



## Section 125-Premium Only Plan (POP)

Under Section 125 of the IRS Code, an employer may sponsor a plan for its employees which will allow them to pay for group health premiums on a pre-tax basis. **A Premium Only Plan (POP) saves the employer on their payroll taxes and affords the employee increased take-home pay.** Implementing a Premium Only Plan is fairly easy.

Under federal tax law, a Section 125 Plan is a *written plan* that may be established by any of the following:

- C Corporations
- Partnerships
- S Corporations
- Limited Liability Corporations
- Sole Proprietorships
- Professional Corporations
- Non- Profit Organizations

IRS regulations state that self-employed individuals are not employees. Therefore, self-employed individuals may establish but may not participate in a Section 125 Plan, although spouses or other family members who are employees may participate in some cases.

**ConnectPay** will provide personalized plan documents and all of the necessary materials to communicate the plan to employees. Our plan includes the required non-discrimination testing procedures to ensure compliance with federal regulations.

The Premium Only Plan offers a simple way to obtain favorable tax treatment for benefits already offered. The plan requires little maintenance for an employer once it is set up with **ConnectPay**. As a feature of your Premium Only Plan, **ConnectPay** provides timely updates and modifications to ensure your continued compliance with changing IRS regulations.

**See next page for TAX SAVINGS EXAMPLES WITH POP**

## TAX SAVINGS EXAMPLES WITH POP

### Example of **Employer** Savings

Sample Company has 10 Employees

	Without POP	With POP
Annual payroll.....	\$ 300,000	\$ 300,000
Annual pre-tax payroll deductions* .....	\$ -	\$ (24,000)
Taxable payroll .....	\$ 300,000	\$ 276,000
Annual Social Security tax** .....	\$ 22,950	\$ 21,114
<b>Total Annual <b>Employer</b> Social Security Tax Savings .....</b>		<b>\$ 1,836</b>

\* Based on insurance premiums averaging \$200 per month per employee.

\*\*Based on a FICA tax rate of 7.65%.

### Example of **Employee** Savings

Jane Doe: Single, No Exemptions

	Without POP	With POP
Annual Salary .....	\$ 30,000	\$ 30,000
Annual pre-tax contributions* .....	\$ -	\$ (2,400)
Taxable income .....	\$ 30,000	\$ 27,600
Estimated taxes (31.65%)** .....	\$ (9,495)	\$ (8,735)
Annual after-tax contributions .....	\$ (2,400)	\$ -
Net take-home pay .....	\$ 18,105	\$ 18,865
Increase in take home pay .....		\$ 760
<b>Total Annual Savings for 10 employees .....</b>		<b>\$ 7600</b>

\* Based on a monthly premium of \$200

\*\*Based on an average 20% Federal, 7.65% FICA and 4% State.

Note: Social Security benefits could be affected.

**Total **Employer & Employee** Annual Savings .....\$ 9,436**

(Based on a Business With 10 Employees as Illustrated Above)

## CALCULATE **YOUR** SAVINGS

### **Employer** Estimated Tax Savings

**YOUR** total annual payroll deductions for all employees .....\$ \_\_\_\_\_  
 Social Security tax (based on tax rate of 7.65%) ..... X .0765  
**YOUR** total annual employer savings ..... \$ \_\_\_\_\_

### **Employee** Estimate Tax Savings

**YOUR** total annual employee premium contributions ..... \$ \_\_\_\_\_  
 Estimated taxes (based on 20% Federal, 7.65% FICA & 4% State\*) ..... X .3165  
**YOUR** total annual employee premium contributions ..... \$ \_\_\_\_\_

\*Varies By State