types of jobs are usually service professions and typically indicate how well the person did his or her job. For example: A waiter or waitress earns tips in addition to an hourly wage. The hourly wage for a waiter or waitress is usually lower than minimum wage because the amount of tips he or she makes is supposed to make up for the lower hourly wage. At a restaurant, a good guideline for tipping is 15-20% of the check amount. Some people will tip less than 15% or not at all when they receive poor service or will tip more than 20% when they receive excellent service. As you learned in the taxes module, tips are considered income by the IRS and should be reported on a tax return.

Some people work on commission. Commission is usually paid to people who work in sales. When a person works on commission, he or she may only get paid if a sale is made. The salesperson will get a percentage of the sale. A car salesperson is an example of a person who works on commission. The salesperson goes to work everyday but doesn't get paid until he or she sells a car. Then the person makes a percentage based on the price of the car sold. Some people work for a small salary plus commissions. This means the more they sell, the more they earn. People who work in careers where their pay is based on commission or tips have to be very good at budgeting their money because their income is highly irregular.

A bonus is an extra amount of money that an employee may receive for meeting a goal or going above and beyond the job requirements. Businesses may use bonuses as an incentive to get employees to work harder. Bonuses must be claimed as income on your taxes.