

Budget Exercises for Students, Exercise 8 FSA (Chapter 6)

Assume that your employer offers an FSA and it begins with the first paycheck in the calendar year. You need to determine what medical expenses you will incur that the FSA will be applicable to. In the example below the estimated \$1,078 or approximately \$90 a month in the so this will give you the gauge of what you need from the FSA.

Item	Frequency	Amount	Yearly Cost
Office Copays	12	\$30	\$360
Deductibles	Several	\$200	\$200
Prescriptions	12	\$13	\$158
Contacts	12	\$30	\$360

Remember this is a pretax item so will need a recent check stub to see the taxes coming out to estimate the new take home paycheck. Be sure to calculate the percentage of what each taxed vehicle is removing from your check: Medicare is 1.25% and FICA (Social Security is 6.2%). You will need to account for any state or city tax as well. For Federal look at the paystub and subtract the all pretax items listed to generate the subtotal. Then find taxable items and divide the subtotal into them to generate the taxed percentage.

In the paycheck sample below the gross earnings are \$3,177 less \$100 for 401(k) leaving \$3,077 in taxable income. So for example the Federal tax rate is 7.77% (\$239.23 / \$3,077).

Sample Paycheck

EMPLOYEE PAYCHECK							
EMPLOYEE NO.	EMPLOYEE NAME		SOCIAL SECURITY NO.	PERIOD BEGIN	PERIOD END	CHECK DATE	
	Jasper Jamison		123-45-6789	12-23-2012	1-6-2016	1-11-2016	
EARNINGS	HOURS	RATE	CURRENT AMOUNT	WITHHOLDING/DEDUCTIONS		CURRENT AMOUNT	YEAR TO DATE
REGULAR PAY	80	Salary	\$2,408			\$3077	\$3077
				MEDIC ARE		\$44.61	\$44.61
				SOCIAL SECURITY / FICA		\$190.77	\$190.77
				FEDERAL TAX		\$239.23	\$239.23
				STATE TAX		\$276.93	\$276.93
				PRETAX			
				401(k)		\$100	\$100
CURRENT AMOUNT	CURRENT DEDUCTIONS		NET PAY	YTD EARNINGS	YTD DEDUCTIONS	YTD NET PAY	CHECK NO.
			\$2,408	\$3177	\$750.84	\$2,408	12345

You will need to take the gross income that was calculated earlier in the first exercise and factor in the FSA calculation in addition to the 401(k) and the medical cost. Then you will be able to adjust your take home paycheck. Note, that while the pretax income will lower overall income it will also provide more money in your overall disposable income.

[REFER TO THE STUDENT BUDGET VIDEOS FOR DETAILED INSTRUCTION](#)