Cafeteria Plan Advisors, Inc.

420 Washington St
Braintree MA 02184
800-544-2340
About
Cafeteria Plan Advisors Inc.

- Third Party Benefits Administrator
- Incorporated 1989
- Concentrate on IRS Section 125 Cafeteria Plans
- Clients: Municipalities, Corporations, and Non-profit Organizations
Overall Health Care Costs Rising

- Premiums (Employers/Employees)
  - $$ Percentage shifting ER to EE
- Co-pays (prescriptions/doctor visits)
- Deductibles
- OTC items
- Individuals medical expenses
  - Few meet Adjusted Gross Incomes > 10%
What Tools Are Available to Employers? Employees?

- Health premium changes
  - Increase deductible
  - Repackaging
  - Shift costs to Employee

- Pre-tax plans as benefits to employees
  - Cafeteria Plans
  - Other Plans
Plans Types

- Cafeteria Plans
  - Premium Only Plans
  - Flexible Spending Account
    - Healthcare Account
    - Dependent Care Account
- Transportation Plans
- HRA’s, HSA’s
Section 125 Cafeteria Plan –
Premium Only Plan

- What is Section 125?

- The US Congress created Code section 125 in an effort to make benefit programs more affordable for employees. Section 125 is part of the IRS Code that allows employees to convert a taxable cash benefit (salary) into non-taxable benefits. Under a Section 125 program you may choose to pay for qualified benefit premiums before any taxes are deducted from employee paychecks.

- The **Premium Only Plan** is the building block of the Section 125 Plan. It allows for certain employee paid group insurance premiums to be paid with *pre-tax dollars*. 
Premium Only Plan

- **Qualified premiums (if offered by employer) are:**
  - Health
  - Prescription
  - Dental
  - Vision
  - Disability
  - Employee Group Term Life (up to $50,000.00)
  - Cancer
  - Accident

- **Employee Savings:** Employees can save 20 - 40% of their payroll deductions. The savings are on city, state, and federal income taxes, including Social Security and Medicare.

- **Employer Savings:** Employers save the matching Social Security (6.20%) and Medicare (1.45%) taxes, which equates to 7.65% (1.45% for municipalities) of all the dollars put through the plan, a substantial savings.
Employer Eligibility

- Owners in S-Corporations, Sole Proprietors and Partnerships with over 2% ownership, Including LLC, & LLP are not eligible for participation in Section 125 Cafeteria Plan benefits, although employees may participate.
Flexible Spending Account

What is it?

- A Flexible Spending Account allows a participant to use pre-tax dollars to pay for certain unreimbursed medical and dependent care expenses.

- The amount that you want to set aside for a FSA account must be made prior to the beginning of a plan year.
Flexible Spending Account - Funding

- Employee Paid
  - via Payroll deductions
- Employer may contribute
Transportation Benefit Accounts

- “Avoid taxes on transportation and parking.”

- **Parking/Mass Transit Conversion Accounts:**
  - Allows you to pay for your employer provided parking and mass transit benefits directly from your paycheck. There are no claim forms for you to fill out.

- **Parking Reimbursement Account:**
  - Allow you to pay for your daily or monthly parking expenses incurred for your parking at or near your work. You can elect to have up to $255.00 per month deducted from your paycheck TAX-FREE.

- **Mass Transit Reimbursement Account:**
  - Allow you to pay for your mass transit expenses related to your commute to work. Up to $255.00 per month can be deducted from your pay TAX-FREE for qualified mass transit expenses.

- You can **reduce your taxable income** and avoid paying Social Security and Medicare Tax (7.65%) and Federal Income Tax (15% to 40%) by enrolling in your company sponsored Section 132 Benefits Plan.
HSA – Health Savings Account

- Individual must be covered under High Deductible health plan
- For 2016 plan
  - Minimum deductible Ind $1300 / Family $2,600
  - Maximum out of pocket Ind $6,550/Family $13,100
- Employee Contribution Limits:
  - Individual - $3350 (employer + employee)
  - Family - $6750 (employer + employee)
  - Catch up contributions 55+ $1000
- HSA custodian
- Funding by employer/employee
- Distributions from HSA excludable from gross income if used for “qualified medical expense”
- Not subject to “use it or loose it” rules like FSA’s
HRA – Health Reimbursement Arrangement

- Works with Group Insurance Plan
- Reduces Ins premiums
- Paid for solely by Employer
- Reimburses employee for medical expenses
- Packaged with High Deductible Plans
- Funds Unused can carry to next year
Setting Up The Plan

- Coordinate Enrollments
- Acts as Liaison with Payroll department
- Provides Adjustments to Payroll
- Administers All Plan Operations
- Provides Plan Documents
Administering The Plan

- New Payroll Reviewed by employer
- Funds Remitted to CPA, Inc for administration
- Employees Submit Claim Vouchers for Reimbursement to CPA, Inc
- CPA Inc Disburses Funds
- CPA Inc Provides Reports
Employer Benefits

- Employee Deductions Shifted to Pre-Tax Income
- Employer lower Gross Payroll
- Reduces Employer matching for FICA and or Medicare taxes
- The Section 125 program is a tremendous opportunity for you to enhance benefits package
## Premium Only Plan (POP)

<table>
<thead>
<tr>
<th>Medical</th>
<th>Monthly</th>
<th>Employee</th>
<th>Employee</th>
<th>Employee</th>
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<tbody>
<tr>
<td>Premiums</td>
<td>Cost</td>
<td>%</td>
<td>Costs Monthly</td>
<td>Costs Annual</td>
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<tr>
<td>Individual</td>
<td>250</td>
<td>25.00%</td>
<td>62.50</td>
<td>750.00</td>
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<td>Family</td>
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<td>75.00%</td>
<td>750.00</td>
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Total employee dollars put through plan: 97,500.00

Matching Medicare & FICA rate: 7.65%

**ESTIMATED EMPLOYER SAVINGS:** 7,458.75
## Flexible Spending Account - Medical

(Dealer sets Plan year max, usually $2500-$5000)

<table>
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<tr>
<th>Eligible Employees</th>
<th>% Participation</th>
<th>Eligible Employees in Plan</th>
<th>Avg. Monthly $$</th>
<th>Avg. Annual $$</th>
<th># Participants</th>
<th>Pre-Tax total</th>
</tr>
</thead>
<tbody>
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<td>20</td>
<td>25.00%</td>
<td>5</td>
<td>200.00</td>
<td>2,400.00</td>
<td>5</td>
<td>12,000.00</td>
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</table>

- Total employee dollars put through plan: 12,000.00
- Matching Medicare & FICA rate: 7.65%

**ESTIMATED EMPLOYER SAVINGS:** 918.00
**Flexible Spending Account - Dependent Care**

(IRS sets annual max at $5000.00)

<table>
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<th>Eligible Employees</th>
<th>% Participation</th>
<th>Employees in Plan</th>
<th>Employee Avg. Monthly $$</th>
<th>Employee Avg. Annual $$</th>
<th># Participants</th>
<th>Pre-Tax total</th>
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</thead>
<tbody>
<tr>
<td>20</td>
<td>15.00%</td>
<td>3</td>
<td>350.00</td>
<td>4,200.00</td>
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<td>12,600.00</td>
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Total employee dollars put through plan: 12,600.00

Matching Medicare & FICA rate: 7.65%

**ESTIMATED EMPLOYER SAVINGS:** 963.90
Flexible Spending Accounts

Dependent Care

Healthcare
FSA-Dependent Care Account

- IRS Maximum of $5000
- Both working (disabled, full time student)
- Single Parents
- Day Care Facility
- Children/Adults
Tax Deduction vs. FSA

- **May** qualify for $6000 Tax Deduction (with 2 dependents in daycare)
- Lower income may get more bang for the buck from deduction
- Box 10 of W2
FSA Healthcare Account

- Plan Year max is $2550
- All dental except bleaching
- Glasses/contacts and laser vision surgery
- Rx co-pays
- OTC Medicines with prescriptions
- Disease/condition related specialty items
- No cosmetic expenses
Medical Deduction vs. FSA

- Deduction only for **excess** of 10% of adjusted gross income
- First 10% is taxed
- FSA allows first $ to be tax free
- FSA requires planning and forecasting
- Use it or Lose it!
Claims Substantiation

- Copy of ‘bill’ or receipt
- Uniform Coverage Rule
- Validate expenses
- Plan Year
- Reimbursements to Participant
Keep in mind:

- Definition of dependent
- Not ‘tied’ to medical insurance
- Annual enrollment each plan year
- Certain Qualifying event allows FSA changes
- Make increases to employee cost less bitter.
Employee Payroll Comparison Example

Without Plan

- Gross Pay 1500
- Taxable Salary 1500
- Taxes withheld 412
- After Tax Costs
  - Medical 85
  - Dep Care 200
- Spendable Income 803

With Plan

- Gross Pay 1500
- Plan Benefits
  - Medical 85
  - Dep Care 200
- Taxable Salary 1215
- Taxes withheld 330
- Spendable Income 885
- Increase Income $82
Plan Process

- Plan Documents
- Employee Education
- Enrollment
- Deduction/Claim Processing
- Compliance
FSA’s – the Attraction

- Employee participation growing in plans
  - Awareness, Communication, Technology
- Increases Health Care Costs
  - Doctors, Co-pays, Prescriptions etc.
- Real Savings for employees
  - Approximately 30% savings for $$$ put through plan
“It’s Not What You Earn, It’s What You Keep That Counts”