Section 125

**Premium Only Plan**

Tax Savings For You And Your Employees

**Reduce Taxes**

**Lower Health Insurance Cost**

**Increase Employee Take-Home Pay**

**Now Includes**

HSA

Medical Mutual Services
The Premium Only Plan

One simple change in the payroll process reduces your taxes

The Premium Only Plan lets you cut payroll taxes without cutting your payroll.

The Section 125 Premium Only Plan (POP) saves you and your employees money by reducing payroll taxes. It works by making one simple adjustment in your payroll process – employees pay their portion of insurance premiums on a pre-tax basis rather than on an after-tax basis.

The Premium Only Plan reduces your taxable payroll by reducing your employees’ taxable income. So, both you and your employees pay less in taxes.

Lower Taxes is Just One Advantage

One of the best ways to save taxes

IRS-sanctioned Premium Only Plans were created by the Revenue Act of 1978 and are governed by Internal Revenue Code Section 125. With a POP:

- Employees don’t pay FICA, federal, or where applicable, state or local taxes on money used to pay for their portion of employer-sponsored insurance premiums, or contributions to their Health Savings Account (HSA).
- Employees’ tax savings help defray the cost of insurance premiums.
- Employees can increase their take-home pay.
- Your taxable payroll is reduced by the total amount of employee contributions for benefits. Lower taxable payroll means lower payroll taxes.
- You can allow employees to realize an increase in take-home pay and take credit for a terrific new benefit, while still saving money.
- You can increase your employees’ share of insurance premiums without negatively affecting their take-home pay.

If you are not requiring employees to contribute to the cost of their insurance, a Section 125 Premium Only Plan allows you to do so with the least impact on employee salaries.

Any employer can sponsor a Premium Only Plan

Regular corporations, partnerships, S corporations, limited liability companies (LLCs), sole proprietors, professional corporations, and not-for-profits can all save money on payroll taxes by establishing a Premium Only Plan.

Who can participate?

While Regulations prohibit a sole proprietor, partner, members of an LLC (in most cases), individuals owning more than 2% of an S corporation, or their spouse and dependents, from participating in the POP, they may still sponsor a plan and benefit from the savings on payroll taxes.

Begin saving taxes immediately

You can start a Premium Only Plan at any time. Plus, you can have a short plan year for the first year so that future plan years coincide with either your fiscal year or the calendar year. The choice is yours.

Typically, your first-year tax savings with a POP plan will far exceed the suggested retail price for plan installation.
POP is Easy to Implement

Plan implementation

The Premium Only Plan can more than pay for itself. The program is convenient because MHM Resources takes care of the paperwork for you. When you enroll for the service, you’ll receive a signature-ready, customized POP Plan Implementation and Administration Kit containing:

- Plan Adoption Agreement
- Plan Document
- Summary Plan Description
- Certificate of Resolution
- Election Forms
- Videos that explain the POP to you, your employees, and your bookkeeper/controller
- Instructions on signing documents and distributing forms to employees
- Instructions for maintaining your plan
- Simplified explanation of payroll adjustments
- Brochures for employees

Annual compliance service

Once your plan is established, you will receive complete administrative support services from MHM Resources, a WageWorks company. Among the nation’s premier employee benefit firms, MHM is a leading resource for Section 125 Plans. Annual Compliance Services include:

- Prior to each new plan year, you will receive an Annual Compliance Packet. The packet will include re-enrollment materials and signature-ready plan documents, forms, and procedures.
- Updated documentation, required for keeping your plan in compliance with IRS regulation changes.
- Free assistance with discrimination testing (upon request).
- Quarterly newsletter with compliance tips and reminders.
- Continued access to MHM’s POP Compliance Support Unit by phone: 800-876-7548, or by email: popHelp@WageWorks.com.

Calculate your tax savings

**Employer estimated tax savings**

| Total annual payroll deductions for all employees | $_________ |
| Social security tax (based on tax rate of 7.65%) | x .0765 |
| Total annual employer savings | $_________ |

**Employee estimated tax savings**

| Total annual employee premium contributions | $_________ |
| Estimated taxes (based on 20% federal, 7.65% FICA, and 3% state tax rates*) | x .3065 |
| Total annual savings per employee | $_________ |

* Varies by state.

Note: Actual savings may vary depending upon specific tax situation.

### Example of employer savings

*XYZ Company has 10 employees*

<table>
<thead>
<tr>
<th>Without POP</th>
<th>With POP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual payroll</td>
<td>$300,000</td>
</tr>
<tr>
<td>Annual pre-tax payroll deductions</td>
<td>0</td>
</tr>
<tr>
<td>Taxable payroll</td>
<td>300,000</td>
</tr>
<tr>
<td>Annual social security tax</td>
<td>$22,950</td>
</tr>
<tr>
<td>Total annual employer social security tax savings</td>
<td>0</td>
</tr>
</tbody>
</table>

### Example of employee savings

*John Doe: single, no exemptions*

<table>
<thead>
<tr>
<th>Without POP</th>
<th>With POP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual salary</td>
<td>$30,000</td>
</tr>
<tr>
<td>Annual pre-tax contributions</td>
<td>0</td>
</tr>
<tr>
<td>Taxable income</td>
<td>$30,000</td>
</tr>
<tr>
<td>Estimated taxes (30.65%)</td>
<td>9,195</td>
</tr>
<tr>
<td>Annual after-tax contributions</td>
<td>2,400</td>
</tr>
<tr>
<td>Net take-home pay</td>
<td>$18,405</td>
</tr>
<tr>
<td>Increase in take-home pay</td>
<td>0</td>
</tr>
</tbody>
</table>

**Total Employer & Employee Annual Savings**

| $9,186 |

(for a business with 10 employees as illustrated above)

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1 Based on insurance premiums averaging $200 per month per employee.
2 Based on tax rate of 7.65%.
3 Based on a monthly premium of $200.
4 Based on an average 20% federal, 7.65% FICA, and 3% state tax rates.

Note: Social security benefits could be affected.

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**Example of employer savings**

*XYZ Company has 10 employees*
Will a Premium Only Plan Benefit You?

Take the following Section 125 checkup to find out.

1. Do you currently deduct your employees' portion of qualified health insurance premiums on a pre-tax basis through a Section 125 plan? ............................................................................................

2. Do your employees contribute toward the cost of the company’s major medical insurance or other health, dental, or vision insurance? ................................................................................................

3. Is your business a partnership, limited liability company (LLC), sole proprietorship, or S corporation? ..........................................................................................................................................

If you answered “yes” to question 1, skip to the next section to see if your plan is in compliance.

If you answered “yes” to question 2, you and your employees may benefit from implementing a Section 125 plan. You could save on payroll taxes, such as FICA, and your employees could save on federal income tax, FICA tax, or (where applicable) state or local income taxes. If you answered “no,” you probably don’t need a Section 125 plan at this time. However, consider implementing a plan if you intend to start requiring your employees to contribute toward their health insurance costs.

If you answered “yes” to question 3, the owner, partners, members of an LLC, or greater than 2% shareholders of an S corporation, or their spouse and dependents, cannot participate in the plan. However, you may still implement a Section 125 plan for your employees. If you answered “no,” all employees may participate in the plan.

My company has a Section 125 Plan.

Take the following quiz to see if your plan is in compliance.

1. Do you have a written plan document in your files? ..........................................................................................................

2. Have you properly amended your plan to reflect any changes that you made to the plan year, eligibility requirements, benefits, or IRS Regulations?* .............................................................................
   * There have been changes in IRS Regulations in each of the last six years.

3. Have your employees received a copy of the current Summary Plan Description? ..........................................

4. Is the total of all benefits for key employees in the plan no more than 25% of the total of all benefits in the plan? ..........................................................................................................

5. Do you have current signed election enrollment forms on file for all eligible employees? ......................................

6. Do you require all election changes to be made only during the open enrollment period each year unless the employee has experienced a valid change in status as outlined in the latest Section 125 Regulations? .................................................................

7. As your new employees become eligible for participation in the plan, do you require that they complete election enrollment forms? ..........................................................................................................

8. Do you have documentation on file to support annual nondiscrimination requirements? ...........................................

9. Are the premiums for all policies that include a “cash value” or a “return of premium” benefit deducted on an after-tax basis outside of the Section 125 plan? .................................................................

If you answered “no” to any of these questions, your plan may be out of compliance. The Internal Revenue Code provides for significant penalties for failure to comply with these requirements. The severity of penalties depends on the severity of the infractions. You may want to consult with your tax professional and/or MHM Resources LLC regarding your noncompliance risk.
Medical Mutual Services
Premium Only Plan Application

If you require assistance completing this form, call 800-876-7548 weekdays, 9 a.m. - 6 p.m. EST.

1. Legal Name of Company Sponsoring Plan:

2. Business Type: ☐ C Corp. ☐ S Corp ☐ Sole Proprietor ☐ LLC ☐ Partnership ☐ Not-For-Profit ☐ Government Entity or Church

3. Principal Business Activity:

4. Federal Employer Identification Number (Must be 9 digits): __________ - __________ - __________ - __________ - __________ - __________ - __________ - __________ - __________

5. Contact Person: ____________________________________________ Title: __________________________

6. Street Address (No PO Boxes):

City, State, Zip: ___________________________________________________________________________________

7. Phone: __________________________ Fax: __________________________ Email: __________________________

8. Effective Date – This Premium Only Plan (POP) will be:
   a. ☐ A new plan effective as of (date) __________________________
   b. ☐ An amendment and restatement of a previously established Section 125 plan of the employer.
      (1) This amendment and restatement is effective as of (date) __________________________
      (2) State the effective date of the original plan __________________________

9. Plan Year – The first plan year for this POP will be:
   a. ☐ A 12-consecutive-month period beginning (date) __________________________ and ending (date) __________________________
   b. ☐ A short plan year beginning (date) __________________________ and ending (date) __________________________

10. Employer’s Principal Office – This POP shall be governed under the laws of the: ☐ State ☐ Commonwealth __________________________

11. Benefits – The benefits selected below shall be included in the POP:
   ☐ Health insurance ☐ Cancer insurance ☐ Dental insurance ☐ Group-term life insurance
   ☐ Disability insurance ☐ Vision care insurance ☐ Critical illness insurance ☐ HSA contributions
   ☐ Accidental death/dismemberment insurance
   1 Group-term life insurance up to $50,000 coverage.
   2 If disability insurance is paid for on a pre-tax basis, any benefits received are taxable to the employee. Under most circumstances, it is recommended that disability insurance not be included in the plan. Note: Insurance products with a return-of-premium feature cannot be paid for on a pre-tax basis.

12. Plan Administrator Signature*: __________________________ Date: __________________________
   *This should be the employer or its designee. MHM Resources Inc. will provide administrative services, but will not be the Plan Administrator.

13. Legal Name(s) of Affiliated Company(ies) that will be covered by this Plan: __________________________________________

14. Total Number of Employees: __________________________

15. Payroll is Prepared: ☐ In house ☐ Outsourced (specify payroll company): __________________________________________

Pricing information

16. One time implementation fee for a New Plan Set-Up and Restatement. $325 (payment required with application).

17. Annual Compliance Service fee: MHM bills client $325 per year.

Shipping instructions

18. Shipping method (POP Implementation Kit is shipped within 2 business days to the employer):
   ☐ Free UPS Ground ☐ $75 Express Service Specify delivery date for Express Service: __________________________

Payment

19. ☐ Check enclosed for $ __________________________ (payable to MHM Resources LLC, PO Box 870725, Kansas City, MO, 64187-0725)
   ☐ Charge my credit card for $ __________________________ . ☐ VISA ☐ MC ☐ AMEX ☐ Discover Expiration Date: __________________________
   Credit Card Number: __________________________ Name on card: __________________________

To be completed by referral source

Name of Referral Source: __________________________ Affiliated Company: __________________________

Address (No PO Boxes): ___________________________________________________________________________________

City, State, Zip: ___________________________________________________________________________________

Phone: __________________________ Fax: __________________________ Email: __________________________

Fax completed form to MHM, your service provider: 877-782-8889

For MHM internal use

Rep #: __________________________
Client #: __________________________
Lead source: __________________________

MHM 4021_POPAPP (Oct 2010)
Your Service Provider

MHM Resources – Your Total Flexible Benefits Solution.

As a leader in Flexible Benefits and consumer-driven health, MHM Resources is dedicated to empowering employers and individuals to get the most from their flexible benefits program. That's because we have the…

Experience... Innovative technology... Industry Leaders

MHM Resources has provided flexible benefits technology and support systems for nearly two decades. You might remember us as Mayer Hoffman McCann, the independent CPA firm that founded our company. In 1998 the firm spun off MHM Resources so we could focus all our energy on flexible benefit plans that really work.

Through years of experience, we constantly interact with the top administrators in the country. This allows us to identify their Best Practices, and integrate the “Best of the Best” into our system.

Plus, for over twenty years, we’ve provided turnkey flex administration for thousands of groups. So when you talk with the more than 1,000 third-party administrators or the 35 insurance carriers who have partnered with us, they’ll tell you the same thing: they can count on MHM.