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