FLEXIBLE BENEFIT PLAN BASICS

Section 125 | Cafeteria Plans

There are variations of Section 125:

- Flexible Spending Accounts (FSA) or (Health FSA)
- Dependent Care FSA (DCFSA)
- Premium Only Plans (POP)
- Individual Health Premium Account

Flexible Spending Accounts (FSA)

Even the most comprehensive health insurance plans don't cover everything. Once employees realize how much money they can save by using pre-tax dollars to pay for things they are already buying, like medications, co-pays, and deductibles, you have their interest. Then, when you show them how easy it is to buy those things with a FSA debit card, they can't wait to enroll.

Employer Advantages

- FICA tax savings of 7.65% on every dollar the employee puts in the plan
- Flexibility in budgeting for and controlling escalating benefit costs
- Flexibility in benefit choices
- Employee morale
- Competitive benefit plan that helps to attract and retain employees

Employee Advantages

- Tax savings from Federal, State, and FICA
- Budgeting for medical and child-care expenses
- Choice in selecting benefits
- Morale booster
- Use pre-tax dollars to purchase "out of pocket" expenses that they're already buying (i.e., daycare, insurance premiums, deductibles, co-pays, medications, etc.)

Dependent Care FSA (DCFSA)

This DCFSA allows employees to pay dependent care expenses with pre-tax dollars. Married couples filing jointly and singles, may elect up to $5,000 annually pre-tax for dependent care which results in significant tax savings for both the employee and employer.

In nearly all cases, **the pre-tax deduction through the employer for a DCFSA is *double* that of the tax credit**.

Who is a Qualifying Dependent?

According to the IRS, qualifying dependent care expenses must be for the care of one or more persons qualifying as a dependent. Qualifying persons are:

- A dependent who was under the age of 13 when the care was provided, and for whom the employee may claim an exemption on his/her taxes.
- A spouse who is physically or mentally challenged.
- A dependent who is physically or mentally challenged, and for whom you may claim an exemption (e.g., an aging parent living with the employee).

Premium Only Plan (POP)

The POP is the most common type of cafeteria plan. It's most often used in conjunction with the other cafeteria plan types (e.g., FSA). In a POP, the employee's portion of group health and other premiums is payroll deducted on a pre-tax basis, resulting in lower employee and employer taxes.

Below are examples of the premiums that can be deducted pre-tax through the POP. Eligible plans are limited to the employer's group plans in which the employee pays the whole amount, or a portion thereof. POP plans may help reduce the impact of a premium increases.

- Accident Insurance
- Cancer Insurance
- Intensive Care Insurance
- Vision Insurance
- Group Health Insurance
- Dental Insurance
- Disability Insurance*

Individual Health Premium Account

Use the Individual Health Premium Account to pay for premiums billed to the employee's home or from a spouse's employer. Employees must request reimbursement similar to the daycare or health FSA.

Examples of Coverage

- Accident Insurance
- Dental Insurance
- Hospital Insurance
- Medicare Insurance
- COBRA Premiums
- Cancer Insurance
- Disability Insurance
- Major Medical Insurance
- Vision Insurance