

Cafeteria Plan FAQs

Q. What is a cafeteria plan?

A cafeteria plan is an employer sponsored program that enables employees to pay qualified health and dependent care expenses not covered by insurance with pre-tax dollars. These plans are an excellent way for employers to provide valuable benefits and significant tax savings to their employees. Cafeteria plans are also known as flexible spending accounts, Section 125 plans, and flex plans.

Q. How does a Cafeteria plan work?

You select the benefits you want from the cafeteria plan menu. You “pay for” these benefits by redirecting your salary in an amount sufficient to pay for each selected benefit. The advantage of redirecting your salary to pay for these benefits through the plan is that these amounts are not subject to federal income tax, state income tax or Social Security taxes. Without the cafeteria plan, these expenses are paid with after-tax dollars.

For non-insurance benefits (such as the dependent care reimbursement program and the medical reimbursement plan), any money you direct into the plan is placed into a separate benefit account for each benefit you elect. As you incur a qualifying expense (for example, a day care bill), you submit a claim and are reimbursed from the money in your benefit account. For insured benefits, the amount you redirect is automatically used to pay the premiums for the coverage.

The primary benefit of participating in the cafeteria plan is that you are not taxed on the salary you redirect into each benefit account, nor are you taxed when reimbursements are made. Therefore, through a cafeteria plan, you can now pay expenses with pre-tax dollars that you were previously paying for with after-tax dollars.

Q. What kind of medical expense can be reimbursed under the plan?

- Prescription Eyewear (lenses, frames, solutions)
- Back Supports
- Co-pays
- Prescription Drugs
- Dental Services
- Orthopedic Shoes
- Health Insurance Premiums (unless covered under spouse’s plan)
- Home improvements to relieve a medical condition (if prescribed by a physician)
- Over the counter drugs; including antacids, allergy medications, pain relievers and cold medicine

This is just a partial list, if you have specific questions please see the IRS complete listing @ <http://www.irs.gov/pub/irs-pdf/p502.pdf> (Publication 502).

Q. When are salary redirections and benefits elected?

Your cafeteria plan operates on a 12-month period known as the plan year. Prior to the beginning of each plan year, you select desired benefits (if any) and the amount of contribution. It is important that you are **conservative** when determining the amount of money to contribute because if you don't incur qualified expenses that equal or exceed the amount you designated for your cafeteria plan, you forfeit the surplus.

Q. Can I change my mind during the year?

Generally, **no**, you must wait until the next plan year. However, certain situations can arise during the plan year that allows a change of election. These situations are called "changes in family status" and include events such as marriage, divorce, death, birth or adoption of a child, or employment changes for you or your spouse.

Q. What happens if there is money left in my account?

You **forfeit** the money in the account. This is why you need to make **conservative estimates** of your reimbursable expenses prior to each plan year.

Q. Are there dollar limits I can redirect?

Yes. The dollar limit for dependent care reimbursement is \$5,000 and \$5,000 limit for non-reimbursed medical expenses.

Q. How will I benefit from joining the cafeteria plan?

You will benefit from joining the plan because your disposable income will rise as you pay for these ongoing expenses with pre-tax rather than after-tax dollars. The following example illustrates the potential savings for a typical employee.

Cafeteria Plans – Put more money in your pocket!

Tax Savings Example:

	<u>Without Plan</u>	<u>With Plan</u>
Salary	\$25,000.00	\$25,000.00
Annual Pre-Tax Election	0.00	-2,400.00
Taxable Income	25,000.00	22,600.00
Taxes Withheld**	-8,162.50	-7,378.90
Annual After Tax Expenses	-2,400.00	-2,400.00
Cafeteria Plan Reimbursement	<u>0.00</u>	<u>2,400.00</u>
Take Home Pay	\$14,437.50	\$15,221.10

Cafeteria Plan Savings = \$783.60!

** estimated @ 20% federal, 5% state, & 7.65% FICA

How do I estimate my expenses?

Non-Covered Health Care:

Prescription Drug Copays: \$ _____

Office Visit Copays \$ _____

Deductible & Coinsurance \$ _____

Dental & Orthodontia \$ _____

Eyeglasses & Exams \$ _____

Laser Eye Surgery \$ _____

Contact Lenses & Solution \$ _____

Chiropractic services \$ _____

Other \$ _____

Over the Counter Drugs \$ _____

TOTAL \$ _____

Dependant Care:

Before & After School Programs
\$ _____

Nursery School or Preschool
\$ _____

Summer Day Camp \$ _____

Care in a home or by a licensed provider
\$ _____

TOTAL \$ _____

***Remember to use conservative estimates. Money left in the plan at the end of the year is forfeited. Expenses must be incurred during the plan year and the claim form must be submitted within 90 days after the end of the plan year.