What are Pre-Tax and Post-Tax Deductions?

Pre-tax deductions are deductions that can be used to discount the amount of taxable wages a person will owe taxes on. Without these deductions, an individual, in most cases, would owe income taxes on all their gross wages. However, with these deductions, that amount is lowered, becoming a tax benefit. A number of things can qualify as pre-tax deductions, such as medical, dental and vision insurance premiums, as well as contributions to a 403(b) retirement plan.

Pre-tax deductions may also affect more than income tax. FICA, which includes taxes for Social Security and Medicare, is also affected. These pre-tax deductions can significantly lower the amount of money paid into this program as well.

What is the benefit of having the cost of your portion of the insurance deducted from your paycheck before taxes (pre-tax)?

- you reduce your taxable income, therefore reducing the taxes you owe. However, you cannot drop coverage until the next open enrollment period or until you have a qualifying change in status.

Some benefits, such as Supplemental Life Insurance are paid with **After-tax dollars**. What are the benefits of having your deductions after taxes (post-tax)?

- You can drop your insurance coverage, should you choose to do so. However, if you do drop coverage in one of the insurance plans, you will not be eligible to enter the plan again until the next open enrollment period or until you have a change in status.

The purpose of pre-tax deductions is to create an incentive for people to be responsible with their money and plan ahead for certain eventualities. These include health care expenses and retirement. Theoretically, even if the government takes in less money because of these deductions, it still is a net benefit to the government because individuals who plan ahead will not need as much government assistance in the future.

Pre-tax deductions are also used when the employee is investing in a retirement savings account, such as a 403(b). Together, this provides a great incentive for those to delay the benefits of the income in order to take advantage of it later on.