

WHAT IS IT?

Full flex cafeteria plans offer employees a choice between cash and qualified benefits and are regulated by Section 125 of the Internal Revenue Code (IRC).

In a full flex cafeteria plan, the employer contributes a defined amount to the plan (commonly called credits) from which the employee can purchase benefits from a menu of options. If the employer contributions exceed the employee's benefit elections, the excess cash can be converted to a taxable cash benefit on a dollar for dollar or discounted basis for the employee, less any applicable taxes. If the flex dollars do not cover the entire cost of the employee's benefit choices, the employee is permitted to pay for the difference with pre-tax salary reductions (for qualified benefits only).

While the passage of the Patient Protection and Affordability Care Act (PPACA) does not directly impact Section 125 plans, some employers may have to alter their Flex plan designs to comply with the non-discrimination rules under the legislation.

WHY OFFER IT?

Full flex benefits can satisfy the needs of a diverse group of employees by allowing them to control their benefit elections. Furthermore, the defined contribution approach of a full flex plan allows an employer to more accurately predict benefit costs. Employers can strategically price plans to influence benefit elections. For instance, properly structured credits can encourage employees who otherwise don't need coverage to opt-out of one or more plans and reduce employer premium expenses.

WHAT TYPES OF EMPLOYERS OFFER IT?

Any type of employer can sponsor a full flex cafeteria plan. Typically only larger employers (1,000+) offer full flex due to the possibility of adverse selection and increased administration and communication. This type of plan is more prevalent in environments geared towards consumer-driven health plans and among employers trying to meet the needs of a diverse group of employees while simultaneously budgeting their benefit dollars.

WHAT ARE THE CRITICAL UNDERWRITING OR PARTICIPATION REQUIREMENTS?

A Full Flex cafeteria plan must meet the following items:

- Must meet the IRC rules governing cafeteria plans
- Plan must include two or more benefits which include at least one cash and one qualified non-taxable benefit.
- Employer must have sufficient enrollment in various benefit plans to ensure stability of premium costs.

INFORMATIONAL LINK(S)

- [The Benefits of Cafeteria Plans](#) (Entrepreneur.com)
- [The New Proposed Cafeteria Plan Rules](#) (Thompson HR Special Reports)

PROS AND CONS

PROS

- Enhances cost control and efficiency by giving employees a choice along with cost responsibility.
- Allows employees to customize their benefit program based on their individual needs.
- Proper plan communication can educate employees on the value of their benefits.
- By offering more flexible cafeteria-type benefits, employers gain an edge in attracting and retaining valuable employees.
- Giving employees control over their benefits promotes goodwill and creates a partnership in the benefit program between employer and employee.

CONS

- Complexity of plan increases communication and administration efforts.
- Possibility of adverse selection, which may increase overall cost of benefit plans.

NOTES

- **Benefits permitted in a Full Flex Cafeteria Plan:** accident and health insurance premiums, out-of-pocket medical expenses, dependent care expenses, group term life insurance premiums (excluding amounts exceeding \$50,000 and dependent life), elective vacation days, Health Savings Account contributions (excluding amounts exceeding \$3,050 per individual and \$6,150 per family), 401(k) salary deferrals, taxable cash, and adoption assistance.
- **Benefits not permitted in a Full Flex Cafeteria Plan:** long-term care, medical savings accounts, educational assistance, dependent group term life, coverage for domestic partners who are not federal tax dependents, and any insurance policy that provides a return of premium or paid up option.



This Fact Sheet is designed to provide a general overview of the benefit program, service, or regulatory act it describes. The information included in this document is not a substitute for legal or professional opinion relative to a plan sponsor's particular fact pattern. Your ArlenGroup consultant can answer more specific questions relative to its application for your organization.