



North East Independent School District

Section 125 Related Benefits

What Is A Cafeteria Plan?

The Internal Revenue Service allows employees to pay some benefit premiums with before tax dollars. Health benefit plans offered by the District, dental insurance, vision, flexible spending accounts, health savings accounts, and cancer, are administered on a pre-tax basis.

For many employees, this becomes a wonderful benefit because your employee premium contributions are before tax dollars, reducing your taxable income, which in turn lowers the amount of federal income tax you pay each pay period! You see an immediate tax savings on each paycheck.

Is This Legal?

Absolutely! It is allowed under Section 125 of the Internal Revenue Code. Anyone with doubts or questions can contact the local IRS Office directly for full details.

Will I Have To Pay Taxes On These Benefits Later?

No. The benefit premiums are deducted from your salary before taxes, decreasing the amount of salary subject to tax. At the end of the year, the salary reported to the IRS which is subject to tax, is reduced by the amount of premium deductions under the Cafeteria Plan.

How Much Will I Save Each Month?

It is impossible to predict what everyone will save each month because savings will vary according to which benefits are placed on the Cafeteria Plan, individual salaries, and tax rates. Anyone needing help in calculating their savings should contact their personal accountant.

What Does It Cost To Be On The Cafeteria Plan?

It costs you nothing. This is a **service** provided by North East ISD.



This Seems Like A Great Benefit. How does it work?

When you pay eligible premiums through the Cafeteria Plan, your selections are final for the current benefit year, unless there is a change with your family status, as outlined in the Internal Revenue Code, Section 125, and related regulations.

Family Status Changes include:

- * ***divorce, legal separation, or marriage***
- * ***the death of a child or spouse***
- * ***the birth of a child***
- * ***the legal adoption of a child***
- * ***change in legal custody of a child***
- * ***non-fmla leave of absence***
- * ***change / loss of benefits eligibility by employee, spouse, or dependent child***
- * ***Open Enrollment - new coverage / loss of coverage***
- * ***reduction in work hours resulting in loss of eligibility***
- * ***dependent child loss of eligibility***
- * ***gain / loss of eligibility for Medicaid/CHIP***

Unless you experience one of these changes in family status or another change described in the provisions of FMLA of the District's Cafeteria Plan, you may not drop your dependents or your coverage for that benefit year. Specific IRS requirements apply even within the listed categories. ***The Employee Benefits office must receive your elections and supporting documentation within 31 calendar days from, and including, the date of your qualifying event in order to request a change to your benefits. If your 31st day falls on a weekend or holiday, and you need assistance from the employee benefit staff, you will need to contact them on the last working day prior to your 31st day.***

Remember:

Premiums paid through the Cafeteria Plan cannot be claimed as itemized deductions on your income tax return at the end of the year.

Cancel or Change Election Choices During Open Enrollment

If you wish to change or cancel your benefit elections, you can make your changes during the annual open enrollment period in October with an effective date of January 1, using Lawson's Employee Self Service.

New Hire Enrollment

All new employees have 31 calendar days from and including their hire date to go to Lawson ESS to elect or waive participation in all NEISD benefits. Changes cannot be made once a benefit has gone into effect without a qualifying family status change.

CAFETERIA PLAN

Examples of How the Plan Works:

Calculation under Cafeteria Plan	
Monthly Gross	\$3,225.00
Health, Dental	<u>-650.00</u>
FICA Gross Wages	2,575.00
TRS Member Contribution (8.25%)	<u>-266.06</u>
Taxable Gross Wages	2,308.94
Federal Withholding Tax	-138.54
Medicare (1.45%)	-37.34
TRS Insurance (.65%)	-20.96
Net Pay (Check Amount—Monthly)	\$2,112.10

A. Employee on a Monthly Payroll: This employee has a monthly gross income of \$3,225.00, and has a \$650.00 deduction for **family Low PPO and Dental High PPO coverage**. By having the premiums on the Cafeteria Plan, this reduced the taxable wages for the employee. The amount of the federal withholding taxes for this employee will be based on the Taxable Gross wage amount of **\$2,308.94** instead of the Monthly Gross amount of \$3,225.00. By having a decreased taxable wage, this will reduce the amount taxes withheld on an employees' paycheck. The amount of Federal withholding tax will be based on the employees W4 elections and the IRS tax tables/calculations, so savings will vary for each employee.

Calculation under Cafeteria Plan	
Bi-Weekly Gross	\$1,100.00
Health, Dental	<u>-300.00</u>
FICA Gross Wages	800.00
TRS Member Contribution (8.25%)	<u>-88.00</u>
Taxable Gross Wage	712.00
Federal Withholding Tax	-24.92
Medicare (1.45%)	-11.60
TRS Insurance (.65%)	-7.15
Net Pay (Check Amount—Biweekly)	\$688.33

B. Employee on a Bi-Weekly Payroll with 26 deductions: This employee has a bi-weekly gross income of \$1,100.00 and has a \$300.00 deduction for **family Low PPO and Dental High PPO coverage**. By having the premiums on the Cafeteria Plan, this reduced the taxable wages for the employee. The amount of the federal withholding taxes for this employee will be based on the Taxable Gross wage amount of **\$712.00** instead of the Bi-weekly Gross amount of \$1,100.00. By having a decreased taxable wage, this will reduce the amount taxes withheld on an employees' on the employees W4 elections and the IRS tax tables/calculations, so savings will vary for each employee.

Calculation under Cafeteria Plan	
Bi-Weekly Gross	\$1,100.00
Health, Dental	<u>-390.00</u>
FICA Gross Wages	710.00
TRS Member Contribution (8.25%)	<u>-88.00</u>
Taxable Gross Wage	622.00
Federal Withholding Tax	-18.66
Medicare (1.45%)	-10.30
TRS Insurance (.65%)	-7.15
Net Pay (Check Amount—Biweekly)	\$585.90

C. Employee on a Bi-Weekly Payroll with 20 deductions: This employee has a bi-weekly gross income of \$1,100.00 and has a \$390.00 deduction for **family Low PPO and Dental High PPO coverage**. By having the premiums on the Cafeteria Plan, this reduced the taxable wages for the employee. The amount of the federal withholding taxes for this employee will be based on the Taxable Gross wage amount of **\$622.00** instead of the Monthly Gross amount of \$1,100.00. By having a decreased taxable wage, this will reduce the amount taxes withheld on an employees' on the employees W4 elections and the IRS tax tables/calculations, so savings will vary for each employee.