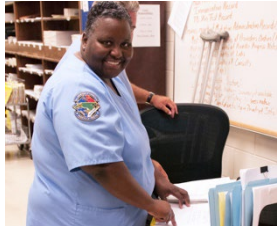
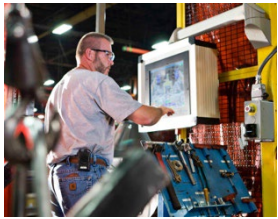




## NORTH CAROLINA Office of *State Human Resources*



# NCFlex Employee Session – What does Pre-tax Mean?

March 2022

# Agenda

- Types of benefit deductions
- Why is NCFlex pre-tax?
- Pre-tax deductions explained
- Group Term Life deductions
- Receiving benefits from pre-tax plans
- Pre-tax savings examples
- Wrap up

# Types of Benefit Deductions

- NCFlex: **Pre-tax**
- Employer Sponsored Benefits: **Post-tax**
- State Health Plan: **Pre-tax**
- Prudential Plans (401(k), 457, 403(b)): Choice between **Post-tax** or **Pre-tax**
  - Contact Prudential to discuss the difference
- Teacher's and State Employee's Retirement System (TSERS): **Pre-tax**
  - You pay taxes on your contributions when you begin receiving monthly retirement benefits or if you elect a refund of contributions

# Why is NCFlex Pre-tax?

- The NCFlex program was established in 1994 with Executive Order #66 and was placed under the NC Office of State Human Resources.
- NCFlex is governed by statute NCGS 126-95 which allows cafeteria plans to be offered to eligible employees.
- A cafeteria plan, also known as a section 125 plan, allows employees to pick and choose from a benefits package and pay premiums on a pre-tax basis, reducing an employee's taxable income.
- For the employer, they do not have to pay FICA taxes on this portion (premium amounts) of an employee's income. That money instead goes to fund the administration of the NCFlex program.

# Pre-Tax Deductions

- Pre-tax deductions come out of your gross pay before taxes are withheld from your paycheck, decreasing the amount of your wages upon which federal, state and FICA taxes will be owed.
- FICA (Federal Insurance Contributions Act) is a payroll contribution to fund Social Security and Medicare.
  - Some deductions such as qualified 401(k) contributions may still require FICA taxes.
- When you receive your W-2 at the end of the year, the gross income you report to the IRS doesn't include the income used for your pre-tax deductions.

# Group Term Life

- Group Term Life employee only premiums come out pre-tax, up to \$50k.
  - Premiums for coverages over \$50k are subject to taxes (including your death benefit from the retirement system).
  - Example: You have \$40k NCFlex Term Life and your salary is \$45k per year. Your TSERS death benefit would be \$45k. Total life insurance is \$85k. Premiums for \$35k of life insurance is taxable.
  - Imputed Income is added to your taxable income to tax the portion of your premium not eligible for pretax.
- If you add child and/or spouse coverage, all premiums are taken post-tax.
  - Prevents you from paying taxes on a benefit paid from a child and/or spouse life policy (you are automatically the beneficiary for those policies).

# Receiving Benefits from Pre-tax plans

- Some plans may require you to pay taxes on benefits received, due to the premiums being pre-tax.
- Critical Illness and Accident
  - If payout for the year is \$600 or greater, a 1099 is sent in January of the following year.
  - If you have questions about how to properly file this on your taxes, please contact a tax professional.
  - In some cases, your medical bills may be able to offset some of the money you received from the plan(s).
- Voluntary Disability plan (for non-university employees only)
  - Designate tax preference when payments start

# Example

No NCFlex Pre-tax deductions – Net Pay is \$3,967.29

Pay Period: 03/01/2022 through 03/31/2022  
 Check Date: 03/31/2022

Name: [REDACTED] Personnel No: [REDACTED]  
 Organization: [REDACTED]

	Earnings	Deductions	Taxes	Net Pay	Deductions	Current	YTD
Current:	5,901.83 -	856.47 -	1,078.07 =	<b>3,967.29</b>	# BYUP 80/20 PT	305.00	915.00
YTD:	18,606.95 -	4,141.58 -	3,071.56 =	11,393.81	** Total Health Insurance	305.00	915.00
Earnings		Hours	Current	YTD			
Regular Salary			5,765.63	15,335.49	* 457 Savings Plan EE	150.00	450.00
Vacation Leave		4.00	136.20	1,380.25	# Parking DOA PT	10.00	30.00
Sick Leave				315.58	# NC Flex Dental-PT		98.20
Community Service Leave				139.94	# NC Flex Vision PT		23.32
Paid Holiday				1,395.20	# NC Flex AD&D PT		18.20
Comp Leave				2.49	# NC Flex Accident PT		36.40
** Total Base Pay			5,901.83	18,568.95	# NC Flex Cancer PT		50.32
Annual Longevity				38.00	* TSERS EE	354.11	1,116.42
** Total Other Pay				38.00	# NC Flex Health FSA PT		458.32
					# NC Flex Dep Care FSA PT		833.32
					Combined Campaign	20.00	60.00
					NC Flex Life Inc AT	16.00	48.00
					NC Flex Life Ins EE/Ch AT	1.36	4.08
					** Total Other Deductions	551.47	3,226.58
Total Earnings			5,901.83	18,606.95			
					Total Deductions	856.47	4,141.58



# Example

NCFlex Pre-tax deductions = \$759.04, Net Pay reduces by only \$570.88, 25% savings.

Pay Period: 03/01/2022 through 03/31/2022  
 Check Date: 03/31/2022

Name: [REDACTED] Personnel No: [REDACTED]  
 Organization: [REDACTED]

Earnings	Deductions	Taxes	Net Pay	Deductions	Current	YTD
Current: 5,901.83 -	1,615.51 -	889.91 =	3,396.41	# BYUP 80/20 PT	305.00	915.00
YTD: 18,606.95 -	4,900.62 -	2,883.40 =	10,822.93	** Total Health Insurance	305.00	915.00
Earnings	Hours	Current	YTD	* 457 Savings Plan EE	150.00	450.00
Regular Salary		5,765.63	15,335.49	# Parking DOA PT	10.00	30.00
Vacation Leave	4.00	136.20	1,380.25	# NC Flex Dental-PT	49.10	147.30
Sick Leave			315.58	# NC Flex Vision PT	11.66	34.98
Community Service Leave			139.94	# NC Flex AD&D PT	9.10	27.30
Paid Holiday			1,395.20	# NC Flex Accident PT	18.20	54.60
Comp Leave			2.49	# NC Flex Cancer PT	25.16	75.48
** Total Base Pay		5,901.83	18,568.95	* TSERS EE	354.11	1,116.42
Annual Longevity			38.00	# NC Flex Health FSA PT	229.16	687.48
** Total Other Pay			38.00	# NC Flex Dep Care FSA PT	416.66	1,249.98
Total Earnings		5,901.83	18,606.95	Combined Campaign	20.00	60.00
				NC Flex Life Inc AT	16.00	48.00
				NC Flex Life Ins EE/Ch AT	1.36	4.08
				** Total Other Deductions	1,310.51	3,985.62
				Total Deductions	1,615.51	4,900.62

# Examples of 25% Pre-Tax Savings on Dental

	<u>Monthly Premium</u>	<u>Monthly Pre-Tax Cost</u>	<u>Monthly Tax Savings</u>	<u>Annual Tax Savings</u>
Dental Classic EE Only	\$35.90	\$26.93	\$8.98	\$107.76
Dental High EE + Family	\$176.56	\$132.42	\$44.14	\$529.68
Dental Low EE + Children	\$49.10	\$36.83	\$12.28	\$147.36

# Flexible Spending Accounts

- For most NCFlex plans, you pay a monthly or semi-monthly premium to have insurance.
  - Dental and Vision help cover the cost of seeing a provider or buying materials.
  - Accident, Cancer, and Critical Illness are supplemental medical and can help cover out-of-pocket costs in certain situations (these plans put money back in your pocket, with eligible claims).
  - Group Term Life and Accidental Death and Dismemberment plans payout to you and / or your beneficiaries in more extreme circumstances.
  - Disability insurance supplements your income if you become disabled and are unable to work.
- Flexible Spending Accounts are accounts that put pre-tax money aside for expenses you were already planning to cover.
  - Health Care FSA – out-of-pocket medical, dental, and vision
  - Dependent Day Care FSA – childcare expenses or adult day care expenses

# Health Care FSA

## Example of Tax Savings When Using an FSA

Annual Savings Example	With FSA	Without FSA
Annual Income	\$50,000	\$50,000
Annual Pre-Tax FSA Contribution	- \$2,000	- \$0
Annual Taxable Income	= \$48,000	= \$50,000
Annual Tax Withholdings (approximately 30% of the annual taxable income)	\$14,400	\$15,000
<b>Total Annual Savings</b> (approximately \$300 for every \$1,000 withheld in the FSA per year)	\$600	\$0

# Dependent Day Care FSA

## Example of Tax Savings When Using a DDCFSA

Without DDCFSA		With DDCFSA	
Gross Annual Pay	\$50,000	Gross Annual Pay	\$50,000
Tax Rate (30%)	-\$15,000	Max. Annual Dependent Care FSA Contribution	- \$5,000
Net Annual Pay	= \$35,000	Adjusted Gross Pay	= \$45,000
Annual Dependent Care Expenses	- \$5,000	Tax Rate (30%)	- \$13,500
<b>Final Take-Home Pay</b>	<b>= \$30,000</b>	<b>Final Take-Home Pay</b>	<b>= \$31,500</b>
<b>Take home this much more when a DDCFSA is used</b>			<b>\$1,500</b>

# Wrap Up

- When comparing benefits, pay attention to whether they are pre-tax or post-tax to understand the true cost.
- If you are concerned about a benefit you receive that may be taxable, or have questions about such things as DDCFSA vs. Child Tax Credit, consult with a tax advisor.
- Most NCFlex benefits can be taken with you if you leave employment (on a post-tax basis): Learn more by visiting [www.ncflex.org](http://www.ncflex.org) and clicking “[NCFlex Continuation Options at Separation of Employment](#)”.
- Contact us with questions: [ncflex@nc.gov](mailto:ncflex@nc.gov)
- All NCFlex premiums and benefit information can be found on [www.ncflex.org](http://www.ncflex.org).

# Questions?