

Section 125 - Cafeteria Plans

- **What is Section 125?**

Section 125 is part of the Internal Revenue Code that allows employees to convert a taxable cash benefit (salary) into non-taxable benefits. Under a Section 125 program, you may choose to pay certain qualified benefit premiums before any taxes are deducted from your paycheck.

- **Is Section 125 legal?**

Yes. Even though Section 125 may sound "too good to be true", the program is legal and beneficial. The United States Congress created Code Section 125 in an effort to make benefit programs more affordable for employees. Code Section 125 was established in the Revenue Act of 1978.

- **How can Section 125 work for me?**

Your Section 125 program can make your benefits plan more affordable. You can pay for your qualified benefits with pre-tax dollars. By paying for qualified benefits before you pay taxes, you actually lower your taxable income, which means you pay less taxes. Paying less taxes usually results in more spendable income. When you take advantage of your Section 125 program, you will actually get "more for your money".

- **Do I have to participate?**

No. You are under no obligation to participate in a Section 125 program. However, you are required to sign an election form to indicate your choice.

- **How do I participate?**

If you decide to enroll in the plan, you will simply need to sign the election form to indicate your participation. At the beginning of the plan year, your paycheck will indicate that the Section 125 program has gone into effect.

- **Can I enroll in a Section 125 program whenever I want?**

Your employer's Section 125 plan is an annual plan. You must enroll in the Section 125 plan during the eligible enrollment period or during the plan year if you experience a qualifying event or change in family status.

- **What are pre-tax dollars?**

Pre-tax dollars are the premiums you pay for qualified benefits under your Section 125 program. These premiums are deducted from your gross earnings - before taxes are taken out.

- **Who is offering me this plan?**

Your employer is offering this Section 125 program and has endorsed it to provide you with an enhanced employee benefits package.

- **What if I want to make a change during the year or I terminate employment?**

The IRS allows changes to be made in the event of a 'change in status' qualifying event such as birth, death, marriage or divorce or a change to your or your spouse's employment. If you terminate, your contributions cease when you stop getting paid.