



Transcript: PRE-TAX VS. AFTER-TAX PREMIUMS

When choosing your benefits such as medical, dental, and vision insurance, you have the option to pay your monthly premiums before taxes are taken out of your paycheck or after taxes are deducted.

By selecting pre-tax premiums you will pay from your greater, gross income. In other words, you pay for premiums before taxes are calculated. In this scenario, the amount of your paycheck that remains after you pay for premiums—called your net income—is used to determine the percentage that will be taken out for taxes like Social Security and state taxes. The bottom line: Choosing “pre-tax premiums” means more take home money for you and your family.

Now let's consider if you choose after-tax premiums. By selecting the after-tax option, taxes are deducted from your gross income first, including the amount used for your insurance premiums. Let's consider a simple example. In this example, your gross income in a given paycheck is \$100, and you choose “pre-tax premiums.” Let's pretend that premiums cost you \$1. That \$1 is subtracted from your gross earnings first. If your tax rate were 10%, then you would owe 10% of \$99—or \$9.90—in taxes. So your take-home pay is \$89.10.

Now consider the example when choosing to pay after-tax premiums. First, our hypothetical 10% tax rate is applied to the full \$100 gross earnings. So your take-home pay—after subtracting the \$10 for taxes and \$1 for premiums—is \$89. In this very simple example, that's 10¢ less than with the pre-tax option.

Of course, people's pay and tax rates vary considerably, so please do not assume the difference between pre- and after-tax premiums for you is 10¢ per \$100. Most people choose pre-tax premiums, because it provides them with more take-home pay each month. But there is one caution. With the pre-tax option, the IRS prohibits you from dropping your insurance coverage except during the two weeks each year that the university allows Annual Enrollment—unless you have a change in your family status. The university cannot provide individual tax advice. There are some reasons a family would prefer the after-tax option. If you have questions, you should consult a tax advisor.

If you have questions about benefit topics, visit our Benefits webpage, or reach out to us. We want to support you in making choices that are right for you.



This is a transcript of the “Pre-tax vs. After-tax Premiums” video, created and published by the University of Missouri System Total Rewards Department. Available at http://www.umsystem.edu/totalrewards/before_tax_vs_after_tax.

DOC# 0082-HR-TRRET-20151008