

Section 125 Plans

What is Section 125 Plan?

A Section 125 Plan is the plan authorized by Section 125 of the IRS tax code to allow for pre-tax deductions for certain insurance premiums. These plans are often referred to as Premium Only Plans or POP Plans.

Section 125 Plan Features

- The employer determines which qualified products their plan will cover, thus allowing employee deductions for those plans to be pre-tax.
- Examples of premiums eligible for pre-tax treatment under a Section 125 Plan include health insurance, dental, vision, disability, and certain health supplement premiums.
- Deposits to Health Savings Accounts are also eligible pre-tax elections under a Section 125 Plan.
- Pre-tax elections can generally not be changed outside of the plans annual open enrollment unless there is a corresponding family status change.
- Qualified Section 125 elections are free from all taxes including Medicare and other payroll taxes.
- Pre-tax deductions are not allowed without a formal POP plan in place.

Why would I want a Section 125 plan?

A Section 125 plan reduces the net cost of insurance premiums for employees.

Employers will save by excluding all pre-tax contributions from payroll taxes.

Does an employer have any financial risk when offering a Section 125 Plan?

No, other than the administrative costs associated with having a Third Party Administrator provide the formal Section 125 documents.

These plans are truly a win-win for employers and employees alike.

As an owner, am I eligible to participate in a Section 125 Plan?

The answer depends on your business structure. For example, owners of a C-corporation are eligible while owners of an S-corporation, sole proprietorship, or LLC are not.

What is a “family status change”?

There are several status changes that enable an employee to change their FSA election mid-year. View our pre-tax guidelines for more information.