You and Your Paycheck

Understanding Your Cafeteria Plan

When you hear the term "cafeteria plan" around the office, your coworkers probably aren't talking about what's for lunch. More than likely, they are talking about something even more tasty: a way to save money.

By participating in your company's cafeteria plan – sometimes known as a flexible benefits plan, a Section 125 plan, or a pre-tax benefits plan – you may be able to reduce the amount of money you otherwise would be required to pay over to the government in taxes. The best part is, it's all legal.

Why is it called a cafeteria plan?

A cafeteria plan is a wonderful benefit offered by your employer that allows you to select certain types of benefits that you pay for using pre-tax dollars. You are allowed to pick and choose benefits just as you would make selections at a cafeteria.

What's a "pre-tax" dollar?

It's money that is taken out of your pay – specifically to pay for certain qualified benefits – before payroll taxes are calculated and withheld. Once that money is taken out, you will only be taxed on the remaining part of your pay. And that means you'll be paying less in taxes.

How does a cafeteria plan work?

Cafeteria benefits vary from company to company. But the most common type of plan will allow you to "buy" certain types of benefits from your employer using pre-tax dollars. The benefits in your cafeteria plan may include such things as health, dental, or life insurance, child or dependent care, adoption assistance, etc. (Check with your payroll, human resources, or finance department for a full list of cafeteria plan options.)

What's the difference between a flexible spending account and a cafeteria plan?

A flexible spending account is a type of cafeteria plan. If you choose to participate in your company's flexible spending account, you'll be asked by your payroll or human resources department to decide, before the beginning of the plan year (usually the beginning of the calendar year), how much money you want to contribute to the FSA out of each paycheck. As you incur expenses throughout the year, you'll turn in your receipts to your benefits administrator and get paid up to the full amount you contributed for the year. For example, you decide to contribute $20 each pay period to your FSA to cover dental expenses. And you have a bill for $200 to have a cavity filled. You will pay your doctor out-of-pocket. But then you can give your employer the receipt for your expenses and you will be paid back.

The only downside to an FSA is that if you do not use all the money you put into your FSA by the end of the year, you won't be able to get the money back that you didn't use. That's the law.

Are you saying I have to give up part of my pay to pay for flexible benefits?

In a certain sense, yes. If you are given the chance to participate in a flexible spending account, you will want to carefully estimate what you think your expenses for the year will be since the only way you will be able to get the money in your account back is as a reimbursement for an expense you incurred.

What expenses are eligible?

That will depend on the type of plan your employer offers. Among the most common expenses that can be covered using pre-tax dollars are insurance premiums, co-payments and out-of-pocket doctor bills. Also eye exams, glasses and contact lenses, hearing exams and hearing aids, and prescription drugs. These, however, are only examples. Talk to your plan administrator to find out more.

Can I change my election during the plan year?

Generally, no. However, you may change your annual election if your plan allows you to do so after certain changes in family status such as:

- Birth, death, or adoption of a child
- Change in your marital status, including marriage, divorce, death of spouse, legal separation, or annulment
- Termination or commencement of employment by you, your spouse, or a dependent
- Change in work schedule, including a reduction or increase in hours worked by you, your spouse, or a dependent
- Change in the eligibility status of a dependent
- Change in your residence or worksite, or the residence or worksite of your spouse or dependent, accompanied by a gain or loss of insurance coverage as a result of the move.

Helpful Links

Additional information about cafeteria plans and other ways to maximize your paycheck.

MyPaycheck Web site
www.mypaycheck.org

National Payroll Week Web site
www.nationalpayrollweek.com

American Payroll Association
www.americanpayroll.org