

Section 125 Cafeteria Plan – Premium Only Plan Overview

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What is a Premium Only Plan?

- ▶ U.S. Congress created Code Section 125 in an effort to make benefit programs more affordable for employees
- ▶ Section 125 of the IRS Code allows employees to convert a taxable cash benefit (salary) into non-taxable benefits
- ▶ Under a Section 125 program you may choose to pay for qualified benefit premiums **before** any taxes are deducted from your paycheck



What is a Premium Only Plan?

- ▶ A premium only plan (POP) allows for certain employee paid group insurance premiums to be paid with ***pre-tax dollars***
- ▶ The qualified premiums (if offered by your employer) include, but are not limited to:
 - ▶ Health
 - ▶ Prescription
 - ▶ Dental
 - ▶ Vision



Employees can save anywhere from
20%-40% off their payroll deductions.



What does Pre-Tax Mean?

- ▶ You earn what is called “gross pay.” This refers to the amount your employer pays you.
- ▶ However, this is not what most people take home in their paycheck. Why?
- ▶ The government takes a percentage of your “gross pay” first (in the form of taxes).



What does Pre-Tax Mean?

- ▶ With the Premium Only Plan, the government allows you to set aside a portion of your “gross pay” to cover certain expenses before a percentage of it is deducted in taxes.
- ▶ The remainder of your paycheck is what the government declares subject to taxes.
- ▶ By deducting pre-tax monies, you pay less in taxes.



Example 1

- ▶ Salary: \$35,000
- ▶ Monthly Gross Pay: \$2,916.67

	With POP	Without POP
Pre-Tax Contribution	\$43.75	N/A
Taxable Gross Income	\$2,872.92	\$2,916.67
Federal Tax	\$430.94	\$437.50
FICA Tax	\$219.78	\$223.13
State Tax	\$87.50	\$87.50
Post Tax Contribution	N/A	\$43.75
Take Home Pay	\$2,134.70	\$2,124.79

Monthly Savings: \$9.91



Example 2

- ▶ Salary: \$50,000
- ▶ Monthly Gross Pay: \$4,166.67

	With POP	Without POP
Pre-Tax Contribution	\$62.50	N/A
Taxable Gross Income	\$4,104.17	\$4,166.67
Federal Tax	\$1,026.04	\$1,041.67
FICA Tax	\$313.97	\$318.75
State Tax	\$125	\$125
Post Tax Contribution	N/A	\$62.50
Take Home Pay	\$2,639.16	\$2,618.75

Monthly Savings: \$20.41



Example 3

- ▶ Salary: \$85,000
- ▶ Monthly Gross Pay: \$7,083.33

	With POP	Without POP
Pre-Tax Contribution	\$106.25	N/A
Taxable Gross Income	\$6,977.08	\$7,083.33
Federal Tax	\$1,953.58	\$1,983.33
FICA Tax	\$533.75	\$541.88
State Tax	\$212.50	\$212.50
Post Tax Contribution	N/A	\$106.25
Take Home Pay	\$4,277.25	\$4,239.38

Monthly Savings: \$37.88



Questions?

