

Employment Income

by Sophia



WHAT'S COVERED

In this lesson, you will learn to identify the different forms of employee earnings. You will also explore how skills like agility, problem solving and technology play an important role no matter your job. Specifically, this lesson will cover:

1. Income Versus Earnings

Income is a broad term used to describe all sources of money obtained by individuals and households. Income can include allowances, public assistance, interest, dividends, Social Security payments, and retirement payments (we will cover some of these forms of income in later topics). In fact, the U.S. Census Bureau collects data on more than 50 different sources of household income. **Earnings** are just one form of income. Earnings are compensation received for services performed for an employer.



TERMS TO KNOW

Income

A broad term used to describe all sources of money obtained by individuals and households that can be spent or saved.

Earnings

Compensation received for services performed for an employer.

2. Sources of Earnings

How much do you earn? If asked this, would you respond with something like, “Oh, I earn \$9 per hour,” or “My income is \$43,000 per year,” or “It’s none of your business”? Now, could you identify if those earnings are in the form of a wage or salary? Actually, aren’t a wage and a salary the same thing? The answer is “no.” These two forms of earnings are quite different.

- A **wage** is what an employer will pay an employee to work. Almost always, wages are based on an hourly rate.
- A **salary** is payment for work for a set period of time, usually an annual amount.

Other forms of earnings include:

- A **commission**, which is a payment based on the sale of a product or service.
- A **bonus**, which is an extra payment usually based on performance or meeting certain production or sales requirements.

This illustration shows examples of these four sources of earnings.



Wage: Per hour



Salary: Per year



Commission: Compensation based on the sale of products or services



Bonus: Dollar amount for achieving or exceeding a company goal

Being strong in the 10 skills can have a real impact on your earnings. Think about a job or jobs you've already had. What skills were required to perform your best? To what extent were **agility, problem solving, and technology skills** necessary for success? What skills did you learn in each job? How did learning these skills contribute to improving your ability to be effective in your work? Did these new skills increase your earning potential? An increase in your earnings can lead to increased income and increased financial stability.



TERMS TO KNOW

Wage

What an employer will pay an employee to work.

Salary

Payment for work for a set period of time, usually an annual amount.

Commission

A payment based on the sale of a product or service.

Bonus

An extra payment usually based on performance or meeting certain production or sales requirements.

2a. Wages

The most common wage is based on an hourly rate. The math is simple.

- You earn a set dollar amount, say, \$8.00, for every hour worked.
- Federal rules define a regular work week as 40 hours, which is basically 8 hours per day for 5 days a week.
- If you earn \$8.00 per hour, you will earn \$320 per week before taxes and other payroll deductions.

Some people also earn a wage based on the number of products produced per hour or tasks completed, but this is relatively rare. The following image shows an example of an earnings statement for a pay period for someone who earns a wage.

Gotham City Records
P.O. Box 129
Albuquerque, NM 87103

Pay Begin Date: xx/xx/xxxx
Pay End Date: xx/xx/xxxx

Employee Name
123 Address Place
City, ST 12345-0987

Job Title: xxx
Pay Rate: xxx

HOURS AND EARNINGS				
Description	Rate	Current	YTD	
		Hours	Earnings	Hours
Regular Pay	20.00	75	1,500	400 8,000

TAXES		
Description	Current	YTD
Fed. Withholding	155	620
FICA OASDI	153	612

Employer-Paid Benefits
Shows what the employer pays for medical, dental, and other benefits.

EMPLOYER PAID BENEFITS		
Description	Current	YTD
Medical	200	800
Dental	20	80
Basic Life and AD&D	10	40

Vacation Hours and Sick Hours
Shows balance of vacation hours and sick hours that have been earned and used during the calendar year.

PTO VAC. HRS.		PTO SICK HRS.	
	YTD		YTD
Start Balance	xxx	Start Balance	xxx
- Earned	xxx	- Earned	xxx
- Taken	xxx	- Taken	xxx
End Balance:	xxx	End Balance:	xxx

NET PAY DISTRIBUTION
Total: 1,192
(1,500 – 308)

Net Pay Distribution
Employees can deposit their pay into more than one account. This field lists where the pay salary is being deposited.

Source: Adapted from City of Albuquerque, New Mexico.

Minimum Wage. The U.S. minimum wage is currently \$7.25 per hour. This wage is periodically reset by Congress through the Fair Labor Standards Act, which was passed in 1938. However, many people earning a wage might receive more or less than the minimum wage, depending on the type of work and/or the city and state in which the work takes place.

Overtime. Workers who fall under the Fair Labor Standards Act must be paid at least one-and-one-half times, or what is known as “time and a half,” their regular wage when they work overtime.

- Overtime is defined as working more than 40 hours in one week.
- Although overtime pay can boost earnings, it is unwise to plan to earn overtime over a long period of time.
- Most employers try to limit overtime pay because it can quickly become costly for the business.



TRY IT

Jarvis needs your help in determining how much he can potentially make if he accepts a job and works 50 hours a week. Assume the job has the following conditions: (1) \$10 base rate per hour and (2) “time and a half” for any work more than 40 hours per week.

How much can Jarvis potentially make if he accepts this job?



Jarvis can earn \$550 per week. He will receive \$400 based on earning \$10 per hour for his regular 40 hours ($\$10 \times 40$ hours), plus \$150 for “time and a half” (\$15 per hour) for every hour more than 40 that he works ($\$15 \times 10$ hours).



TERMS TO KNOW

Minimum Wage

Federal and state regulations that determine the minimum amount that can be legally paid to an employee.

Fair Labor Standards Act

Passed in 1938, legislation designed to protect those paid by the hour, such as imposing minimum wage requirements on employers.

Overtime

Working more than 40 hours in one week.

2b. Salaries

Many employees prefer being paid a salary instead of an hourly wage. Recall that as opposed to a wage where you earn money by the hour, a salary extends over a set time period, most often a year. When you are offered a job with a salary, the amount offered will be set in annual dollar terms, such as \$42,000 per year. Those who earn a salary generally do not receive overtime pay (there are exceptions for those who earn less than \$40,000 per year) but are instead expected to complete their work assignments regardless of the time involved.

In general, there are two significant advantages associated with receiving a salary versus a wage.

1. Those on a salary typically earn more than hourly workers, at least before overtime pay is included.
2. Those on a salary tend to receive better employee benefits than those working for a wage. For example, an hourly worker may receive 2 weeks of paid vacation, whereas a salaried employee in the same firm might receive 3 or maybe 4 weeks of paid vacation each year.

2c. Commissions

It is also possible to generate income by earning a commission on the sale of a product or service. Most salespeople are paid, in part, by commission.

➔ **EXAMPLE** Let's say a large department store hires you as a salesperson for the holiday season. The firm's policy may be to pay you a minimum wage plus 10% of all sales made. If you work 8 hours and sell \$1,000 of clothes:

- Your base wage would be \$58 ($\7.25 per hour \times 8 hours).

- Your commission would be another \$100 ($\$1,000 \times 10\%$).
- Your total earnings would be \$158, thereby increasing your wage to nearly \$20 per hour ($\$158 / 8$).

2d. Bonuses

Sometimes companies offer a bonus to employees as a way to improve productivity or to reward high-performers. This is the least common way Americans are paid.

- A firm might, for example, offer a bonus to any salesperson who sells more than a target level of product.
- Companies may even sometimes provide all employees a bonus if the firm exceeds certain profit targets.

IN CONTEXT

For example, assume Jamal works for a large corporation. The president of the company may decide that everyone in the firm will receive a bonus if the company exceeds a profit benchmark. The president's thought is that Jamal and other employees will work harder if they know that they will receive a bonus by exceeding expectations.



HINT

You should consider any bonus as extra income. Building long-term financial plans in the hopes of receiving a bonus can be problematic because firms are generally not required to make bonus payments.



Agility: Why Employers Care

In today's modern world, there are many different ways you can earn income outside of a traditional nine-to-five role. But, whatever career you decide to pursue, you'll need to be able to adapt to unexpected situations that stretch your knowledge and abilities from client to client, project to project, or job to job.

3. Who Makes More Money?

When you are just starting out on your lifetime financial journey, it is likely that you will be paid a wage. This is particularly true if you are in high school or college. Nearly every part-time job pays a wage, not a salary. As you gain additional education and experience, it is quite probable that you will be offered a salaried position.



HINT

Remember, when you earn a salary, you know exactly how much you will be paid, regardless of the time you spend on a project or activity, but this often means working more than 40 hours per week.

The table below compares the average income of those who earn wages, salaries, and commissions. Two striking takeaways emerge from a review of these data.

1. The difference in pay for those working in management positions, compared to those in nonmanagement jobs, is significant. This pay differential underscores the importance of human capital in driving your lifetime earnings. Typically, those in a management position earn more because these positions require more education and experience as well as the supervision of others.
2. Some of the highest paid workers today earn their living primarily by selling products and services. Put another way, they earn a commission. It is not unreasonable for a good salesperson to earn \$50 or more per hour on average!

Source: U.S. Bureau Labor Statistics (2016).

	Annual Average Pay	Hourly Average Pay
Average American	\$48,320	\$23.00
Dry cleaner worker	\$22,660	\$10.89
Bus driver	\$32,980	\$15.86
Upholsterer	\$33,550	\$16.13
Dental technician	\$40,520	\$19.48
Mechanic	\$42,990	\$20.67
Flight attendant	\$46,750	\$22.48
Business manager	\$48,320	\$23.23
Credit counselor	\$49,310	\$23.71
Registered nurse	\$68,450	\$32.91
Food service manager	\$84,470	\$40.61
Information analyst	\$90,600	\$43.56
Sales manager	\$130,400	\$62.69



SUMMARY

In this lesson, you learned that **earnings** are one form of **income**. Earnings are paid by an employer to an employee for their service. Earnings can come from several different **sources**. Employees might earn **wages** based on an hourly rate of pay, or they might earn **salaries** based on an annual rate of pay. Employees may earn **commissions** on the sales of products and services or earn **bonuses** from an exceptional performance. From these sources, you might be asking, **who makes more money?** The answer to that question depends on your background, qualifications, and tolerance for taking risks. Strong technology, problem solving, and agility skills can help you maximize both your earnings and your income.

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TERMS TO KNOW

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Commission

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