

# Section 125 Employer Quick Guide

## Everything You Need to Know About Pre-Tax Benefits

### What Is Section 125?

Section 125 is a pre-tax benefits plan that allows employees to pay for eligible benefits with pre-tax dollars, reducing both their taxable income and employer payroll taxes. It's a win-win that saves money for both employers and employees while helping workers afford critical benefits.

### What Can Be Included

- Health insurance premiums (medical, dental, vision)
- Dependent Care Flexible Spending Account (DCFSA) contributions
- Health Savings Account (HSA) contributions
- Flexible Spending Account (FSA) contributions

### How It Works

Step 1	Step 2	Step 3
Establish a Section 125 plan document with outside counsel	Employees elect benefits during open enrollment period	Premiums deducted from paychecks pre-tax

### Who Saves?

Employer Savings	Employee Savings
Save 7.65% FICA on every pre-tax dollar	Save FICA + income tax (20-40% total)

# Savings by Company Size

Annual employer FICA savings (assumes average \$10,000 annual benefits per employee):

Company Size	10 Employees	25 Employees	50 Employees	100 Employees
Annual Employer Savings	\$4,590	\$11,475	\$22,950	\$45,900

## Getting Started Checklist

1. Get a Section 125 plan document from a Third Party Administrator (TPA)
2. Configure pre-tax deductions in your payroll system
3. Communicate benefits eligibility and savings to employees
4. Run first payroll cycle with pre-tax deductions in place
5. Complete annual nondiscrimination testing (required by IRS)

## Common Payroll Systems That Support Section 125

ADP • Paychex • Gusto • Rippling • QuickBooks • Workday • BambooHR

**Ready to get started? Section 125 plans typically pay for themselves through employer savings in just a few months.**