



Diocese of Palm Beach Cafeteria Benefit Plan Explanation

Why a Cafeteria Benefit Plan?

The Diocese of Palm Beach has adopted its Cafeteria Plan as a way for you to purchase health care benefits and other benefits in an innovative manner that makes your dollars go further.

The Plan allows you to save on taxes. The Cafeteria Plan will allow you to pay for certain benefits with income you are not taxed on. You will end up with more spendable income than you would otherwise have. Although your earnings stay the same, this plan will put more spending power in your paycheck.

The Diocese of Palm Beach Cafeteria Plan allows you an individual choice of benefits. You voluntarily allocate a certain amount of your before-tax pay for the purchase of covered benefits. You will not pay federal or Social Security (FICA) tax on funds you choose to allocate to the plan. Your “take home” pay increases right away because less tax is withheld from your paycheck when you purchase benefits with before-tax earnings. The tax savings are permanent. The Cafeteria Plan doesn’t just defer taxes until a later due date. You never have to pay taxes on your before-tax deductions.

Effect on Other Benefits

This program lowers your payroll tax only. This plan does not reduce the value of other benefits provided by the Diocese of Palm Beach, such as disability income and retirement income. Your Social Security tax is based on earned wages. Because you pay no Social Security (FICA) tax on your Cafeteria Plan Dollars, participating in this plan may slightly reduce your future Social Security benefits.

Example: Let’s look at a sample employee to see how the Cafeteria Plan can save you money. The example is based on an employee who has elected to cover their three dependents in the medical plan.

Without the Cafeteria Plan:

Salary (Taxable Income):	\$25,000
Federal Income Tax:	3,750
Social Security Tax:	<u>1,913</u>
Spendable Income	\$19,337
Less Medical Plan Premium:	<u>3,450</u>
Remaining Spendable Income:	\$15,887

With the Cafeteria Plan:

Salary:	\$25,000
Less Medical Plan Premium:	<u>3,450</u>
Taxable Income:	\$21,550
Federal Income Tax:	3,222
Social Security Tax:	<u>1,674</u>
Remaining Spendable Income:	\$16,654

This employee’s dependent medical benefit contribution are paid before tax dollars with the Cafeteria Plan. So her annual taxable income is reduced by \$3,450. Please note that this is only an example. Your income and expenses will likely differ from this example. However, the Cafeteria Plan can also mean substantial savings for you. Your pre-tax deduction may be an expense that could be listed as a deduction on your Federal Income Tax Return. However, legally, you may only claim the expense once.