

Flexible Benefit Plans

Flexible Benefit Plans are also called Section 125 Plans, Cafeteria Plans or Flexible Spending Account Plans. Regardless of the name used, these plans permit employees to pay for certain health-related and dependent care expenses on a pre-tax, rather than an after-tax, basis. The federal government permits this under Section 125 of the Internal Revenue Service Tax Code, which allows an employer to sponsor this plan.

Flexible Benefit Plans

Flexible benefit plans present a classic win-win situation for both employees and employers. A flex plan allows employees to reduce their taxable income by setting aside pre-tax funds to pay for specific expenses.

Reducing taxable income results in reducing income tax liability. Further, participation in a flex plan has no impact on how much one can contribute toward a 403(b) tax-deferred annuity. In addition, funds reimbursed to an employee from their flexible benefit account are tax-exempt.

Employers benefit from realizing FICA savings (and possibly savings from other employer taxes) because of the reduction in employees' taxable income.

The resulting FICA savings typically permit the employer to pay a third-party administrator and still net a substantial savings. Third-party administrators do the work related to flexible benefit plans, such as enrolling employees, processing payments, and record keeping.

With such a program in place, the employee can re-direct dollars already earmarked for family needs and pay these expenses on a "before-tax" basis. Eligible expenses for this program include:

1. **Premium Only Plan** – Employee share of any group premiums paid for health, dental, and vision benefits. Also, any employee share of group term life insurance premiums for the first \$50,000 of group term life coverage.
2. **Unreimbursed Medical Expenses** – Eligible expenses also include over-the-counter medicines and feminine hygiene products. In addition, any expenses incurred for over-the-counter medicines and drugs purchased to alleviate or treat personal injuries or sickness with a doctor's prescription.
3. **Child and Dependent Care** – Dependent care service for an employee's dependent under age 13, or for an employee's spouse or dependent if they are incapable of self-support. This account can also reimburse dependent elder care.
4. **Premium Expense Account** – This account reimburses the participant for individual health insurance premiums (privately held/non-payroll deducted premiums), including health, dental, vision, Medicare Part B, and COBRA coverage. However, no employment-related spousal or dependent premiums may be reimbursed.



When a participant incurs an eligible expense, they simply “voucher” that expense from the appropriate account. Following receipt or proof of expense for the amount claimed, a check will be issued to the participant. This reimbursement to the participant is not subject to federal, state, or FICA taxes.

Instituting this program does not in any way change the benefits provided by participants’ underlying health, dental, prescription drug, or vision care plans. After all underlying health plans have paid all eligible expenses, this program permits expenses normally paid out-of-pocket (after-tax) to be paid pre-tax.

NYSUT Member Benefits has negotiated special discounted prices and services with our endorsed third-party administrators, P&A Administrative Services, Inc. and The Preferred Group. Some COBRA administrative services are available at an additional cost through the plan administrators.

How to obtain a proposal and employer savings estimate

Provide the number of eligible participants and the amount of the employee premium contribution for health insurance.

For more information or a more complete explanation and presentation on how this plan can work for your group, please contact Member Benefits at [800-626-8101](tel:800-626-8101).

The example below shows how the flex plan reduces taxable income and tax liabilities for both the employee and employer (FICA). Example is based on family income — Participant, spouse/certified domestic partner, and two children.

	No Flex Plan	With Flex Plan
Gross Compensation	\$50,000	\$50,000
Items Subject to Pre-tax Treatment:		
Premiums	0	1,000
Dependent Care	0	4,800
Unreimbursed Medical	0	2,000
Taxable Income	\$50,000	\$42,200
Estimated Taxes:		
Federal	\$5,096	\$3,952
FICA	3,825	3,228
State	2,808	2,184
Local	498	456
Total Taxes	\$12,227	\$9,820
Estimated Tax Savings		\$2,407

The Preferred Group and P & A Group Flexible Benefit Plans are NYSUT Member Benefits Trust (Member Benefits)-endorsed programs. Member Benefits has an endorsement arrangement of \$.20 per participant per month with an additional payment of \$.05 for each participant in an additional endorsed program with The Preferred Group Plans, Inc. and \$.10 per participant per month with

P&A Group. All such payments to Member Benefits are used solely to defray the costs of administering its various programs and, where appropriate, to enhance them. Member Benefits acts as your advocate; please contact Member Benefits at 800-626-8101 if you experience a problem with any endorsed program.

A classic win-win situation for employees and employers.