

WHAT IS A PREMIUM CONVERSION PLAN (POP)?

A Section 125 Premium Only Plan, or a POP Plan, is an essential part of any employer group health insurance and ancillary benefit program. Section 125 is the part of the IRS Code that allows employees to purchase health insurance and other ancillary benefits tax free. A Section 125 Plan legally allows your employees to pay their portion of medical insurance premium and other ancillary benefits premiums using pretax or tax-free dollars.

The Benefit Center, LLC. provides employers with everything they need to establish an IRS and DOL compliant Section 125 POP Plan.

How Do Employees Benefit from a Section 125 Premium Only Plan?

Employees avoid paying any income tax on premiums they pay through a Section 125 Plan. The premium is actually deducted before the taxes are calculated. This means an employee doesn't have to make \$300 in order to pay a \$200 insurance premium because the tax liability is immediately eliminated. The Government allows this to help make insurance more affordable. Employees save 22.65% to 40% of their pre-tax Section 125 premium deductions in just federal income taxes alone. The actual tax savings are on city, state, and federal income taxes, including Social Security and Medicare taxes on all money employees use to pay for their portion of insurance premiums. Under a Section 125 POP employees take-home pay is increased which helps reduce the high cost of providing health coverage for family members.

How Do Employers Benefit from a Section 125 Premium Only Plan?

A Section 125 Premium Only Plan is unique in that it is one of the few employee benefit plans that will continually pay dividends back to the employer. A Section 125 Plan does this by eliminating the 7.65% in employer matching Social Security and Medicare taxes, and sometimes Federal and State unemployment taxes.

POP TAX - SAVINGS EXAMPLES

Example of Employer Savings

ABC Company has 10 employees	Without POP	With POP
Annual payroll	\$350,000	\$35,000
Annual pre-tax payroll deduction*	\$0	\$30,000
Taxable payroll	\$350,000	\$320,000
Annual social security tax**	\$26,775	\$24,480
Total annual employer social security tax savings	\$0	\$2,295

Example of Employee Savings

Joe Doe (Single)	Without POP	With POP
Annual Salary	\$35,000	\$35,000
Annual pre-tax contributions	\$0	\$30,000
Taxable income	\$35,000	\$32,000
Estimates taxes (30.65%)**	\$10,729	\$9,808
Net take-home pay	\$21,272	\$22,192
Increase in take-home pay	\$0	\$920

*Based on insurance premiums averaging \$250 pepm.

**Based on tax rate of 7.65%.

***Based on average 20% federal, 7.65% FICA, and 3% state tax rates.