Flex$ystem™

Section 125 Cafeteria Plans (IRC Section 125)

Flexible Spending Accounts

What is a Section 125 Cafeteria Plan?

Sometimes known as a **Flexible Spending Plan,** a Section 125 Cafeteria Plan allows you to pay for certain medical, daycare and even transportation* expenses on a pre-tax basis.

What does pre-tax mean?

Pre-tax is your pay before state, federal and social security taxes have been taken out. You could be- and should be- paying certain out-of-pocket expenses with "pre-tax" dollars. By paying these expenses with pre-tax dollars, you are taxed on a lower gross salary, thereby saving money that would otherwise be spent on federal, state and FICA taxes.

What are these expenses?

- Your contributions toward medical-related insurance premiums.
- Medical-related expenses such as deductibles, co-insurance, or uninsured medical expenses.
- Dependent care expenses.
- Transportation, such as transit passes and qualified parking expenses.

How do you benefit from a Cafeteria Plan?

- You can choose benefits that will address your individual needs.
- You will increase your take-home pay.

How does a Section 125 Cafeteria Plan work?

You elect an amount you wish to allocate. These funds are withheld from your salary and deposited into a Flexible Spending Account. Once you incur an expense, the claim is processed and you are reimbursed for the expense.
(See Exhibit 1.)

Exhibit 1	**Without Flex**	**With Flex**
Salary	$1,600	$1,600
Flex Dollars	$ 0	$ 400
Taxable Income	$1,600	$1,200
Income Tax	$ 240	$ 180
State Tax	$ 128	$ 96
Social Security	$ 122	$ 91
Income After Taxes	$1,110	$ 833
Med. Premium	$ 150	
Med. Expenses	$ 50	
Dependent Care	$ 200	$ 0
Take Home Pay	$ 710	$ 833
Net Increase		**$ 123**
Pay Periods		x 12
Annual Increase		= **$1,476**

* Transportation benefit is treated as a separate benefit pursuant to Section 132 of the Internal Revenue Code.

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