

BCT Benefits Consulting Team LLC

Cafeteria plan

From Wikipedia, the free encyclopedia

A **cafeteria plan** is a type of [employee benefit](#) plan offered in the [United States](#) pursuant to Section 125 of the [Internal Revenue Code](#). Its name comes from the earliest such plans that allowed employees to choose between different types of benefits, similar to a [cafeteria](#).

History

In May 2005 the Treasury Department and the Internal Revenue Service announced that, effective immediately, employers are permitted to design cafeteria plans that enable participants to be reimbursed for claims incurred up to 2½ months after the close of a plan year. Prior to this notice, reimbursements were permitted only for claims incurred during the plan year. Under the new ruling, an employee who participates in an FSA plan ending December 31 can still receive reimbursement for claims incurred through March 15 if the extended grace period is adopted by the employer. Since the “use it or lose it” fear of many employees was reduced significantly by the expanded claims reimbursement cycle—and access to funds can now be better targeted for purchases that the employee actually needs—there has been a clear increase in both the percentage of employees opting to participate in a Flex Plan and in the level of annual elections, enhancing FICA savings for employees and employers alike.

Features and benefits

Employees of employers with cafeteria plans may obtain such benefits as health insurance, group-term life insurance, and [flexible spending accounts](#) through the plan. Though some cafeteria plans offer an explicit choice of cash or benefits, most today are operated through a "salary reduction agreement", which is a payroll deduction in all but name. Deductions under such agreements are often called **pre-tax deductions**. Salary reduction contributions are not actually or constructively received by the participant. Therefore, those contributions are not considered wages for federal income tax purposes. In addition, those sums generally are not subject to [FICA](#) and [FUTA](#).

Reasons for implementing a Section 125 plan are primarily for the tax savings advantages for the employer and employee. Both parties save on taxes and therefore increase their spendable income. Employees pretax contributions are not subject to federal, state, or social security taxes. Generally employees save from \$.25 to \$.50 in taxes for every dollar they contribute. Employers save on the employer portion of FICA, FUTA, and Workers' Compensation premiums. It is generally thought that employers experience a renewed appreciation from their employees. The company, in effect, is giving the employee a "raise" without the cost of the raise coming from the employer.

External links

- [IRS: Section 125 FAQ](#)



This *economic policy* related article is a *stub*. You can *help* Wikipedia by *expanding it*.



This *tax*-related article is a *stub*. You can *help* Wikipedia by *expanding it*.

Retrieved from "http://en.wikipedia.org/wiki/Cafeteria_plan"

Categories: [Employment compensation](#) | [Economic policy stubs](#) | [Tax stubs](#)