



MARTIN INSURANCE GROUP, LLP

CLIENT NEWS & ADVISORY

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Shrinking Workforce & Stretching Your Dollar to Keep Up with Demand

Hello Everyone,

Some of your first quarters started with a bang and you and your employees are rocking and rolling, some of you maybe rethinking your moves this quarter to avoid the missed marks in Q1. As employers we have all experienced both one year or another. Whether you are doing great and want to keep up momentum or need a way to 'step up' this issue will be relevant to both.

The Shrinking Workforce

The 'Baby Boomer' generation has continued to set records. Axios recently put out an article how there will be an **estimated 4,100,000 Americans turning 65 years old this year**. This is the highest number the US has ever seen before as far as a population simultaneously reaching retirement age.

Equally interesting, the National Center for Education Services updated their estimates for 'high school' graduates for the class of 2024. NCES is **estimating 3,386,980 Americans will graduate with a high school diploma or GED equivalent**.

Even MORE interesting is that when you compare the two numbers there is a **net deficit of over 650,000 Americans that are potentially LEAVING the US workforce than there are ENTERING the US workforce**. The effects of this will hit primarily in two parts:

- (1) **An increased competition between Employers in an already very competitive battle ground of "recruiting and retaining," employees.**
- (2) **The seemingly impossible task of maintaining government programs funded by taxpayer money such as Medicare and Social Security Income. (A topic for another time.)**

Sources: https://nces.ed.gov/programs/digest/d16/tables/dt16_219.20.asp

<https://www.axios.com/2024/02/19/us-baby-boomers-turn-65-2024>

Stretching Your Dollar to Keep Up with Demand

What employees look at when considering a new job is 'pay' and 'benefits.' Of course, other factors like job position, commute, schedules, and work environment will always play a factor – pay and benefits will always be the main deciding factors. Now this is the part where some of you go "thanks for pointing out the obvious but I can only budget X per head, how does this help me?" The answer is qualified deductions on a pre-tax basis via Section 125.

A Section 125 (also known as a 'Cafeteria' or 'POP' plan) is an employer-sponsored plan that allows employers to deduct qualified group health plans such as Medical, Dental, Vision, Life, Disability and Accident policies on a pre-tax basis from the employee's payroll.

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By implementing a Section 125 and more health insurance options for your employees to enroll in, you are achieving the goal of providing a more robust benefits package and you can lower your payroll 'taxes' and reinvest the money into funding your actual 'payroll' instead.

EXAMPLE:

- Let's say you pay an employee \$4,000 a month, and then they also enroll in \$500 worth of health insurance coverage a month.
- Normally payroll would have taxes taken out and then the deduction applied (post tax). Assuming they are in the 22% tax bracket, that would be \$880 in taxes taken out which would leave \$3,120 and then the payroll deduction of \$500 would apply. **Leaving a take home of \$2,620.**
- In the same scenario but on a pre-tax basis you are looking at a \$4,000 paycheck, then a \$500 pre-tax payroll deduction which leaves a balance of \$3,500. Then taxes are applied on the \$3,500 which equals a lower amount of \$770 paid in taxes (\$110 difference). **Leaving a take home of \$2,730.**
- Over the course of a year, the employee will take home \$1,320 (\$110 monthly savings x 12 months) more than they would have in previous years via tax savings.
- In addition to the employee being able to assume more take home pay, your company would pay less in FICA taxes.
 - **Example:** The employee above would have previously paid \$306 a month in Social Security and Medicare, which you as the employer must match. This would lower to \$267.75 with the pre-tax deduction example above. **Saving \$38.25 a month in matched taxes.**
- Multiply that by the number of your total employees (let's say 100) and that equates to **\$132,000 MORE in available payroll funds** that are actually going from your company's bank account to your employee's bank accounts, and **\$45,900 LESS in matched taxes.**

Conclusion:

The above is just an example of many that you as an employer can implement to expand the benefits you are offering to recruit and maintain your staff. **There are tax saving options beyond this that include but not limited to:** Health Savings Accounts, Flexible Spending Accounts, Dependent Care Flexible Spending Accounts, Limited Purpose Flexible Spending Accounts, and more.

Whether you are a current client of ours or considering our services for the first time, we would love the opportunity to sit down with you, evaluate what you are currently doing and your goals, and consult on what you can do to meet them.



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