

# SHOULD YOU GIVE THE MONEY YOU SPEND ON PREMIUMS TO YOUR EMPLOYEES TO BUY THEIR OWN INSURANCE?

## IT'S A LOSE-LOSE SITUATION.



On the surface it doesn't seem like a bad idea. Employees would get to pick the plans they want. The employer doesn't have any administrative burden. No one can be denied insurance due to pre-existing conditions.

Unfortunately, this scenario doesn't factor in the increased costs to the employer due to payroll taxes (FICA) and workers' compensation. Making matters worse, it doesn't factor in the additional income tax costs to the employee.

Let's look at a snapshot of what happens with a sample group with the following criteria\*:

Number of employees: 20 Annual salary of each employee: \$60,000 Annual health insurance premium per employee: \$6,600

Annual	Employer Pays 100% of EE Premium		Employer Gives Money Directly to Employees (pays no premium)	
	Employer	Employee	Employer	Employee
Payroll	\$1,200,000.00	\$1,200,000.00	\$1,332,000.00	\$1,332,000.00
Payroll Deduction	-\$1,200,000.00	\$0.00	-\$1,332,000.00	\$0.00
Payroll Tax (FICA)	\$91,800.00	\$0.00	\$101,898.00	\$0.00
Premium	\$132,000.00	\$0.00	\$0.00	-\$132,000.00
Premium Deduction	-\$132,000.00	\$0.00	\$0.00	\$0.00
Worker's Comp	\$12,000.00	\$0.00	\$13,320.00	\$0.00
Income Tax	\$0.00 **	\$300,000.00	\$0.00 **	\$333,000.00
<b>Total Cost</b>	<b>\$103,800.00</b>	<b>\$300,000.00</b>	<b>\$115,218.00</b>	<b>\$333,000.00</b>

Annually it will cost the employer \$11,418 more to increase salaries vs. paying the same amount toward premium.

Even worse, the employees lose because they will be subject to \$33,000 in additional income tax. The employer has to also consider that employees might not use the money given as an increase in salary toward health care, which would have an adverse effect resulting in lower productivity and more absenteeism.

Lastly, it creates discrimination among employees as some will be able to afford better plans than their colleagues.

**DON'T DROP GROUP COVERAGE. IT'S TOO EXPENSIVE FOR YOU. AND YOUR EMPLOYEES.**

\*Your "true" costs will vary depending on your group size, payroll and annual premiums. Always seek the advice of a tax consultant.

\*\*This calculation does not account for income tax (if any) for the employer.



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