

# Cafeteria Plan – Section 125 of the IRS Code

## also referred to as a Flexible Spending Account (FSA)

As healthcare cost is rising, Cafeteria Plans will become increasingly important with Employers. A Cafeteria Plan is an incredible way to enhance your employee benefit package, while at the same time increasing the company's profits. A Cafeteria Plan includes two easy-to-use programs, Dependent Care and Healthcare Spending. Both of these help you keep more of your paycheck. The Cafeteria Plan allows employees to authorize the company (their employer) to withhold a portion of their salary each paycheck (pre-taxed) to cover certain Healthcare Spending or Dependent Care expenses. This amount is put into a special reimbursement account. This account is often referred to as a Flexible Spending Account.

## Win – Win Proposition

### Employee's Win

If the "withheld amount" was \$100 and let's say for simplistic reasons the taxes normally taken out of your check total 20%, you would only take home approximately \$80 yet you will have \$100 in your Flexible Spending Account. What does this mean? When you reduce the amount of money being taxed, the amount or percentage of your take home pay is increased. You will save money because no taxes will be taken from the amount you contribute to either Dependent Care and/or Healthcare Spending expenses.

You work hard for the money you earn. And the Cafeteria Plan provides a way for you to keep more of it. Participating in the Cafeteria Plan will enable you to better afford the rising health care costs and the high cost of quality child and adult day care services. The information provided below will give you a general overview of the Cafeteria plan.

Depending on the amount of money you spend each year on the Dependent Care and Healthcare Spending, you may very well be able save a substantial amount of money by participating in this Employee Benefit Program.

### Employers Win Also

- Every dollar run through a Cafeteria Plan reduces an employer's payroll.
- All amounts (pre-taxed dollars) put into the Flexible Spending Account are not subject to federal social security, withholding taxes, FICA or workers comp premiums. You will not be matching FICA at 7.65%. This amount contributed into the Cafeteria Plan can easily equate to substantial savings to you.
- Low investment cost of \$395. This fee is good for a 7 year period. There is also a very low monthly fee of \$5 per employee per month which can be paid by the either the employer or employee.

### Definition

Pre-taxed refers to before taxes such as Federal and State (where applicable) are taken out of your paycheck. This amount is obviously greater before taxes are taken out than once taxes are deducted from your paycheck.

### Background

This plan is often underused due to lack of information/understanding of the plan by employees. It is also noteworthy that this plan does not generate a lot of profit for the plan administrator and therefore the administrator (those offering Cafeteria Plans) are not able to advertise or spend money on making others aware of this benefit. Many small businesses have never heard of a Cafeteria Plan – they do not even know it exists.

## Plan Your Contributions Carefully

You will need to estimate what your out-of-pocket healthcare spending and/or dependent care expenses the coming year might be. Using last year's records will help you make an accurate forecast.

## Healthcare Spending

This benefit is for all dependents. The annual contribution is divided equally by the number of paychecks you receive annually. Once this amount (money) is deducted from your paycheck, it will be placed in your Flexible Spending Account. Then as Healthcare Spending expenses incur, submit them for reimbursement. It is that easy!

## Eligible Healthcare Spending Expenses

- premiums for medical, dental, vision etc.
- medical, dental, vision expenses not covered by your insurance plan(s), such as deductibles,
- co-payments, etc
- over-the-counter drugs and medicines
- travel expenses for specific medical treatment
- prescriptions

For a more complete list containing a large variety of covered Healthcare Spending expenses, please call our office at 281-838-3950 or 800-683-2501.

## Expenses for Healthcare Spending Not Covered

- facelifts
- teeth whitening

## Dependent Care

This benefit is for daycare expenses for children under 13. School tuition will be considered Dependent Care if the child is under 5. This benefit is also for the care of a spouse or other dependent physically or mentally incapable of caring for themselves regardless of age. A maximum annual contribution for Dependent Care is \$5000. The annual contribution is divided equally by the number of paychecks you receive annually. Once this amount (money) is deducted from your paycheck, it will be placed in your Flexible Spending Account. Then as Dependent Care expenses incur, submit them for reimbursement. It is that easy!

## Eligible Dependent Care Expenses

- day care (inside or outside the home), preschool and both summer camp or adult day care if no overnight stay is involved.
- licensed day care if the facility cares for established number of children per state regulations.
- unlicensed day care if the facility cares for established number of children per state regulations.
- housekeeping expenses when the dependent is cared for in your home and if in relation to the dependent.

## Expenses for Dependent Care Not Covered

- expenses performed by another dependent (such as a spouse, dependent child under 19 or anyone provider of care under the age of 19.
- any amount claimed as a dependent day care tax credit on your IRS tax return.
- expenses for transportation to and from, meals and snacks, classes such as swimming, gymnastics, etc.

## Eligible Receipts

You must submit an original statement (receipt) showing the date of service and type of Dependent Care or Healthcare Spending along with a Reimbursement Form. You are entitled to be reimbursed for eligible expenses *incurred* during your coverage. The IRS defines “incurred” as when the service was provided, not when you were billed or paid for service.

## Rules

- You do not need to participate in your Healthcare benefits plan in order to participate in Healthcare Spending or Dependent Care.
- Unused dollars cannot be carried over into the following year. The IRS requires that you forfeit any unused account balance remaining at the end of the year. --- This presented a barrier for some, and so in May 2005, the IRS issued a new rule aimed at eliminating this barrier by providing a two month “grace period” during which unused FSA funds from the previous year can be carried over into the next year.

## Three Reason To Consider a Cafeteria Plan

- Participation reduces the employee’s taxable salary thus increasing the percentage of their take home pay.
- The impact of increased insurance premiums, elective procedures, and other Healthcare Spending and Dependent Care is greatly minimized due to an increased savings ranging from an amount comparable to your tax bracket!! This is like getting an average of 20% discount on Dependent Care and Healthcare Spending.
- Employees receive a greater deduction on dependent care expenses than is available from the traditional tax credit at the end of the year.

Attention Dentists: For most employers, the cost of implementing the plan is recovered through tax savings during the first year – you might even begin saving money even sooner. Enrolling for a Cafeteria Plan (Flex Spending Account) is easy! Now is the time to act. This will benefit your employees and your business! Each employee can enroll in either the Dependent Care or the Healthcare Spending or both. Just print, complete and mail the Enrollment Form to us. Adding this employee benefit to your practice (for you and your employees) is extremely cost effective, quick and easy. So call Dental Systems Inc at 281-838-3950 or 800-683-2501 to enroll and start saving today!