

WEBINAR TAKEAWAYS: CAFETERIA PLANS

Wednesday, Oct. 4, 2017

A Cafeteria Plan is:

A type of employee benefit plan sponsored by an employer that allows employees to pay for certain **“qualified benefits”** on a pre-tax basis. Most are operated through a **“salary reduction agreement.”**



Qualified Benefits:

1. Pre-tax health insurance premiums

2. Health FSAs

- » Used to pay certain unreimbursed medical expenses an employee may be required to pay out of pocket
 - » Ex: co-pays & co-insurance, dental & vision expenses, prescriptions

3. Dependent Care FSAs

- » Used to pay certain expenses associated with the care of a child while the parents work



Salary Reduction Agreement:

- » Employees choose benefits and **contribute a portion of salary** to pay for them
- » Salary used to pay for benefits is **not considered wages** for federal income tax purposes

Any employer can sponsor a cafeteria plan for its employees. The size of employer doesn't matter.

Individuals who are not eligible to participate:

- » Self-employed
- » Partners in a partnership
- » Anyone who is more than a 2% shareholder in a Subchapter S corporation

Review your plan!

If your cafeteria plan is not compliant, and you are subject to an audit, you can **lose the qualified status of your plan**, and **participants will have to pay taxes** for their benefits.



Administrative Requirements of Implementing a Cafeteria Plan

1. **Written plan document** must be established and adopted prior to the effective date of the plan
2. **Salary reduction agreement** signed by the employee is irrevocable
 - » Generally can't change their election for the duration of the coverage period except in the case of **“permitted election change events”**
 - » Change in status/life event
 - » Cost or coverage changes
 - » Other laws/court orders
2. **Nondiscrimination tests**
 - » **Eligibility Test:** Who can join the plan?
 - » **Contributions & Benefits Test:** Who is being offered the benefits, and who is actually taking the benefits?
 - » **Key Employee Concentration Test:** What percent of “key employees” participate vs. all employees are participating in the benefits?

Have questions? Contact admin@compliancecalendar.net.