



Educator Resources

National Office: 800-578-2111

§125 Cafeteria Plans: Tax-Saving Strategies

A comprehensive employee benefit package often exceeds in cost what most employers are willing or able to pay.

With the increasing awareness of rising healthcare costs, Congress has enacted legislation designed to help.

We are proud to assist you in establishing your own tax-saving §125 Cafeteria plan.

What is a §125 Cafeteria / Flexible Benefit Plan

In response to public outcries for a more affordable way to provide employee benefits, Congress enacted legislation that authorizes the establishment of “Cafeteria / Flexible Benefit Plans.”¹ A §125 Cafeteria plan allows participating employees to pay for a portion of their employer-sponsored benefit programs with before-tax dollars. This strategy can save both the employer and employee money!

Who should consider establishing a §125 Plan?

Just about everyone! If any of your employees pay for a portion of their health insurance or other employee benefit program, a §125 Cafeteria plan can (1) increase employee’s take-home pay and (2) reduce the amount of payroll tax an employer spends!

What benefits can an employer expect?

When employees participate in your plan, each employee reduces his / her taxable wages. As a result, payroll and associated expenses are less. For example:

- ◆ A reduction in the employer matching portion of FICA (*Federal Insurance Contributions Act*) tax;
- ◆ A reduction in the employer paid portion of FUTA (*Federal Unemployment Tax Act*) tax; and
- ◆ In some instances a reduction in workers’ compensation insurance costs.

An employer who establishes a §125 Cafeteria plan can, among other things, realize the following:

- ◆ The ability to expand employee benefits; and
- ◆ Employee appreciation of your enhanced benefit package (Surveys prove that employee benefit packages are a major factor in successfully hiring and keeping quality employees).

I understand there are two types of plans available?

That’s right: *Premium Only Plans (POP)* and *Full Flex Plans*. POP plans are easy to install and can provide employees immediate *paycheck increases*. Full Flex plans are more complicated and difficult for employees to understand, as well as very expensive to administer.

What type of administration does a POP require?

Once established, a POP does not require any specific on-going administration. Payroll will be altered as insurance premiums / contributions change. However, as a service to you, we are more than happy to offer §125 “check-ups” to provide peace of mind for your bookkeeper and executive staff.

How does an employer establish a POP?

Establishing a POP is a relatively easy procedure because we are able to assist you throughout the entire process. Establishing and maintaining the plan requires:

- ◆ Executing a “Plan Document”;
- ◆ Creating a “Summary Plan Description” and subsequent distribution to employees;
- ◆ Filing form 5500 with the IRS each year; and
- ◆ Completing election forms (Since all employees must be given the opportunity to participate, election forms are required).

What will it cost to establish a §125 Cafeteria plan?

Quite possibly nothing! As a part of your *Services Package*, we are able to help you establish a §125 Cafeteria (POP) plan at no cost through a specially-prepared kit. It takes just a few minutes to explain.

Additionally, once your §125 POP plan is established, the nationally recognized accounting firm of Mayer, Hoffman, McCann can help prepare the IRS form 5500 each year and provide a toll-free hotline for any questions that may arise. Peace of mind for your bookkeeper at very little cost!

¹ Established by the *Revenue Act of 1978*, Section 125 (*§125*) of the Internal Revenue Code (1986) is the primary regulatory source for this plan.