

# Take Care Wage Works Cafeteria Plan (Flex Spending Accounts)

## What is a cafeteria plan?

A cafeteria plan is a separate written plan maintained by an employer for employees that meets the specific requirements of and regulations of section 125 of the Internal Revenue Code. It provides participants an opportunity to receive certain benefits on a pretax basis.

A qualified benefit is a benefit that does not defer compensation and is excludable from an employee's gross income under a specific provision of the Code, without being subject to the principles of constructive receipt. Qualified plans offered by the City of Lock Haven to all benefitted employees include the following:

- Dependent care assistance
- Health savings accounts, including distributions to pay long-term care services

A section 125 plan is the only means by which an employer can offer employees a choice between taxable and nontaxable benefits without the choice causing the benefits to become taxable. A plan offering only a choice between taxable benefits is not a section 125 plan.

Below is an example of how much a person can save each year because of the pre-taxed savings. The example is of a married person, with an income level of \$40,000.00 and the maximum contribution of \$2,255 which is deducted by-weekly for approximately \$98.08 per pay.

When choosing your deduction, be sure that you will spend the money that you elect for deduction. The Cafeteria Plan guidelines state that you must use or lose your contributions.

## Medical Flex Spending Account Savings Example

Your Results				Health Care Expenses
If you choose to contribute your total anticipated health expenses to an FSA*		Without FSA	With FSA	
• Your annual FSA contribution will be:	<b>\$2,550</b>			<b>\$2,550</b>
• Your estimated annual tax savings will be:	<b>\$527</b>			<b>Estimated Tax Savings</b>
• Your monthly withholding will be:	<b>\$213</b>			<b>\$527</b>
• The difference in your after-tax monthly pay will be:	<b>\$169</b>			
• You will break even if you spend at least this much out of your account:	<b>\$2,023</b>			
		Annual Income	\$40,000	\$40,000
		FSA Contribution	\$0	\$2,550
		<b>Taxable Income</b>	<b>\$40,000</b>	<b>\$37,450</b>
		Estimated Tax Withholding	\$8,260	\$7,733
		Estimated Health Expenses	\$2,550	\$0
		<b>Net Pay</b>	<b>\$29,190</b>	<b>\$29,717</b>
		<b>Estimated Tax Savings</b>		<b>\$527</b>

\*The I.R.S. limits your maximum annual contribution to \$2550. Be mindful that your employer may also set limits on your maximum annual contribution, as well as which products and services are FSA eligible, so please check with your employer's benefit representative before making a final decision. The estimated tax savings provided are for illustrative purposes only, and should not be construed as tax advice. Consult a licensed tax professional for appropriate advice given your individual situation. Plan your FSA contribution carefully, since any unused funds will be forfeited following the end of your plan year or any grace period thereafter.

For additional details about the Lock Haven City Employee Section 125 / FSA please contact Wenda Butler at (570) 893-5621