



## Proposal to Implement

### Administrative Services:

Premium Only Plan (POP)

For

### Employer Pretax Payroll Savings

Prepared by:

125Company, Inc.



**Introduction to 125Company, Inc.** 125Company is headquartered in Germantown, MD. We are a Mid-Atlantic regional benefit administration company serving companies nationwide. We simplify the daily benefit administration for employers and their employees by utilizing our comprehensive educational resources, maintaining client responsiveness by answering our phones “Live”. At 125Company, delivering easy to use solutions backed by the highest levels of service is our top priority. We offer a Software-As-A-Service solution designed to provide you with the functionality, reliability and integration you need to offer worry free consumer driven healthcare account to your employees.

By offering our industry leading solution to your employees, you can fight rising health insurance costs, offer greater depth and flexibility in your benefit packages and promote healthy lifestyles.

**Our State of the Art Technology provides:**

- **Mobile Apps for iPhone and Android Operating Systems**
  - “Click and Pic with 125Mobile”
- **Data Exchange and Upload**
  - Secured File Exchange using PGP and FTP
  - Administrator/Employer file uploads
  - Claim Exchange and Upload (auto substantiation)
- **Online Portal Access for Employer and Consumer**
  - Custom Sites – Colors, Messaging and Logos.
  - Desktop Upload for Filing Claims and IRS Required Receipts
- **Interactive Educational Video Links for Employers and Consumers**
- And much more

**Our Menu of Administrative Services include:**

- FSA and Dependent Care (FSA & DCAP)/Limited FSA
- Health Reimbursement Account (HRA) “Over 1000 Plan Designs”, Customized Stackable Plans
- Health Savings Accounts (HSA)
- Transportation (Mass Transit, Parking, Vanpooling, Bicycle)
- WMATA approved vendor for SmarTrip (DC Metro Area)
- POP Plans - Custom and Up-to-Date legal language
- Cobra Administration - State Continuation/Direct Billing and Retiree Billing options
- VEBA Trust/Tuition Assistance/Adoption Assistance
- Compliance Services
  - ERISA compliance online platform
  - Plan Documentation – new E-Signature Secured Delivery and Storage
  - Wrap Documents
  - Non Discrimination Testing and Compliance all within our accessible platform

## Introduction to Premium Only Plan

### One Simple Change in the Payroll Process Reduces Your Taxes

*The Premium Only Plan lets you cut payroll taxes without cutting your payroll.*

The Section 125 Premium Only Plan (POP) saves you and your employees' money by reducing payroll taxes. It works by making one simple adjustment in your payroll process:

- Employees pay their portion of insurance premiums on a pre-tax basis rather than on an after-tax basis.

The Premium Only Plan reduces your taxable payroll by reducing your employees' taxable income. So, both you and your employees pay less in taxes.

## Lower Taxes is Just One Advantage

### One of the best ways to save taxes

IRS-sanctioned Premium Only Plans were created by the Revenue Act of 1978 and are governed by Internal Revenue Code Section 125. With a POP:

- Employees don't pay FICA, federal, or where applicable, state or local taxes on money used to pay for their portion of employer-sponsored insurance premiums.
- Employees' tax savings help defray the cost of insurance premiums.
- Employees can increase their take-home pay.
- Your taxable payroll is reduced by the total amount of employee contributions for benefits. Lower taxable payroll means lower payroll taxes.
- You can allow employees to realize an increase in pay and take credit for a terrific new benefit, while still saving money.
- You can increase your employees' share of insurance premiums without negatively affecting their take-home pay.

If you are not requiring employees to contribute to the cost of their insurance, a Section 125 Premium Only Plan allows you to do so with the least impact on employee salaries.

### Any employer can sponsor a Premium Only Plan

Regular corporations, partnerships, S corporations, limited liability companies (LLCs), sole proprietors, professional corporations, and not-for-profits can all save money on payroll taxes by establishing a Premium Only Plan. **While regulations prohibit a sole proprietor, partner, members of an LLC (in most cases), or individuals owning more than 2% of an S corporation from participating in the POP**, they may still sponsor a plan and benefit from the savings on payroll taxes. Members received their own tax advantages through their tax filings each year.

## Begin saving money on taxes any time

You can start a Premium Only Plan at any time. Plus, you can have a short plan year for the first year so that future plan years coincide with either your fiscal year or the calendar year. The choice is yours.

Typically, your first-year tax savings with a plan will far exceed the suggested retail price for plan installation.

## Tax-Savings Examples

### Example of Employer Savings

*XYZ Company has 10 employees*

	Without POP	With POP
Annual Payroll	\$300,000	\$300,000
Annual pre-tax payroll deductions <sup>1</sup>	0	24,000
Taxable Payroll	\$300,000	\$276,000
Annual Social Security Tax <sup>2</sup>	\$22,950	\$21,114
Total Annual Employer Social Security Tax Savings	0	\$1,836

### Example of Employer Savings

*John Doe: Single, No Exceptions*

	Without POP	With POP
Annual Salary	\$30,000	\$30,000
Annual Pre-Tax Contributions <sup>3</sup>	0	2,400
Taxable Income	\$30,000	\$27,600
Estimated Taxes (30.65%)	9,195	8,460
Annual After Tax Contributions	2,400	0
Net Take Home Pay	\$18,405	\$19,140
Increase in Take Home Pay	0	\$735

**Total Annual Employer & Employee Savings \$9,186**

*(for a business with 10 employees as illustrated above)*

<sup>1</sup>Based on insurance premiums averaging \$200 per month per employee

<sup>2</sup>Based on tax rate of 7.65%

<sup>3</sup>Based on monthly premiums of \$200

<sup>4</sup>Based on an average 20% federal, 7.65% FICA and 3% state tax rates.

Note: Social Security benefits could be affected.

### Calculate Your Tax Savings

#### Employer Estimated Tax Savings

Total Annual Payroll		
Deductions for all Employees	\$	_____
Social Security Tax	x	.0765
<i>Based on a tax rate of 7.65%</i>		
Total Annual Savings	\$	_____

#### Employee Estimated Tax-Savings

Total Annual Employee Premium Contributions	\$	_____
Estimated Taxes <i>(based on 20% Federal, 7.65% FICA and 3% State tax rates<sup>4</sup>)</i>	X	.3065
Total Annual Savings Per Employee	\$	_____

<sup>4</sup>Rates vary by state

Note: Actual savings may vary depending on specific tax situations.

## The POP is Easy to Implement

### Plan Installation Services

The Premium Only Plan can more than pay for itself. The program is convenient because our service take care of the paperwork for you. When you enroll for the service, you'll receive a signature-ready, customized POP Plan Installation Kit containing:

- Plan Adoption Agreement
- Plan Document
- Summary Plan Description
- eSignature Delivery including Instructions on signing documents and distributing forms to employees
- Electronic Storage of all documents
- Access to 125Company, Inc. Our phone number: 877-303-3539, or by e-mail: [ERSupport@125company.com](mailto:ERSupport@125company.com)

Additional Employer benefit: Traditionally you will find with average participation, most or all of the yearly administrative costs will be offset by the employer's matching FICA savings each year. With the employee and their dependent pretax election, the employer will save on matching FICA expense. Generally, with every \$10,000 in pre-tax elections, that savings will be \$765.00 or 7.65% of the elected amount. **Please consult with your tax advisor for specific details regarding your personal situation.**

## Will a Premium Only Plan Benefit You?

Take the following Section 125 checklist to find out.

### Should we participate in a Section 125 POP Plan?

- Do you currently deduct your employees' portion of qualified health insurance premiums on a pre-tax basis through a Section 125 plan?
- Do your employees contribute toward the cost of the company's major medical insurance or other health, dental, or vision insurance?
- Is your business a partnership, limited liability company (LLC), sole proprietorship, or S corporation?

If you answered "yes" to question 1, skip to part two of this checklist to analyze your compliance quotient.

If you answered "yes" to question 2, you and your employees may benefit from implementing a Section 125 plan. You could save on payroll taxes, such as FICA, and your employees could save on federal income tax, FICA tax, or (where applicable) state or local income taxes. If you answered "no," you probably don't need a Section 125 plan at this time. However, consider implementing a plan if you intend to start requiring your employees to contribute toward their health insurance costs.

If you answered "yes" to question 3, the owner, partners, members of an LLC, or greater than 2% shareholders (of an S corporation) cannot participate in the plan. However, you may still implement a Section 125 plan for your employees. If you answered "no," all employees may participate in the plan.

### My company has a Section 125 Plan. Should we consider this program?

- Do you have a written plan document in your files?
- Have you properly amended your plan to reflect any changes that you made to the plan year, eligibility requirements, benefits, or IRS regulations? \* \* There have been changes in IRS regulations in 1997 and 1999, 2001, and 2002. H
- Have your employees received a copy of the current Summary Plan Description?
- Is the total of all benefits for key employees in the plan no more than 25% of the total of all benefits in the plan?
- Do you have current signed election/enrollment forms on file for all eligible employees?
- Do you require all election changes to be made only during the open enrollment period each year unless the employee has experienced a valid change in status as outlined in the latest Section 125 regulations?
- As your new employees become eligible for participation in the plan, do you require that they complete election/enrollment forms?
- Do you have documentation on file to support annual nondiscrimination requirements?
- Are the premiums for all policies that include a "cash value" or a "return of premium" benefit deducted on an after-tax basis outside of the Section 125 plan?

If you answered "no" to any of these questions, your plan may be out of compliance. **The Internal Revenue Code provides for significant penalties for failure to comply with these requirements.** The severity of penalties depends on the severity of the infractions. You may want to consult with your tax professional and/or The 125Company, Inc. regarding your noncompliance risk.

### Our Simple Fees are preceded by Our Exemplary Services

The 125Company can administer all aspects of your flexible benefits program. We offer plan design, compliance testing, communications, claim adjudication, claim payment, and IRS 5500 reporting.