

Title:

Cafeteria Benefits and Your Workforce

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655

Summary:

Cafeteria plans have become increasingly popular over the last few years because they were designed to offer employees a truly convenient way to pay medical expenses with pre-tax dollars.

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Article Body:

Especially if you happen to be one of those unflinchingly ambitious micro-business entrepreneurs, I've been reading about everyday in pubs like Crain's Chicago Business, you'll eventually find that designing and offering up an attractive employee-benefits package will be an essential component of your future growth. An attractive health plan will do just that - attract - helping you recruit and retain crucial employees (meaning those fought over creative class/knowledge worker types Richard Florida is always yammering about). You'll also find that a generous group plan will help link your employees' interests to your concern's.

That said, there are a seemingly unlimited number of group benefits options to consider. One that you'll want to move to the top of your list is a Cafeteria Plan. The cafeteria brand of benefit plan can add a lot of freedom to an employee compensation package, allowing your workforce to choose benefits options ala carte, if you will - selecting only the benefit options they're most interested in.

Perhaps I should start closer to the beginning ... cafeteria plans, also known as the flexible spending account, the choice spending account or the section 125 plan, have become increasingly popular over the last few years because they're designed to offer employees a truly convenient way to pay medical expenses with pre-tax dollars; relieving them of the burden of federal, and state taxes.

To take advantage of a flexible spending account, eligible employees set aside a pre-designated amount each year, in order to pay for medical expenses aren't already eligible for coverage. The two most common types of flexible-spending accounts are dependent care reimbursement (also known as DCRA) and health care reimbursement accounts. Employees pay for non-reimbursed expenses from these accounts. Unfortunately, flexible-spending accounts are "use-it-or-lose-it" accounts; meaning that any funds leftover at the end of the year can't be "rolled over," so to speak.

Exceptions To Those Limits Apply to Key Employees

Typically, funds set aside in a cafeteria plan's flexible-spending account are exempt from income, payroll, and unemployment taxes. This exemption generally also applies to payroll and unemployment taxes paid on behalf of employees. (Take a look at IRS Pub. 15-B for exceptions, including treatment of highly compensated employees and certain shareholders of Subchapter S Corporation's.)

Premiums paid to a group life benefits policy are typically exempt from income and unemployment taxes. In addition, premiums paid for up to \$50,000.00 of benefits coverage per employee tend to be exempt from payroll taxes. For additional details, see IRS Publication 15-B.

You see, cafeteria plans offer you some versatility in putting together a benefits plan for your workforce. There are other categories of fringe benefits that you can offer your employees in a cafeteria plan that may be excluded from taxable income under IRS benefit-exclusion rules. Using a flexible-spending account -- namely, establishing a DCRA and HCRA -- may help to jump-start a cafeteria plan for your workforce. If you maintain a cafeteria plan, the IRS requires you to complete IRS Form 5500.

To help you keep track of employment-related costs, the U.S. Bureau of Labor Statistics (BLS) publishes a quarterly statistic called the employment cost index. The cost index measures changes in employee-compensation costs, which include salaries, wages, and benefits. In addition to publishing the quarterly cost index, BLS publishes an annual survey of compensation costs.

One last thing ... the information above is practically for entertainment purposes and shouldn't be interpreted as financial advice. For advice specific to your firm's circumstances, don't hesitate get advice from a financial, tax or benefits consultant. You may even want to flat out hire an Interim benefits consultant or a full service benefits consulting firm. There are also a number of good sources of information on the Web you can take advantage of. The

Employee Benefits Research Institute (EBRI), International Foundation of Employee Benefit Plans (IFEPP), and American Benefits Council are independent sources of truly "actionable" employee-benefit plan information.