

Premium Only Plans (POP): 10 Things You Need to Know

1. What is a Section 125 Premium Only Plan (POP)?

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 qualified insurance premiums, or contributions to their Health Savings Account (HSA).

2. What are the benefits of a POP?

POP plans reduce payroll taxes on the premium contributions of participating employees. The plan saves money by converting premiums from an after-tax expense to a pre-tax expense.

3. Who can participate in a Premium Only Plan?

Any employer may sponsor a POP. IRS regulations prohibit sole proprietors, partners, members of an LLC (in most cases), and individuals owning more than 2% of an S-Corporation from participating, but these owners may still sponsor a POP plan for their employees. You can use Form 50529, POP Qualifying Questions, to determine eligible participants.

4. How much can employees save by participating?

Depending on their current tax bracket, employees will save anywhere from 25%-40% on every dollar they contribute for qualified insurance premiums through pretax payroll deduction.

5. How much can the employer save by implementing a Premium Only Plan?

Depending on the FICA rate, employers usually save 7.65% on every dollar employees contribute for qualified insurance premiums through pretax payroll deduction. Employers will also pay less payroll taxes because employee contributions are subtracted from taxable payroll.

6. What type of insurance premiums can employees pay for with pretax dollars?

The following benefits can be paid for on a pretax basis: medical insurance, dental insurance, vision insurance, critical illness, accidental death/dismemberment, and group term life insurance (up to \$50,000 in coverage). Disability premiums can be paid for on a pretax basis but any benefits received from the policy will be taxable to the employee. Contributions to a Health Savings Account (HSA) via payroll deduction can also be made on a pretax basis.

7. How does a company start a POP?

New and existing Peak1 clients can contact our sales team to request a POP.

8. How will a company know when their Premium Only Plan is set up?

Peak1 will send an administrative kit to the group that includes the necessary documents to initiate the POP. The kit includes the plan document, summary plan description and the corporate resolution and adoption agreement.

9. What is required of the employees to sign up?

Nothing - the POP document supplied to the company automatically covers all employees that are paying for qualified insurance premiums out of their paychecks. The only paperwork an employee needs to fill out is a waiver form if he/she decides not to participate in the POP.

10. How much does it cost?

A Premium Only Plan from Peak1 Administration is a one-time cost of \$300.00