



The Simple Solution to Payroll

Section 125 POP With HSA Module

HSA Savings Component Can Be Pre-Taxed Through a Section 125 Premium Only Plan.

Section 125 Plans and HSA Savings Deduction. With more and more employers opting for High Deductible Health Plans (HDHP) and offering their employees Health Savings Accounts (HSA), the question comes up about whether the HSA portion (savings component) qualifies as a pretax payroll deduction through the Section 125 Premium Only Plan.

We have developed an HSA module for our Section 125 Premium Only Plan that allows the HSA savings component to be pre-taxed.

Employers receive everything they need to establish an HSA Section 125 Plan. This package includes the Resolution to adopt, Plan Document, Summary Plan Description, Election Forms, Claim Forms, and Administrative Instructions. Flex Affiliates is available to assist you throughout the process.



Setting up a Section 125 POP with the HSA module allows business owners to save matching Social Security (FICA), as well as federal unemployment taxes (FUTA) and generally, state unemployment taxes, on the money employees contribute to their premiums as well as the HSA savings component. Employer tax savings can average 7 to 10 percent. In California and several other states the Section 125 payroll deductions reduce the threshold on which workers compensation premiums are levied for even more savings to the employer. For example, if an employee pre-taxes \$6,900 into the HSA savings account, the employer will save approximately \$528 in matching FICA & FUTA taxes. (These numbers are examples. A tax advisor should be consulted for information on individual state regulations.)

Employees realize savings in their FICA, federal, and, in most cases state income taxes. This is roughly a 30% tax savings. An employee who pre-taxes his HSA savings component through the POP, funds his account tax free or pretax. The alternative would be for the employee to fund the HSA savings account with after tax dollars outside the group and then write it off their taxes at the end of the year. It's a "save-as-you-go" pretax HSA payment plan. An employee who saves the HSA maximum \$6,900 through the Section 125 POP reduces his or her payroll taxes by approximately \$2,070 or more. (Depending on the employee's tax bracket the savings could be more or less).