

Flexible Spending Account Section 125 Cafeteria Plan



GROUP PREMIUMS

- Health
- Dental
- Vision
- Cancer
- Term Life
Below \$50,000



DEPENDENT CHILD CARE

- Up to \$5,000 can be set aside per year per family



UNREIMBURSED MEDICAL

- Up to \$2,700 can be set aside per year
- Deductibles
- Co-Insurance
- Prescription Drugs
- Eyeglasses & Contacts
- Braces & Dental Care
- Over-the-Counter Medications with Prescription or Special Approval



INDIVIDUAL OUTSIDE PREMIUMS

- Dental
- Vision
- Cancer
- Accident

Employee Savings

\$5,000	Dependent day care
\$1,000	Orthodontics for kids
\$500	Co-pays for prescription drugs
\$1,000	Health insurance deductibles

\$7,500 TOTAL

@ 30% Tax Bracket - \$2,250 Savings

@ 40% Tax Bracket - \$3,000 Savings

Employer Savings

\$50,000	10 Employees with dependent childcare @ \$5,000
\$75,000	30 Employees with an average \$2,500 unreimbursed medical expenses
\$125,000	Total Deducted Pre-Tax
x .0765%	FICA Match Rate

\$9,562.50 SAVINGS

-\$2,160	Monthly Administrative Fee x 40 employees x 12
-\$600	Set up Fee & Plan Document

\$6,802.50 NET SAVINGS



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Section 125 Cafeteria Plan Examples

- Each employee can set aside up to \$2,700 per year for Unreimbursed Medical Expenses. If the employee does not spend the whole amount by the end of the plan year, what happens to it depends on your plan:
 - Under some plan designs, employees have an extra 2.5 months after the end of the plan year to spend the leftover money. This is called a Grace Period. For a calendar year plan, that means the employee can continue spending the money (filing claims against leftover funds) until March 15. Anything not spent by then is lost and the employer keeps the funds.
 - Other plan designs let the employee Carry Over the leftover balance to the next plan year, instead of offering a Grace Period. The most an employee can carry over is \$500. If the employee has any balance left after carrying over the \$500, he or she loses the difference and the employer keeps the funds.
 - Finally, some plan designs do not offer either a Grace Period or a Carryover. Under these plans, any balance left in the employee's account after the last day of the plan year is lost and the employer keeps the funds.
- Our third-party Section 125 Administrator typically contacts employees in October (by either email or postal mail) to remind them that they still have funds in their account that need to be used by plan year end. This reminds them to schedule that dental work or pair of eyeglasses that they've been needing to get done.
- The Employer's Risk is that an employee can file for the full \$2,700 benefit whenever they have a claim. If this occurs in January and the employee then quits, the employer will have only collected one month's deposit (\$225.00) from the employee while paying out the full \$2,700 which they can't get back.
- Our third-party Section 125 Administrator reports that they have not had a plan come up short in the aggregate by plan year end, because employees don't try to shaft their employer on a Section 125 plan if for no other reason than fear of losing their jobs. Also, there are typically many more employees who forfeit account balances each year than there are employees who use balances up early and then quit the company.
- Important to note is that your account will be set up on a "Claims Made" basis, which means you will deposit five percent (5%) of the annual election into our TPA's account to begin, and then they will request more funds to replenish the account balance as claims are filed. Should claims exceed payroll deductions, you may be financing claims for a little while out of your company's cash flow, but you should recover it fairly quickly.
- We recommend that you use our TPA's bank account for your Section 125 plan, instead of your own bank account, to eliminate the chance of any insufficient funds charges.

Advantages of Section 125

1. Employer saves 7.65% FICA match on every dollar run through pre-tax.
2. The employee saves 30% to 47% on every dollar run through pre-tax depending on the employee's tax bracket.
3. When "swiping" their MasterCard® debit card to pay expenses, employees will only rarely have to file claims.
4. Employees have a fully integrated online account that documents all their expenses on the debit card throughout the year so they can see where their money went and what their balance is.

Special Note: Remember that partners or owners of an "S" Corp. or LLC are not eligible to participate in Section 125 (flex spending) plans.



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