

M S ADMINISTRATIVE SERVICES, INC. FLEXIBLE BENEFITS CAFETERIA PLANS INTERNAL REVENUE CODE SECTION 125

*“Meeting Today’s Needs and Tomorrow’s Challenges
In Quality Third Party Administrative Services.”*

OVERVIEW

Many Fortune 500 companies continue to realize the benefits of Cafeteria plans. They are proven cost effective ways to enhance employee participation in company health care and dependent care assistance programs. Flexible benefit programs are popular and cost effective alternatives to unreimbursed health expenses and other expenses and provide cost saving and tax planning strategies consistent with today’s economy.

CONCEPT

Under Section 125 of the Internal Revenue Code, an employee is allowed to pay his/her group health premiums, other qualified insurance premiums, unreimbursed medical expenses, child and dependent care costs and more...all with tax free dollars. It allows employees to exclude from gross income, qualified benefits, that do not defer compensation. These qualified expenses, salary reduction contributions, are not actually or constructively received by the employees. The effect is to reduce the income taxes paid by employees and the payroll taxes paid by employers.

Two major expenses areas where this concept is beneficial are:

A. Unreimbursed, Out of Pocket Health Care Expenses

- Insurance Premiums for medical, dental, vision, cancer disability, or Group term-life.
- Costs applied toward health plan deductibles and any other out-of-pocket expenses.
- All other unreimbursed health care expenses allowed under the Internal Revenue Code.
- Medical and dental expenses – refer to Publication #502.

B. Dependent Care Expenses

- Expenses incurred for the care of a dependent.
- Dependent care expenses for a disabled dependent.
- Pre-school tuition and school age dependent care expenses.
- Child and dependent care expenses – refer to Publication #503.

EXAMPLE

Robert is married with 3 dependents. His spouse is also employed. They incur \$175.00 per month dependent care expense. His contribution of health insurance is \$51.00 per month and he has out-of-pocket medical expenses of \$38.00 per month. Assuming his monthly salary is \$1,750.00, he will benefit as follows:

<u>Before Flexible Benefits</u>		<u>With Flexible Benefits</u>	
Gross Pay	1750.00	Gross Pay	1750.00
		Health Insurance Premium	51.00
		Out-of-Pocket Medical	38.00
		Dependent Care	175.00
Taxable Income	1750.00	Adjusted Taxable Income	1486.00
Federal Tax	121.00	Federal Tax	81.00
FICA	133.87	FICA	113.67
State Tax	59.00	State Tax	40.00
After Tax Net	1436.13		1251.33
Health Insurance Premium	51.00		
Out-of-Pocket Medical	38.00		
Dependent Care	175.00		
Net Disposable Income	1172.13	Net Disposable Income	1251.33

These two examples illustrate that by using a flexible benefit approach, the advantage of a flexible benefits plan will result in an increase in net pay of **\$79.20**. Flexible benefit plans provide tax planning alternatives and effective methods for employees to pay for health and dependent care expenses. These IRS approved strategies truly are flexible and are tailored to meet the needs of all employees.

PARTICIPANTS OF A CAFETERIA PLAN ARE OFFERED:

1. Rapid turnaround of reimbursement requests.
2. Personalized customer service.
3. A summary of your flex plan status on every remittance check.
4. Employee confidentiality.
5. Direct funding through the company payroll.
6. Tax saving benefits increasing net pay.
7. Yearly re-enrollment.
8. Internal Revenue Service compliance.