

### **What is a Section 125 Cafeteria Plan?**

A cafeteria plan is a way of providing you with valuable benefits and significant tax savings. Benefits under a cafeteria plan may include, but are not limited to, reimbursement of dependent care expenses and medical expense not covered by insurance.

### **How does a cafeteria plan work?**

You select 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 redirected from your salary before being subject to federal income tax or Social Security taxes. Without the cafeteria plan, these expenses are paid for 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 plans are placed into a separate benefit account for each benefit you elect. As you incur a qualifying expense, for example a daycare bill, you submit a claim and are reimbursed from the money in your benefit account.

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, with pre-tax dollars, the same expenses you were previously paying for with after-tax dollars.

### **How will I benefit from joining a cafeteria plan?**

You will benefit from joining the plan because your disposable income will increase as you pay for these ongoing expenses with pre-tax rather than after-tax dollars. (See illustration)

### **Exactly what benefits are offered as part of the Indiana-Kentucky Conference’s plan?**

- Dependent Care Reimbursement Plan
- Medical Expense Reimbursement Plan (for non-covered medical expenses)

### **What kind of medical expenses can be paid for by the Medical Expense Reimbursement Plan?**

The medical reimbursement plan covers medical expenses not covered or paid by a group medical plan or any other similar reimbursement program. That might include co-payments, prescription drugs, medical supplies, various hearing aids, vision care products such as eyeglasses and contact lenses, hospital bills, operations and related treatments and X-rays. Check out IRS Publication 502 for further information.

**What kind of dependent care expenses can be paid from the Dependent Care Reimbursement Plan?**

Only expenses for your dependents that you incur to allow you and your spouse to work can be reimbursed from the Dependent Care Reimbursement Plan. Your dependents are defined as persons under age 13 who you claim as a dependent for income tax purposes or a dependent who is not able to care for himself or herself. Also these expenses have to be paid to a “qualified provider.” You cannot include amounts you pay your own dependent for whom you claim an exemption, or to your own child (even if he or she is not your dependent) to care for your other child unless the older child is at least age 19. For more information see IRS publication 503.

**When are salary redirections and benefits elected?**

A cafeteria plan operates on a 12-month period known as the plan year. In the case of the Conference that year begins on January 1 and ends on December 31. Prior to the beginning of each plan year, you select what benefits (if any) you want and how much money you want to go to each benefit. It is important to be conservative when deciding how much money to contribute each year so that you use up your entire account during the plan year.

**Once the election is made, 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, which will allow 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.

**Are there limits on how much I can elect to put into any single benefit?**

The Plan of the Indiana – Kentucky Conference, caps the medical expenses at 100 % of compensation from the Conference. For Dependent Care reimbursement the cap is the least of (a) your Earned Income for the calendar year; (b) if you are married, the actual or deemed Earned income of your spouse for the calendar year; (c) \$5,000 (\$2,500 if you are married and file separate returns). Your plan document will specifically state these.

**What happens if there is money left in my account at the end of the year and I have no more reimbursement requests?**

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.

**Are there any employees that cannot participate in a Cafeteria Plan?**

Partners in a partnership, sole proprietors and owners who own 2 % or more of a Subchapter S Corporation cannot participate in a Cafeteria Plan. In addition, your particular plan may also exclude other categories of employees.

# Steps to Implement a Section 125 Cafeteria Plan

