

Reduce Taxes with a Section 125 Cafeteria Plan

What is a Section 125 Cafeteria Plan?

Premium Only Cafeteria Plans (usually called "POPs") are designed to reduce taxes on insurance premiums only. The portion of the premiums paid by the employee can be pre-taxed under the plan. Most insurance premiums qualify.

With a Premium Only Plan:

- Your benefits are more affordable.
- Your spendable income increases.
- You pay less in taxes.

Once enrolled, can I make a change?

To comply with IRS requirements, you may make a change in your election only at the beginning of each plan year. You may make a change within the plan year, if:

- A change in status must have occurred. A change in status has occurred if the event falls into one of the categories below:
 - Legal marital status
 - Number of dependents
 - Employment status
 - Dependent satisfies (or ceases to satisfy) eligibility requirements
 - Change of residence
- The participant's election change must be consistent with the status change event. To be consistent, a requested change must be on account of and correspond with the change in status that affects eligibility for coverage under an employer-sponsored plan.

How POP Plans work: An Example

Let's look at an example in which an employee making \$3,000 per month pays insurance premiums in the amount of \$500 per month. The first column illustrates how the employee's take - home pay is calculated if there is no Section 125 POP Plan. The second column shows the tax- saving effect of implementing a Section 125 POP Plan.

	Without Cafeteria	With Cafeteria
Gross Monthly Pay	\$ 3,000.00	\$ 3,000.00
Pre-Tax Insurance Premiums	0	-\$500
Taxable Income	\$3000.00	\$2,500.00
Federal Withholding Tax*	436.00	313.00
FICA Tax(Soc.+ Medicare)	-229.50	191.25
After-Tax Insurance Premiums	-500	0
Spendable Income	\$1,834.50	\$1,995.75

