



HSA



HEALTH SERVICES ADMINISTRATORS

135 Wood Road, Braintree, MA 02184

Telephone: 877-777-4414 ~ Fax: 781-843-5001

Website: WWW.HSAmembership.com

Cafeteria Plan Section 125 IRS Code

Available to Members of ForeclosuresMass.

Establish your own Section 125 Premium Only Plan for only \$99 + \$15 shipping and handling.

We provide you with everything you need to comply with Internal Revenue requirements for a formal plan document, and the Department of Labor's requirement for a Summary Plan Description. Here are a few of the administrative procedures that must be met to comply with Section 125 code legal requirements.

What is a Section 125 Premium Only Plan.

IRS Section 125 Premium Only Plans were introduced by the Revenue Act of 1978. These plans allow employers to reduce payroll taxes by making one simple adjustment to the payroll process. Under a Section 125 Premium Only Plan employees elect to pay their portion of health insurance premiums on a pre-tax or tax-free basis rather than on an after-tax basis. This creates savings for both the employee and the employer.

How Employees Benefit from a Premium Only Plan.

Employees save 20 to 40% of their pre-tax Section 125 premium deductions. The tax savings are on city, state, and federal income taxes, including Social Security and Medicare taxes on money used to pay for their portion of insurance premiums. Employees take-home pay is increased which helps reduce the cost of providing health coverage for family members.

How Employers Benefit from a Premium Only Plan.

Employers benefit by reducing the matching Social Security and Medicare taxes, and sometimes Federal and State unemployment taxes. Depending on the state, employers may also be eligible for worker's compensation savings.

Who Can Participate.

Employees of regular corporations, S corporations, limited liability companies (LLCs), partnerships, sole proprietors, professional corporations, and not-for-profits can all reduce payroll taxes by establishing a Section 125 Premium Only Plan. While the Code prohibits a sole proprietor, partner, members of an LLC (in most cases), or individuals owning more than 2% of an S corporation from participating in the Section 125 POP, owners may still benefit from the savings on payroll taxes by sponsoring the plan for their employees.

Section 125 POP Savings for Employers.

Section 125 plans allow businesses to save Social Security (FICA), as well as federal unemployment taxes (FUTA) and generally, state unemployment taxes, on the money employees contribute to their premiums. Employer tax savings can average 7 to 10 percent of employees' contributions. (A tax advisor should be consulted for information on individual state regulations.)



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EXAMPLE:

An employer with 20 participating employees, each contributing \$2,400 in pre-tax contributions annually :

Pre-tax contributions per employee:	\$ 2,400
Number of employees:	x 20
Total employee contributions:	\$48,000
FICA factor:	x .0765
Estimated annual FICA savings:	\$ 3,672

Section 125 POP Savings for Employees

Premium contributions are automatically deducted from employee salaries before taxes are taken out. Because their taxable income is reduced by the amount they contribute, employees pay less taxes on the money they earn. Employees see a savings in their FICA, federal, and, in most cases state income taxes. When employees become more aware of how they spend money on benefit items, they also tend to practice more cost-containment, resulting in savings for everyone.

	With Section 125	Without Section 125
Monthly gross pay:	\$1,600	\$1,600
Pre-tax insurance contribution:	300	0
Taxable gross pay:	1,300	1,600
Applicable taxes figured at 30% ave:	390	480
After-tax Insurance Premium cost:	0	300
Net spendable income is \$90 more:	910	820
Increase in monthly spendable income:	90	--
Increase in annual spendable income:	1,080	--

For further detailed information, please contact:

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“New England’s Leading Health Care Administrator”

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