EMPLOYER BENEFIT SOLUTIONS FOR YOUR INDUSTRY

Understanding Your Employer's Section 125 Plan

If there was a program available that could save you money on your taxes and help you proactively plan for out-of-pocket expenses, would you take advantage of it? That's exactly what a Section 125 Plan does – reduces your tax and increases your spendable income. Under a Section 125 Plan, employers can offer eligible benefits to employees, through payroll deduction, on a pre-tax basis.

This employer-sponsored program is designed to help you save money on important expenses like eligible insurance premiums, health-related expenses, and dependent day care expenses.

See How Much You Could Save

This example shows what a sample employee's bi-weekly paycheck could look like when using a Section 125 Plan. The sample is based on 24 pay periods.

With a Section 125 Plan		Without a Section 125 Plan	
Gross Bi-Weekly Income	**$2,000.00**	**Gross Bi-Weekly Income**	**$2,000.00**
Insurance Premiums - Medical insurance - Dental insurance - Vision - Cancer insurance - Accident insurance - Healthcare Flexible Spending Acct	 -$250.00 -$30.00 -$25.00 -$20.00 -$15.00 -$50.00	Less Tax - Federal & State at 20% - FICA at 7.65%	 -$400.00 -$153.00
Taxable Bi-Weekly Income	**$1,610.00**	**Bi-Weekly Income Before Benefits**	**$1,447.00**
Less Tax - Federal & State at 20% - FICA at 7.65%	 - $322.00 - $123.17	Insurance Premiums - Medical insurance - Dental insurance - Vision - Cancer insurance - Accident insurance - Healthcare Flexible Spending Acct	 -$250.00 -$30.00 -$25.00 -$20.00 -$15.00 -$50.00
Net Bi-Weekly Salary	**$1,164.83**	**Net Bi-Weekly Salary**	**$1,057.00**

[1]If you are subject to FICA taxes, there might be a slight reduction in your social security benefit due to the reduction of FICA contributions. Example is for illustrative purposes only. Please consult your tax advisor for actual tax savings.

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Healthcare Flexible Spending Account

How It Works

A Healthcare Flexible Spending Account (also known as a Healthcare FSA or HCFSA) may be used to pay for common medical expenses throughout the year. You determine how much money you may spend on eligible medical expenses and then set that amount aside pre-tax in a HCFSA. Throughout the year, when you purchase those items, you may reimburse yourself from the account.

Eligible and Ineligible Expenses

You may use your HCFSA to pay for a wide variety of common medical expenses for you, your spouse, and your eligible tax dependents. The Internal Revenue Service (IRS) determines which expenses are eligible for reimbursement. The following are common types of eligible and ineligible expenses.

Examples of Eligible Expenses:

- Medical expenses, including medical bills to cover deductibles and copayments
- Prescriptions drugs and over-the-counter medicines prescribed by your doctor
- Vision expenses, including eye exams, glasses, contact lenses, Lasik surgery
- Dental expenses, including dental exams, fillings, and orthodontia expenses[1]
- Transportation expenses relative to medical care, including mileage at the IRS allowable rate

Examples of Ineligible Expenses:

- Cosmetic procedures
- Toothbrushes
- Insurance premiums
- Vitamins for general wellness
- Any expenses reimbursed under other health plans

"Use or Lose"

It is important that you carefully choose your election amount each year. Under Internal Revenue Code (IRC) Section 125 regulations, if you don't use your full election amount during the required timeframe, any remaining funds are forfeited. Check with your employer to see if your plan offers a Runoff Period, Carryover Provision, and/or Grace Period.

- **Runoff Period** - A period after the plan year ends when you are able to submit claims that you incurred during the previous plan year but have not yet submitted. The Runoff Period applies to both the HCFSA and the DCA.

Dependent Care Account

How It Works

A Dependent Care Account (DCA) is used to reimburse yourself, with tax-free funds, for eligible dependent day care expenses incurred while you are working. Your contribution is withheld from your paycheck before tax, which in turn reduces your overall tax. You may allocate up to $5,000 pre-tax per calendar year for reimbursement of dependent day care expenses if you are married or $2,500 if filing separate tax returns.

Who May Participate

Any employee who meets certain eligibility requirements and who has a qualifying dependent may participate in a DCA. If you are considering participating, you should be aware that you may be able to take a federal and/or state tax credit instead of participating in the DCA. Consult your tax advisor to review your options.

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