

### **Employer, Employee, Broker - What Do They All Have in Common?**

**Answer:** The broker wants to attract and retain good quality businesses as clients, the employer wants to attract and retain good quality employees, and the employee wants good quality benefits that will help them retain more of their income. A Section 125 Cafeteria Plan can help benefit all three.

Section 125 of the IRS code allows employees to pay for group health insurance premiums, unreimbursed medical costs, child and dependent care expenses and more...all with tax-free dollars! Employees save Social Security (FICA), federal, and state taxes. This can total as much as a 40% savings. The employer saves on Social Security (FICA) and workers compensation depending on state laws.

The employer wins, the employee wins, and the broker wins.

### **Present a Cafeteria Plan**

Strengthen your relationships with your clients by showing them how they can attract new employees and improve relations with current employees by adding this powerful tax savings benefit; and they can do it without any out-of-pocket cost to the company. The employer tax savings usually offsets any administrative costs that may be incurred.

This type of benefit can be administered in-house by your client or outsourced to a licensed third party administrator (TPA). However, Human Resource Departments are usually understaffed so you'll probably want to show them how they can save time and eliminate the potential hassles by hiring a qualified TPA.

Outsourcing this benefit allows your client to remain focused on their core business and not on back-office administrative functions. Outsourcing also opens the doors for the organization to gain access to top-level professionals in a non-core area, state of the art technology, industry defined best practices, and up to date compliance and legal guidance, which allows their organization to be more efficient, more effective, and reduce overall costs.

The most common reason given by employers for offering a cafeteria plan is to lessen the burden of escalating health care plan costs and provide a day care benefit to their employees.

As health care costs escalate, employers have shifted the burden of these rising costs to the employee through higher deductibles and co-payments. Setting up a cafeteria plan is an easy way to help employees re-coup some of these higher costs.

The higher costs of premiums shared by the employee are automatically offset to some extent by their pre-tax status. Using a medical reimbursement account can reduce out-of-pocket costs of higher deductibles and co-pays as well as other medical expenses not normally covered by medical insurance.

Medical Reimbursement Accounts allow employees to recoup unreimbursed "out-of-pocket" medical costs such as office co-pays, prescriptions, x-rays, dental, vision, and more.

Dependent Care Reimbursement Accounts allow employees to pay for daycare expenses on a pre-tax basis.

One of the primary objectives to implementing a cafeteria plan is the use-it or lose-it rule. However, most people who understand how the plan works are not overly concerned. Encourage employees to be conservative in their elections. They should only contribute for planned expenses. Even if an employee over contributes, they may still benefit. An employee who contributes \$1,000 into a medical reimbursement account and only uses \$900 still saves money. Assuming only a 25% savings on the \$1,000 contribution, the employee has a net savings of \$150 (\$250 tax savings less \$100 loss). Properly understood and properly communicated the use-it or lose-it rule should not prevent participation in the plan.

### **Who Is a Prospect?**

If a company has an employee or employees they are a prospect. Of course the more employees a company has the greater the potential benefits. You do need to be aware, however, that some business owners cannot participate in the benefits of the cafeteria plan. These include a 2% or more shareholder of an S Corporation, sole proprietors, and partners.

### **Success In Presenting Cafeteria Plans**

When presenting a cafeteria plan, focus on the powerful pre-tax advantages for the employees (the decision-makers are usually employees also) as well as the tax savings for the employer. Stress the importance of employee communication. To make the plan a success employees must understand how it works and the benefits available. Mandatory employee meetings are a good idea.

Work with a professional TPA to avoid problems with documents, compliance testing, and Form 5500 filings. The TPA will be able to lead you and your client through the entire process. Look for a TPA that can offer a powerful employee education program, communication materials, personal service backed by a high level of technology investments including Internet account access, Interactive Voice Response Systems, electronic forms, direct deposit, and fast claim turnaround.

Cafeteria plans are a great way to solidify your relationships with your clients, illustrating your value. Your client wins, their employees win, and you win. Good selling.

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