

# Overview of Section 125 Cafeteria Plans

## What is a section 125 Plan?

Cafeteria plans are a vehicle for employers to offer certain benefits to employees on a tax-free basis. Cafeteria plans are also referred to as Section 125 plans, after the section of the Internal Revenue Code (IRC) that regulates such arrangements.

A cafeteria plan offers employees at least one qualified benefit, which is a benefit whose cost to the employee is excludable from their taxable income under the plan. Those who participate in the plan, are electing pretax deductions to be taken from their salary to cover employee share of employer-sponsored insurance plan premiums, thereby lowering taxable income (employees pay less income tax, Medicare and Social Security taxes).

Without participation in a Section 125 plan, employee contributions can only be made with after-tax dollars.

### Example:

Employee Benefits	Without Participation	With Participation
Employee Income	\$40,000	\$40,000
Less Premiums	\$0	\$2,400
Taxable Income	\$40,000	\$37,600
Estimated Income Taxes, Social Security and Medicare Taxes	\$10,800	\$10,152
Income After Taxes	\$29,200	\$27,448
Less Premiums	\$2,400	\$0
Remaining Income After Taxes and Premiums	\$26,800	\$27,448
Increase in take-home pay	\$0	\$648

*\* This is an approximate illustration only. Actual employee tax reduction/savings will vary depending on the employee's specific tax obligations, benefits enrolled in and respective employee contributions.*

Benefits covered under the plan may include:

- Medical Coverage
- Vision Coverage
- Dental Coverage
- Cancer Insurance
- Group Term Life Insurance
- Accident Insurance
- Hospital Indemnity Insurance
- Specified Health Event Insurance



*Specific benefits available to our group are subject to those outlined in the Plan Document and are subject to change.*

## How do you get started?

Your portion of insurance premiums can be deducted from your paycheck on a pre-tax basis by checking the **I Elect to Participate box** on the Salary Redirection Agreement, sign, date, and return.

If you wish to decline having premiums deducted pre-tax (post-tax deductions), check the **I do not want to participate box** on the Salary Reduction Agreement, sign, date, and return.

PLEASE RETURN the Salary Redirection Agreement (last page of this packet).  
The rest is yours to keep!

Questions? *Contact Me!*

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NOTE: You may change or revoke your election during the Plan Year, only if you file a written request for change with the Plan Administrator within 30 days of any qualified event as outlined in the Flexible Benefits Plan, Summary Plan Description being provided to you.