

Why Sponsor a Cafeteria Plan?

A Premium Reduction Option *plus* FSAs Section 125 Cafeteria Plan is a benefit that both employers and employees will appreciate. Why? Because this benefit increases employees' take-home pay and reduces employer payroll taxes. Both the employers and the employees profit!

A PRO *plus* FSAs cafeteria plan allows employees to pay for their employer-sponsored health, dental, disability and group term life premiums plus set up flexible spending accounts to pay for medical expenses, dependent care expenses, and personally owned health policies with before-tax rather than after-tax dollars. This reduces taxable compensation.

- Employees benefit by paying less tax and taking home more pay.
- Employers benefit by paying less payroll taxes.
- Employers benefit by increasing the efficiency of payroll dollars . . . by getting more money into employees' take-home pay without having to increase their gross pay.
- Employers also benefit because a cafeteria plan is the simplest and most economical form of flexible benefits that can be offered by a Plan Sponsor.

When was the last time you, as the Employer, were able to provide your employees an appreciable increase in take-home pay without increasing costs . . .and actually save money?

Employer Savings:	Example:	Your Numbers
1. Estimated number of employees participating	53	_____
2. <i>Times</i> Estimated Average monthly employee contributions for their medical, dental and other health insurance	\$100	_____
3. <i>Times</i> Employer FICA contribution percentage	7.65%	7.65%
4. <i>Equals</i> Employer's Estimated Savings per month	<u>\$405</u>	_____
5. Employer's Estimated Annual Savings	<u>\$4,860</u>	_____
More Payroll Efficiency:		
Estimated Employee Incremental Tax Rate		
Federal Income Tax	18.00%	_____%
State Income Tax	5.00%	_____%
FICA Tax	<u>7.65%</u>	<u>7.65%</u>
6. Estimated Employee Incremental Income Tax Rate:	30.66%	_____%
7. Total Pre-tax Employee Contributions <small>(Line 1 X Line 2 X Twelve)</small>	\$63,600	\$ _____
8. Employer's Estimated Increased Payroll Efficiency	<u>\$91,792</u>	\$ _____
<small>(Line 7) / (100.00 - line 6) or (\$63,600) / (100.00 - 30.66)</small>		

In the example above, the **Employer saves \$4,860 in payroll taxes each year** while at the same time the **Employer gets \$91,792 more efficient use of the payroll dollars** already being spent. In other words, without the Plan, the Employer would have to increase Gross Pay by \$91,792 in order to match the employees' increased take-home pay provided under the Plan.