

The CFO's Guide to FICA Savings

How Section 125 Plans Reduce Payroll Taxes for Your Organization

FOR CFOS & FINANCE LEADERS

Why CFOs Should Care

Section 125 Cafeteria Plans let employees pay for eligible benefits with pre-tax dollars. Every dollar that moves through Section 125 is a dollar your organization no longer pays FICA tax on. For most employers, that's an immediate **7.65% payroll-tax reduction** on participating benefit dollars, with no out-of-pocket cost beyond plan administration.

This guide covers the FICA mechanics, savings math by company size, the implementation path, and the compliance guardrails. Use the FICA Calculator at benefitsgenius.co/tools/fica-calculator to model your own numbers.

The 2026 FICA Numbers You Need

TAX TYPE	RATE	2026 WAGE BASE
Social Security (OASDI)	6.2%	Wages up to \$184,500
Medicare	1.45%	No wage cap
Additional Medicare	0.9%	Wages above \$200,000 (single) / \$250,000 (joint)
Total Employer FICA	7.65%	

Sources: SSA 2026 COLA fact sheet for the OASDI wage base; IRC §3101 / §3111 for rates; the 0.9% Additional Medicare Tax is employee-side only and does not affect employer FICA.

WHY THIS IS RARE

Section 125 reduces **both halves** of FICA. Your savings stack with the employee's tax savings, which makes this one of the few benefit dollars where the company and the employee land on the same side of the math. Employee take-home goes up; your payroll-tax expense goes down. No revenue lift, no headcount change, no benefit cut.

How Section 125 Reduces Your FICA Burden

When an employee makes a pre-tax Section 125 election (health-insurance premiums, FSA, HSA, qualifying supplemental coverage), that contribution is deducted from gross wages **before** FICA is calculated. The reduced wage base means a reduced FICA liability for the employer.

	WITHOUT SECTION 125	WITH SECTION 125
Gross wages	\$50,000	\$50,000
Pre-tax benefit contribution	\$0	\$3,500
Wage base for FICA	\$50,000	\$46,500
Employer FICA cost (7.65%)	\$3,825.00	\$3,557.25
Annual employer savings, per employee	\$0	\$267.75

Roughly **\$268 per employee per year**. Multiplied across the workforce, that becomes the headline number.

Estimated Annual Savings by Company Size

COMPANY SIZE	AVG PRE-TAX / EMPLOYEE	ANNUAL EMPLOYER FICA SAVINGS
25 employees	\$3,500	\$6,694
50 employees	\$3,500	\$13,388
100 employees	\$3,500	\$26,775
250 employees	\$3,500	\$66,938
500 employees	\$3,500	\$133,875

Illustrative. Assumes uniform \$3,500 pre-tax election per employee at 7.65% FICA (calculated from \$267.75 / employee). Actual savings vary with salary distribution (high-earners above the OASDI wage base pay 1.45% Medicare only), participation rates, and benefit mix. Use the calculator for your specific numbers.

These savings flow directly to operating margin. No revenue lift required, no headcount change, no benefit reduction. The line item that goes down is your employer payroll-tax expense.

Which Benefits Qualify for Section 125

BENEFIT	PRE-TAX UNDER §125?	NOTES
Health insurance premiums (medical, dental, vision)	Yes	Standard cafeteria plan election
Health Savings Account (HSA) contributions	Yes	Subject to HDHP enrollment
Flexible Spending Accounts (medical / dependent care)	Yes	Annual limits apply
Accident, critical illness, hospital indemnity	Yes	When structured properly

BENEFIT	PRE-TAX UNDER §125?	NOTES
Commuter benefits (parking, transit)	Yes	Separate IRC §132(f) limits
Group term life over \$50,000	Yes, with cap	Coverage above \$50K = imputed income via IRC §79
Long-term disability premiums	Generally no	Pre-tax usually undesirable; benefit becomes taxable

Confirm specific benefit eligibility with your ERISA counsel or Third-Party Administrator (TPA). State-mandated coverages can carry additional rules.

Implementation Roadmap

1. **Audit current benefits.** Which benefits are already pre-tax? Which could be added under §125?
2. **Identify additional benefits.** Coordinate with your benefits team or broker.
3. **Engage a TPA or administrator.** They handle nondiscrimination testing, claims, and compliance.
4. **Draft the §125 plan document.** Legal counsel or TPA creates the formal written document required by IRS and DOL.
5. **Communicate to employees.** SPDs, election guides, FAQs.
6. **Update payroll.** Configure pre-tax deduction processing for the elected benefits.

Typical timeline: **4 to 8 weeks** from decision to first pre-tax payroll, depending on plan complexity and payroll-system capabilities.

Compliance Considerations

Written plan document

The §125 plan must be in writing and signed by authorized representatives. It documents eligible employees, available benefits, election procedures, and plan-year dates.

Nondiscrimination rules

The plan must offer benefits to all eligible employees on a nondiscriminatory basis. The IRS prohibits favoring highly-compensated employees. Annual nondiscrimination testing may be required.

Election periods and changes

Employees lock in elections for the full plan year. Mid-year changes are allowed only for qualifying life events (marriage, birth, change in dependent care, significant loss of coverage). Document everything.

Use-it-or-lose-it (FSA)

FSA balances not used by year-end (or during a grace period if offered) are forfeited. Make sure employees understand this.

Record keeping

Keep the plan document, employee elections, nondiscrimination test results, and compliance documentation on file for at least **6 years**.

THE MOST COMMON AUDIT FINDING

Stale or missing written plan documents. Plenty of mid-market employers operate under a §125 plan whose document has not been amended in years, sometimes pre-ACA. If yours has not been touched in 5+ years, that is the first thing to fix — before nondiscrimination testing, before payroll changes, before anything else.

Next Steps

1. **Model your savings.** Use the calculator at benefitsgenius.co/tools/fica-calculator to estimate FICA savings based on your headcount and current benefit mix.
2. **Read the comprehensive guide.** For a deeper dive into nondiscrimination testing, FSA / HSA rules, and plan design, visit benefitsgenius.co/learn/section-125-comprehensive-guide.
3. **Pressure-test your plan.** If you already have a §125 plan, a 15-minute conversation with David usually surfaces where you are leaving FICA savings on the table.



Questions on FICA savings for your team?

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David works directly with HR leaders, CFOs, small business owners, franchise operators, and broker partners on Section 125, ACA compliance, and group health strategy.

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