

DEFINITION OF IRS CODE SECTION 125 FLEXIBLE BENEFIT PLAN

Purpose

To set forth a summary definition of an IRS Code Section 125 Flexible Benefit Plan.

When

To be used as a general guide of what a Section 125 Plan is and how it works.

Procedure (Definition)

An IRS Code Section 125 Flexible Benefit Plan allows an employee to choose benefits that best fit their personal situation. It makes it possible for the employee to make any of the contributions to their fringe benefits on a “Pre-Tax” basis, and also, to set aside via voluntary deduction additional “Pre-Tax” dollars to pay for out-of-pocket Dependent Care and/or Medical Expenses through separate Flexible Reimbursement Spending Accounts.

The Section 125 Plan allows an employee to spend their benefit dollars for the benefits that they choose. By using “Pre-Tax” dollars to pay for these benefits, an employee can reduce the amount of Federal, State, OASDI, & Medicare taxes they are required to pay. It also reduces the District’s required matching contribution for OASDI & Medicare taxes. Therefore, a Section 125 Plan is a mutually beneficial situation for districts and their employees.

Eligibility requirements for participation in a Section 125 Plan are pre-determined by the district and are detailed in the Section 125 Plan Document on file with the district. A signed declaration is required from **ALL** employees who meet the eligibility requirements, whether they choose to participate or not, in order to comply with the IRS non-discrimination laws within Code Section 125. Even though **ALL** employees are required to sign the Section 125 Plan declaration, participation is voluntary.

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Changes in an employee's election for benefits paid with "Pre-Tax" dollars may not be made during the Plan Year, except in the following cases:

1. A change in family status that effects coverage, such as marriage, death, divorce, or birth/adoption of a child.
2. A change in employment status that changes an employee's eligibility.
3. A change in your spouse's employment status, causing a loss of coverage for you and/or your dependents.

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Procedure Binder Section: Financial

YOLO COUNTY OFFICE OF EDUCATION
PAYROLL WARRANT/SECTION 125 FLOW CHART

GROSS SALARY	DISTRICT BENEFIT CAP
(-) PERS/STRS CONTRIBUTION*	(-) EE PURCHASED BENEFITS
(-) SEC 125 SALARY REDUCTION AGREEMENT BENEFITS OVER CAP	← (=) EXCESS PURCHASED
OR	OR
(+) CASH OPTION (IF APPLICABLE) PURCHASED BENEFITS	← (=) EXCESS CAP OVER
(-) SEC 403(b) TSA	
(=) TAXABLE INCOME	
(-) FEDERAL/STATE INCOME TAX**	
(-) OASDI***	
(-) Medicare****	
(-) AFTER TAX VOLUNTARY DEDUCTIONS	
(=) NET INCOME	

* PERS = (Gross Salary – 133.33) X 7%
STRS = Gross Salary X 8%

** Calculated using the amount on the Taxable income line with the withholding tables

*** (Taxable Income + PERS/STRS Contribution + TSA Contribution) up to a maximum
\$76,200.00 X 6.2% \$72,600.00 is the OASDI wage base maximum for 1999, \$76,200.00 is the OASDI wage base
maximum for 2000

**** (Taxable Income + PERS/STRS Contribution + TSA Contribution) X 1.45%