How Your Staff Can Save 20-40% on Health Services and Childcare

One of the most underused employee benefits available is the “cafeteria” plan – which can benefit both the employer and the employee.

These plans allow workers to withhold a portion of their pre-tax salary to cover certain medical or child-care expenses. Because these benefits are free from federal and state income taxes, their taxable income is reduced, which increases their take-home pay.

This in turn can benefit you as an employer because those pre-tax benefits aren't subject to federal social security withholding taxes, which means you don’t have to pay FICA or workers’ compensation premiums on those dollars.

Essentially what you are doing by offering a Cafeteria plan (also known as a Section 125 plan under the Internal Revenue Service code) is using the tax code to your and your employee’s advantage.

But utilizing the tax code for your business can be an incredible way to enhance your employee benefits package, while simultaneously boosting your margins.
Cafeteria plans have three specific flexible benefits for your employees to choose from:

1. Pre-tax health insurance premium deductions.
Premium-only plans allow your employees to elect to withhold a portion of their pre-tax salary to pay for their portion of the premium contribution to their employer-sponsored plans. The plan offers a simple way reduce the cost of your benefits.

2. Flexible spending accounts.
An FSA allows you to fund certain medical expenses on a pre-taxed basis through salary reductions to pay for out-of-pocket expenses that aren't covered by insurance (think: deductibles, co-payments, prescriptions, over-the-counter drugs and orthodontia). Each paycheck a certain amount is withheld pre-tax and put into an account. Employees pay for medical expenses up front out of pocket and then seek reimbursement from their FSA.
The average U.S. worker spends more than $1,000 every year on these types of benefits. There’s one more benefit: By participating in a FSA, your employees’ taxable income is reduced, which increases the percentage of pay you take home.

3. Dependent care flexible spending accounts.
The dependent care FSA is an attractive benefit for employees who have to pay for child-care or long-term care for their parents.
Many employees don't take advantage of this benefit and may be unaware of the significant tax savings.
Employees may hold back as much as $5,000 annually of their pre-tax salary for dependent care expenses
Qualified dependent care expenses may include, but are not limited to:
• The care of a child under the age of 13,
• Long-term care for parents,
• Care for a disabled spouse or a dependent incapable of caring for himself, and
• Summer day camps.

In addition, by paying for dependent care with pre-tax dollars, you can save approximately 20% to 40% on your child-care expenses. The best part about the Section 125 plan is that your employees are likely already paying for these expenses out of your own pockets with after-tax dollars.

What you get out of it

Every dollar that goes through a cafeteria plan reduces your payroll by the same amount. That means you don’t have to pay FICA or workers’ comp premiums on that part of your workers’ salary. Pundits say that this savings can add up to as much as 20% of every dollar being passed through the plan. Implementing a cafeteria plan can reduce the perceived impact of health insurance premium increases to employees. For example, let's say your company’s medical premiums climb this year and the employee’s portion goes from $1,000 to $1,120.

If these additional costs are run through a POP plan, an employee in the 25 percent tax bracket would have an increase of just $90, rather than $120.

It’s also a great recruitment tool and an essential part of a larger employee benefits package.