

## **Winning with a Section 125 Cafeteria Plan**

Every company wants to attract and retain good quality employees. On the flip side, the employee wants good quality benefits. A pre-tax Section 125 Cafeteria Plan can help benefit both employer and employee.

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 and the employee wins.

### **Present a Cafeteria Plan**

Strengthen your employee benefits program, attract new employees, and improve relations with current employees by adding this powerful tax savings benefit; and do so with zero or little out-of-pocket cost to the company. The employer FICA tax savings usually offsets any administrative costs that may be incurred.

A Premium Only Plan (POP) allows for employees to pay their portion of the group insurance premium on a pre-tax basis and is a good start to saving taxes for you and your employees.

Taking your 125 plan to the next level includes implementing the Flexible Spending Accounts (FSA). Generally, there are two FSA accounts including a Medical FSA (medical / dental / vision) and a Dependent Daycare FSA.

These FSA accounts will allow for the unreimbursed out-of-pocket expenses to be paid on a pre-tax basis. Examples include dependent daycare, office co-pays, prescription co-pays, eye exams, eyeglasses, contacts, orthodontics, etc...

To add additional value to your plan, you may want to consider offering the convenience of a Flex Debit Card to your employees. The Flex Debit Card will virtually eliminate their up front out-of-pocket expenses, reduce manual paper claims filing, and virtually eliminate waiting for a reimbursement check as they simply swipe their FSA Debit Card wherever MasterCard is accepted for eligible FSA expenses.

This type of benefit can be administered in-house or outsourced to a licensed third party administrator (TPA). However, Human Resource Departments are usually understaffed and outsourcing with a qualified TPA will save time and eliminate the potential hassles.

Outsourcing this benefit allows your company 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 because they're planning for known expenses. 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. Plus the recent over-the-counter (OTC) change by the IRS allows items such as allergy medications, aspirin, cough syrups, and pain relievers to be paid pre-tax through the plan. This means it's even easier for participants to use up all their available funds.

### **Who Should Look Into This Benefit?**

If a company has an employee or employees they should look into offering this benefit. Of course the more employees a company has the greater the potential benefits. You do need to be aware, however, that per IRS restrictions 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 With a Cafeteria Plan**

Employee education is critical to the success of this benefit because the national Medical FSA participation level is 17% to 20%. Most companies don't spend enough time promoting and educating employees on this benefit. We encourage companies to take an integrated approach and make employees aware of the powerful pre-tax benefit through

paycheck stuffers, posters, brochures, email, group meetings, online presentation, and more...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 third party administrator (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 employer and employee Internet account access, Traditional and/or Flex Debit Card administration, electronic forms, direct deposit, and fast claim turnaround.

Cafeteria plans are an easy way to strengthen your benefits package and solidify your relationships with your employees. Your employees win and you win. Get a Section 125 Cafeteria Plan in place today!

David Turner is a Vice President of BusinessPlans, Inc. - myCafeteriaPlan who has been providing Cafeteria Plan administration for over thirteen years and offers Traditional (manual claim) and Flex Debit Card administrative services for Section 125 Cafeteria Plans (FSA), Section 105 Healthcare Reimbursement Arrangements (HRA), and Section 132 Qualified Transportation Plans (QTP). Contact myCafeteriaPlan online at [www.myCafeteriaPlan.com](http://www.myCafeteriaPlan.com) , by phone at 800.865.6543 or email [info@myCafeteriaPlan.com](mailto:info@myCafeteriaPlan.com) to request a plan recommendation and discuss how this benefit will work for you.