# Section 125 / Premium Only Plan Document Application

## Pre-Tax Payment of Insurance Premiums and HSA Contributions

Employers may permit their employees to pay their insurance premium contributions on a pre-tax basis through Section 125 of the Internal Revenue Code (Section 125 Plan).

In order to permit contributions to be made pre-tax to a health insurance plan and/or a Health Savings Account (HSA), the Section 125 Plan must be implemented. If one is already in place, the current plan must be re-stated to include HSA language.

**It's easy to start! It's easy to maintain! It's easy to terminate when you no longer need it!**

In order to have a valid Section 125 Plan, the IRS says you must have a written plan document, a summary plan description (SPD), and an enrollment form signed and dated before an employee's first pre-tax payroll deduction.

## The Benefit of a 125 Plan

- **25% Income Tax Savings for Employees**: Employees don't pay Federal, State, Local or Social Security taxes. (You should check with your accountant for state & local taxes other than Ohio.)
- **8% Payroll Tax Savings for Employers:** The employer does not have to match social security taxes nor Worker's Compensation premiums (in Ohio) on employee contributions.

## Getting Started is Easy with an initial one time set up fee of $300

For this one time set up fee FlexBank, Inc. will provide you with a prototype written plan, summary plan description and enrollment form. Complete the following information, make your check payable to FlexBank, Inc. for $300.00 and send it to our address.

| | | | |
|---|---|---|---|
| Legal Employer Name: | | State Incorporated: | |
| Street Address: | City: | State: | Zip: |
| Phone: | Fax: | Email Address: | |
| Employer Federal EIN: | ☐ C Corp ☐ S Corp ☐ Partnership / LLP ☐ Sole Proprietor ☐ *LLC, files as _____ ☐ Other_____<br>***If an LLC, you must note how your employer files their taxes (as a Partnership, C or S).* | | |
| Desired Effective Date: | Health Insurance Renewal: | Is your health insurance plan self-funded?<br>**Yes** ☐ **No** ☐ | |
| Is this a restatement? | If Yes, what was the original effective date?<br><br>If Yes, what was the original plan number? 501, 502, etc. | | |
| Do you offer a Health Savings Account (HSA)? Yes ☐ No ☐ | Do you offer a taxable incentive to employees who waive coverage under your group health plan? Yes ☐ No ☐ If yes, via per pay wages or in a lump sum (circle one). | | |
| Affiliated Employer(s)? If yes (you may attach an additional page with this information as well):<br>Legal Name<br>Corp Type & Federal EIN<br>Address | | | |
| Printed Contact Name / Title / Email Address: | | | |
| Date | Signature | | |
| Who referred you to FlexBank? Please note name and phone number. | | | |

**www.flexbank.net** ***Phone: 937.299.5515*** *~ Free Phone: 888.677.8373 ~ Fax: 937.299.7992*
*1250 W. Dorothy Lane, Suite 107, Dayton OH 45409*

# Frequently Asked Questions

**What is a Section 125 Plan?**
Section 125 is the part of the Internal Revenue Code that allows employees to pay for certain benefits with pre-tax dollars. The Plan does not provide any benefits as such, but rather permits employees to pay for benefits pre-tax.

These plans are commonly called Premium Only Plans (POP).

**What types of employers can establish a Section 125 Plan?**
A Section 125 Plan may be established for any single employer or certain "related" employers. The employer installing the Plan may be of any ownership form (sole-proprietor, corporation, partnership, etc.).

**Does a Section 125 Plan need specific language to allow contributions pre-tax to a Health Savings Account (HSA)?**
Yes. A contribution to a Health Savings Account (HSA) is not an insurance premium as such. It is a contribution to a savings account. Section 125 Plans traditionally only contain language for insurance premiums. In order to permit employees to contribute pre-tax to an HSA, the plan must be re-stated to allow employees to contribute to an HSA pre-tax.

**Must the employer report premium contributions on the employees' W-2?**

Starting in tax year 2012, the Affordable Care Act is requiring employers that file 250 or more Forms W-2 for the preceding calendar year to report the aggregate reportable cost of applicable employer-sponsored health insurance coverage provided on each employee's annual Form W-2 in box 12 using code DD. Aggregate reportable cost does not include amounts contributed to a Health Savings Account (HSA), the amount of any salary reduction election to a health Flexible Spending Account (FSA), or the cost of coverage under a Health Reimbursement Arrangement (HRA). This reporting will be for informational purposes only and will not affect tax liability. Please note, there is already a separate W-2 reporting requirement for certain health savings account contributions.

The guidance currently gives transition relief for employers that file less than 250 Forms W-2. This transition relief will continue at least through the 2012 Forms W-2 which are required to be furnished to employees in January 2013.

Comprehensive guidance on the W-2 reporting requirement may be found at: http://www.irs.gov/pub/irs-drop/n-11-28.pdf.

**What type of insurance premiums may be paid pre-tax through the Plan? A few examples:**

- Group Medical insurance
- Dental/vision
- Disability** (***If contributions are made pre-tax, the benefit paid is taxable.)*
- Group term life (max $50,000)

**When can an employer begin this plan?**
The sponsoring employer may start the Plan at any time during the year. Regulations require that employees be notified of the plan and given the opportunity to elect whether or not to participate. Additionally, the plan must be in writing and adopted before the effective date.

For this reason an employer may not start the plan until they have received FlexBank's Section 125 installation kit. The Section 125 installation kit will be forwarded directly to you after your application and payment have been received.

**What is the Plan year?**
The plan year is the 12-month period of time that governs the Plan's operation.

**How do I define the eligibility requirements for the Section 125 Plan?**
Generally, the Plan's eligibility requirements are the same as your group insurance plan. Employees will become eligible for the Section 125 Plan on the same date as they are eligible for the group insurance plan.

**Which employees can participate in the Plan?**
Any employee meeting the eligibility requirements can participate in a Section 125 Plan.

**Owners:** Only owners who are also employees of a "C" corporation may participate in a Section 125 Plan. Sole proprietors, partners within a partnership, owners of an LLC (filing as an S or a partnership), owners of an LLP and more than 2% owners of an S-Corporation are prohibited from participating.

**Owners' Family Members:** Rules of attribution apply to S corporations, thus more than 2% owner's spouses, parents, children and grandchildren may **not** participate. Family members of C corporations, sole proprietors and partners in a partnership **may** participate in the plan.

**Do all employees have to participate?**
This depends on plan design. Some employers may choose to make participation mandatory. Others may make it voluntary. Another variation is to make participation automatic unless the employee opts out in writing.

**What if an employee elects to participate and later changes his or her mind?**
Employee elections must be made prior to their eligibility effective date or at the beginning of any Plan Year. Employee elections are binding for the Plan year unless the employee has a change in family status (life event) or a significant increase in cost or modification of coverage under an insurance benefit.

# Section 125 Plan Illustration

## ***Employee Income Tax Savings***

Employees don't pay Federal, State, Local or Social Security taxes.
***You should check with your accountant for state & local taxes other than Ohio.*

The following tax savings illustration assumes that each participant pays 15% in Federal taxes, 2% for State and 7.65% for Social Security and Medicare. Actual employee income will determine the actual amount of income taxes saved.

| Employee | Monthly Premium | Weekly Contribution | Approximate Weekly Income Tax Savings | Approximate Income Tax Savings Per Year |
|---|---|---|---|---|
| # 1 | $ 220.85 | $ 50.97 | $16.67 | $ 866.84 |
| # 2 | $ 253.56 | $ 58.51 | $19.14 | $ 995.28 |
| # 3 | $ 300.96 | $ 69.45 | $22.72 | $1,181.44 |
| # 4 | $ 265.68 | $ 61.31 | $20.06 | $1,043.12 |
| **TOTALS** | **$1,041.05** | **$240.24** | **$78.59** | **$4,086.68** |

## ***Employer Payroll Tax Savings***

Employer payroll tax savings are approximately 8% and include Social Security, Medicare and Worker's Compensation premiums (in Ohio).
***Please check with your state to find out if you must pay Workers Compensation premiums.*

| | |
|---|---|
| Total employee contributions per week | $ 240.24 |
| Total employee contributions per year | $12,492.48 |
| **Estimated Payroll Taxes Saved Per Year @ 8%** | **$ 999.40** |

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