

POPs Offer a Win-Win-Win

Employers, Employees and Agents Realize Mutual Benefits

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With customer-retention potential for agents and substantial tax savings for consumers, premium-only plans (POPs) are emerging as a valuable component of small group health insurance plans. Nevertheless, most consumers and agents are unaware of the benefits these plans offer. Due to this lack of awareness, POPs remain largely unused.

So simple and beneficial, yet so underutilized

Premium-only plans may be one of the most valuable customer-retention tools out there today when insurance premiums are increasing. But agents and brokers have underutilized these plans, which save money for employers and increase employees' take-home pay. The plan and its benefits are simple.

If you're a small business with a health plan in place but do not have a POP, you're essentially pouring hard-earned money down the drain. It's surprising that 100% of small businesses aren't enrolled in one. Agents should offer POPs as viable supplements to a small group health plan. POPs are strong customer-retention tools that help customers reap substantial tax benefits.

Benefits: What are they, and who receives them?

The great thing about POPs is that they offer unique benefits to consumers and agents alike.

Premium-only plans provide a way for employers to enhance their employee benefit package while reducing both employer and employee taxes. They are an exciting concept created through certain provisions of Section 125 of the Internal Revenue Code, which provides for tax-exempt treatment of employee premium contributions to certain employer-sponsored group benefits plans. Eligible employers include corporations only.

The type of non-taxable benefits plans that can be included in a POP are:

- | | |
|----------|------------------------------------|
| € Health | € Short-term disability |
| € Vision | € Long-term disability |
| € Dental | € Group term life (up to \$50,000) |

Employers who pay their employees' insurance premiums pre-tax are subsequently taxed on a smaller payroll. These premiums are removed from the top, thereby reducing the taxable payroll. The benefits are also evident for employees. The employee's premium

payments are taken out pre-tax, reducing their taxable income and increasing take-home pay.

The benefits you can expect with premium-only plans:

1. **Employer tax savings:** With a POP in place, payments made for employee premiums are subtracted pre-tax. This means an average savings of up to 10% on FICA and other payroll taxes. And isn't it great to offer this benefit in a market where it's highly likely you will be preventing a premium increase for your client?
2. **Employee tax savings:** POPs allow employees to pay for health insurance premiums with pre-tax dollars. That adds up to average savings of up to 30% on state, federal and FICA taxes and means more money in the employees' paychecks.
3. **Lower turnover rates:** Increasing employee take-home pay produces happier, more productive employees. Not having to increase expenditures to provide a pay increase is a rarity for any employer and small business owner.
4. **Ease of use:** Designed specifically to benefit the smaller employer, these programs are inexpensive to implement and easy to administer.
5. **Customer retention:** Agents who offer POPs may experience a higher customer satisfaction and retention rate.
6. **Continuing education credits for agents:** Some insurance companies provide agents with opportunities for education credits while learning more about POPs.

The annual tax savings a typical small business and one of its employees may experience after enrolling in a premium-only plan are shown in the tables below.

Example of annual savings for a 15-person group in which employees contribute \$150 per month toward insurance premiums

Sample Employer Savings		
	Without a POP	With a POP
Annual Payroll	\$375,000	\$375,000
Employee Pre-Tax Premiums	\$0	(\$27,000)
Taxable Payroll	\$375,000	\$348,000
Total Payroll Taxes (Up to 10%)	\$37,500	\$34,800
Result: 10% Employer Payroll Tax Savings of \$2,700		

Employee Savings		
	Without a POP	With a POP
Annual Salary	\$25,000	\$25,000
POP Pre-Tax Premiums	\$0	(\$1,800)
Taxable Income	\$25,000	\$23,200
Estimated Taxes (30%)*	(\$7,500)	(\$6,960)
After-Tax Premiums	(\$1,800)	\$0
Net Take-Home Pay	\$15,700	\$16,240
<p align="center">Result: Employees reduce tax base by an average of up to 30% and increase their annual take-home pay by 3.44% or \$540. <i>This is more than many companies' cost-of-living increases!</i></p>		

*Varies based on individual tax brackets and state tax rates

Lack of awareness

With POPs' benefits, the decision to enroll should be an easy one. But there are small hurdles holding POPs from becoming even more popular.

We feel that these plans are underused. Why? Most small businesses just aren't aware they qualify for such a plan. A recent survey by the Employee Benefit Research Institute® (EBRI) reported that 57% of small employers (between 2 and 50 workers) don't know how a POP may benefit them. In conjunction, agents perceive POPs as having no benefits for them. But neither is the case.

The lack of awareness is evident on both sides of the employer/employee relationship. Employees purchasing their own health insurance may not know that if they were to do so through their company with a POP, the premium payments would be 100% tax-deductible. In relation, EBRI cites that 48% of small business owners are unaware that workers are not allowed to deduct health insurance premiums on their own without a POP. Essentially, small employers and their employees are better off, tax-wise, offering POPs with a small group health insurance plan. John Alden Life Insurance and Fortis Health offer POPs nationwide, and have partnered with a national payroll provider to streamline and automate the benefits enrollment and operations.

Easy, streamlined enrollment process

POPs are easy to implement with John Alden Life Insurance, as specific tools are provided under their plans to help clients do so. Our POP installation kit includes all necessary communication, enrollment and administration forms, including:

- ∅ Step-by-step instructions
- ∅ Personalized legal plan documents
- ∅ Answers to common employee questions
- ∅ Free access to a toll-free POP information hotline

€ Announcement letters for employees

€ Enrollment and administrative forms

IRS reporting

Passing an annual discrimination and compliance test and filing IRS Form 5500 annually ensures enrolled companies that their POP benefits will continue. Small businesses that choose POPs should work through their payroll provider for completion of their year-end filing requirements. This little amount of paperwork required (IRS Form 5500) is best done by the experts.

The POP's future

POPs are a hot product in the insurance industry, and why not? What small business doesn't want to save money, especially on taxes? What agents don't strive for higher customer-retention levels? A POP is the type of niche product that really does assist an insurance agent in a rising premium rate situation.

This easy-to-implement product benefits agents, employers and employees alike. It offers customers an easy way to save tax dollars and increase employee's take-home pay with minimal effort.

Kerri L. Mansberg is responsible for all John Alden small group health insurance products for Fortis Health nationwide. She joined the company in 2000. Prior to this, Kerri developed products for a national I/T company, led the small group segment's operations for Cigna Healthcare for several years and spent more than 12 years with The Travelers and United Healthcare in a variety of small group operations and marketing positions. She has her bachelor's degree and MBA from the University of Connecticut.

Agents or employers wishing to find out more about John Alden's premium-only plans should call toll-free 1-877-225-5077 or visit nstarmarketing.com.