

## The VBSR Cafeteria Plan

Cafeteria plans are also known as “flex spending” or “Section 125” plans. They let employees use pre-tax dollars for benefits they choose.

- Different employees can choose different benefits – the ones best suited to their individual needs.
- Your company saves substantial sums of money on social security (FICA) and federal unemployment (FUTA) taxes you don’t have to pay.
- Employees enjoy an increase in disposable income, without increasing the company’s salary expense.
- Employees appreciate being able to participate in their benefit choices.
- Your company is better able to attract and retain good employees.

Employers feel the advantage of cafeteria plans far outweigh their administrative costs and responsibilities. In short, they are a cost effective way to offer employee benefits.

The VBSR cafeteria plan is a tax-qualified employee benefit plan authorized by Section 125 of the Internal Revenue Code. It lets different employees choose different benefits – the ones best suited to their individual needs. Employees in a cafeteria plan choose among cash compensation and other types of benefits. These benefits include using pre-tax dollars for employee-paid insurance premiums, medical expense reimbursement, and dependent care expense reimbursement.

For the employer there is no FICA or FUTA tax on the salary amounts that employees redirect to the cafeteria plan. Cafeteria plans can also help contain escalating health care costs by enabling the employer to increase insurance deductibles, while offering employees the option of paying many non-insured medical expenses with pre-tax dollars.

For the employee the cafeteria plan means more disposable income, since the employee’s money redirected into the plan is not subject to federal, state or FICA taxes.

The Dependent Care Account lets the employee pay dependent care expenses with pre-tax dollars to qualified caregivers (some restrictions apply). Employees can put aside up to \$5,000 pre-tax dollars per family each year.

A Health Care Reimbursement Account gives employees the opportunity to set aside some of their pre-tax earnings to pay for most non-insured, out-of-pocket health care expenses (e.g., vision, dental, co-pays, etc.). The employee’s money is reimbursed, tax-free, as expenses are incurred (usually monthly). Most employers impose a yearly limit on the amount an employee may contribute to the plan.

What Benefits Can be Offered in a Cafeteria Plan?

- Accident and Health Insurance
- Dental Insurance

- Group Term Life Insurance (with limitations)
- Disability Insurance (tax implications on benefits)
- Medical Expense Reimbursement
- Dependent Care Assistance
- Cash-In-Lieu-of-Health Insurance

[Note—These provisions are determined by Internal Revenue Service regulations. Consult a tax advisor for the latest versions of applicable law.]

The VBSR Cafeteria Plan includes a “cash-in-lieu-of-health insurance” benefit, which offers cash to employees who do not need the employer’s group health insurance plan. There are some restrictions. For example, employees must be covered under a comparable health insurance plan to be eligible for the cash. This type of cash benefit can be paid in a lump sum on a date chosen by the employer or paid pro-rata throughout the year. In either case, the cash must be taxed as regular income.

Sole proprietors, partners in a partnership, and those who own more than 2% of a Subchapter S corporation may not participate in a Cafeteria Plan, although their employees may.

The legal requirements for installing a Cafeteria plan include adopting a plan, executing an appropriate plan document, and furnishing a Summary Plan Description with all legally required information to employees. The plan must work within IRS antidiscrimination guidelines. Administering a cafeteria plan is not difficult, but you must be meticulous. By participating in the VBSR Cafeteria Plan, you can choose to administer it yourself or hire someone else to do it for you. The paperwork required to sign on to the VBSR Cafeteria Plan is available to all members for a nominal fee of \$150.