

Benefit Brief



SUBJECT: Premium Only Plans

DATE: July 14, 2008

This Benefit Brief discusses Premium Only Plans and the requirement of a written plan document.

What is a Premium Only Plan?

A Premium Only Plan, or POP, is a type of Cafeteria or Section 125 plan that permits employees to elect benefits and pay their share of the cost with pre-tax dollars. The employer determines what benefits will be offered through the plan and can permit employees to choose cash instead of one or more of the available benefits. A POP is the only way that an employer can provide pre-tax benefits to which employees contribute. These pre-tax incentives help both employers and employees control escalating health care costs.

What Does the Employer Save by Implementing a POP?

POPs allow businesses to save on their share of Social Security and Medicare (FICA) and federal unemployment taxes (FUTA) through salary reductions.

What Does the Employee Save by Contributing Premiums Under a POP?

An employee's premium contributions are automatically deducted from his/her salary before taxes are taken out. Because the employee's taxable income is reduced by the amount he/she contributes to the plan, the employee pays less tax on the money he/she earns. Less taxable income equals more take-home pay. The employee saves on FICA and federal and state (in most cases) income taxes. POPs can increase employees' awareness of benefit costs.

What Benefits Can Employees Pay for Under a POP?

The following benefits can be included in a POP: health, dental, vision, accident, cancer, disability, flexible spending account (FSA), and group term life insurance plans up to \$50,000. Disability benefits will be taxable at the time of a claim. Long term care and dependent life premiums cannot be included in a POP.

Written Plan Document Requirement

The IRS requires a written plan document for all cafeteria plans. If the cafeteria plan is not in writing and does not include all required information, it does not qualify as a cafeteria plan. As a result, the employee contribution amount will be subject to taxation as income. The written plan must be formally adopted by the employer before the effective date of the plan.

If you have questions about POPs or would like to establish a POP and required documents, please contact Danielle Omans at The Benecon Group at domans@benecon.com or the number below.

This Benefit Brief is provided for informational purposes only and does not constitute legal advice. The Benefit Brief contains only a summary of the applicable legal provisions and does not purport to cover every aspect of any particular law, regulation or requirement. Depending on the specific facts of any situation, there may be additional or different requirements. Please use this Benefit Brief as a guide and not as a definitive description of your compliance obligations.