



ConnectPay Section 125 FAQs

Employer Size

- 1. Average Employee Count:** Ensure your business, including any affiliated entities, had an average of 100 or fewer employees during either of the two preceding years.
- 2. Consider Special Rules:** Understand that there are special rules for new businesses and growing businesses with fewer than 200 employees. These rules may apply to your company's eligibility.
- 3. Employee Eligibility:** Check if all employees who worked at least 1,000 hours in the previous year (excluding certain categories) are eligible to participate. Exceptions can include employees under 21, those with less than one year of service, or those covered by a collective bargaining agreement. While there is no specific requirement in Section 125 regulations that employees must work a certain number of hours to be eligible for benefits, employers must ensure that their plan meets the uniformity and nondiscrimination requirements. This means that if Section 125 benefits are offered to employees who work less than 1000 hours per year, they must also be offered to all other eligible employees on the same terms.

Employer Contributions

Employer contributions to Section 125 plans offer several benefits for both employers and employees:

- 1. Enhanced Compensation Package:** By contributing to employees' Section 125 plans, employers can enhance their overall compensation package, making it more competitive and attractive to current and prospective employees. This can help with employee retention and recruitment efforts.
- 2. Tax Savings:** Employer contributions to Section 125 plans are generally tax-deductible for the employer and not subject to payroll taxes. For employees, employer contributions reduce

their taxable income, resulting in lower federal and state income taxes as well as reduced FICA (Social Security and Medicare) taxes.

3. **Improved Employee Satisfaction:** Providing employer contributions to Section 125 plans demonstrates a commitment to employee well-being and financial security. Employees appreciate the additional financial support for their benefits, which can lead to higher job satisfaction, morale, and productivity.
4. **Health and Financial Wellness:** Employer contributions to Section 125 plans, particularly for health-related benefits like insurance premiums and HSAs, can help employees better manage their healthcare expenses and improve their overall financial wellness. This, in turn, can lead to healthier, more engaged employees who are better equipped to focus on their work.

Conclusion: Employer contributions to Section 125 plans can be a valuable component of an employee benefits program. By providing additional financial support for employees' chosen benefits, employers can enhance their compensation packages, provide tax savings for both parties, and promote employee satisfaction and well-being. Employers considering offering contributions to Section 125 plans should carefully evaluate their options and consider the potential benefits for their workforce and business objectives.

Nondiscrimination testing

Nondiscrimination testing for Section 125 plans.

1. **Legal Compliance:** Nondiscrimination testing for Section 125 plans is not optional; it's a legal requirement mandated by the IRS. These tests ensure that Section 125 plans do not unfairly benefit highly compensated employees (HCEs) over non-highly compensated employees (NHCEs). Failure to comply with nondiscrimination rules can result in severe penalties and potentially disqualification of the plan.

2. **Equal Treatment:** Nondiscrimination testing ensures that all employees, regardless of their position or compensation level, have equal access to the benefits offered through the Section 125 plan. This promotes fairness and equity within the workplace, fostering a positive work environment and reducing potential grievances or legal challenges related to benefits disparities.
3. **Tax Considerations:** Section 125 plans provide valuable tax advantages for employees by allowing them to contribute to certain benefits on a pre-tax basis, thereby reducing their taxable income. However, if these plans disproportionately favor HCEs, the tax advantages could be seen as discriminatory by the IRS. Nondiscrimination testing helps ensure that the tax benefits of the plan are distributed fairly among all eligible employees.
4. **Employee Retention and Engagement:** Offering benefits through a Section 125 plan is a valuable tool for attracting and retaining top talent. However, if certain employees feel excluded from or disadvantaged by the plan, it could negatively impact morale, engagement, and ultimately, retention rates. Nondiscrimination testing helps employers identify and address any disparities in benefit offerings, thereby enhancing employee satisfaction and loyalty.
5. **Avoiding Penalties and Repercussions:** If a Section 125 plan fails nondiscrimination testing, the employer may face penalties and corrective actions. This could include fines, IRS audits, or even the disqualification of the plan, resulting in the loss of tax benefits for both the employer and employees. By conducting regular nondiscrimination testing, employers can identify and address any issues proactively, mitigating the risk of costly penalties and legal consequences.
6. **Compliance with Affordability Requirements:** Under the Affordable Care Act (ACA), employers offering health coverage through a Section 125 plan must ensure that the coverage is affordable for all eligible employees. Nondiscrimination testing helps employers assess whether the premiums charged to employees meet the affordability criteria set forth by the ACA, thus ensuring compliance with healthcare reform mandates.

In summary, nondiscrimination testing for Section 125 plans is essential for legal compliance, equal treatment of employees, tax considerations, employee retention and engagement, avoidance of penalties, and compliance with affordability requirements. By conducting thorough testing and addressing any issues identified, employers can ensure that their Section 125 plans remain effective, fair, and beneficial for all employees.

Renewal Dates

Renewal dates for Section 125 plan documents are crucial milestones in ensuring the continued compliance and effectiveness of the plan. Here's a breakdown of what renewal dates entail and why they're important:

1. **Definition:** The renewal date for a Section 125 plan refers to the date on which the plan document must be reviewed, updated, and renewed to reflect any changes in regulations, laws, or company policies that may affect the plan's administration and compliance.
2. **Compliance Requirements:** Section 125 plans are subject to various legal and regulatory requirements, including those set forth by the Internal Revenue Service (IRS) and the Department of Labor (DOL). These requirements may change over time due to updates in tax laws, healthcare regulations, or other legislative developments. As such, plan documents must be periodically reviewed and updated to ensure compliance with the latest regulations.
3. **Plan Amendments:** Renewal dates provide an opportunity for employers to amend their Section 125 plan documents to incorporate any necessary changes. This could include updates to contribution limits, eligibility criteria, covered benefits, or administrative procedures. By keeping the plan document current, employers can avoid potential compliance issues and ensure that employees receive accurate information about their benefits.
4. **Employee Communication:** Renewal dates also coincide with the need to communicate any changes to employees. Employers are required to provide employees with updated plan

documents and summary plan descriptions (SPDs) that reflect any amendments or revisions to the Section 125 plan. Clear communication ensures that employees understand their rights and responsibilities regarding their benefits and helps maintain transparency and trust within the organization.

5. **Renewal Process:** The renewal process typically involves a thorough review of the existing plan document by legal counsel or benefits administrators to identify any necessary changes. Once amendments are drafted and approved, the updated plan document must be distributed to employees within a specified timeframe. Employers should establish clear procedures and timelines for the renewal process to ensure compliance and avoid any lapses in plan administration.
6. **Timing Considerations:** Renewal dates for Section 125 plan documents may coincide with the start of the plan year or fiscal year, but they can vary depending on the employer's preferences and administrative needs. It's essential to establish a consistent schedule for plan document renewals to facilitate planning and compliance efforts.

In summary, renewal dates for Section 125 plan documents are critical for maintaining compliance with legal and regulatory requirements, updating plan provisions as needed, communicating changes to employees, and ensuring effective plan administration. By proactively reviewing and renewing plan documents, employers can mitigate compliance risks and provide employees with valuable benefits that align with their needs and expectations.

IRS audit for section 125 plan document

Several factors can trigger an audit for Section 125 plan documents, conducted either by the Internal Revenue Service (IRS), the Department of Labor (DOL), or both. Here are some common triggers:

1. **Complaints or Allegations:** Complaints or allegations from employees, former employees, or third parties regarding potential violations of Section 125 plan regulations can prompt an

audit. This could include complaints related to discrimination in benefit offerings, improper administration of the plan, or failure to provide required disclosures to participants.

2. **IRS or DOL Initiatives:** The IRS and DOL conduct periodic audits and compliance initiatives to ensure that employers are complying with tax and labor laws, including those related to Section 125 plans. Employers may be selected for audit as part of these initiatives based on various factors, such as industry trends, geographic location, or previous compliance history.
3. **Noncompliance Red Flags:** Certain red flags or indicators of noncompliance with Section 125 plan regulations may trigger an audit. These could include discrepancies in plan administration, failure to file required documents or disclosures, inconsistencies in employee contributions or benefits, or evidence of discrimination in favor of highly compensated employees.
4. **Plan Size and Complexity:** Larger employers or those with more complex benefit arrangements may be subject to closer scrutiny and a higher likelihood of audit. Employers with multiple subsidiaries, diverse workforce demographics, or intricate benefit structures may face increased scrutiny from regulatory agencies.
5. **Employee Complaints or Disputes:** Disputes or grievances among employees regarding their benefits or the administration of the Section 125 plan could lead to investigations by regulatory agencies. Mitigate the risk of regulatory scrutiny and potential audits through an current Section 125 Plan Document and retain signed Plan Summaries, making it part of your participant onboarding checklist.
6. **Previous Noncompliance:** Employers with a history of noncompliance with Section 125 plan regulations or other tax and labor laws may be targeted for audits as part of enforcement efforts by regulatory agencies. Failure to address previous compliance issues can increase the likelihood of future audits and penalties.
7. **Random Selection:** In some cases, employers may be selected for audit randomly as part of routine compliance monitoring efforts by the IRS or DOL. While random audits are less



common, they can still occur, particularly if there are concerns about overall compliance within a specific industry or geographic region.

In summary, audits for Section 125 plan documents can be triggered by various factors, including complaints or allegations, regulatory initiatives, noncompliance red flags, plan size and complexity, employee disputes, previous noncompliance, and random selection. Employers should prioritize compliance with Section 125 plan regulations and promptly address any issues to reduce the risk of audits and penalties.