



Reminder

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Section 125 plans (Cafeteria Plans) and IMRF Earnings

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What is a cafeteria plan?

A cafeteria plan is an employer-sponsored program authorized by Section 125 of the Internal Revenue Code. Cafeteria plans are known by many different names, including flexible spending accounts. Under a cafeteria plan, employees may design their own benefit package by choosing among employer-provided benefits that consist of cash and other qualified benefits.

What is reported as IMRF earnings?

Governing body action determines if the earnings used to pay for the cafeteria plan benefits are subject to IMRF contributions. If the governing body has:

- **Not passed** the resolution (IMRF Form 6.72), the earnings used to pay for the non-taxable cafeteria plan benefits are deducted from the member's gross earnings and are **not subject** to IMRF contributions.

For example, a member earns \$1,000 a month and places \$100 in a cafeteria plan to purchase health insurance. You tax the member on \$900 and withhold IMRF contributions on \$900. Report \$900 as IMRF wages.

- **Passed** the resolution, the earnings used for health insurance or other qualified benefits **are reportable** as IMRF wages.

For example, a member earns \$1,000 a month and places \$100 in a cafeteria plan to purchase health insurance. You tax the member on \$900 but withhold IMRF contributions on the entire \$1,000. Report \$1,000 as IMRF wages. **Note:** *You can check if your employer has adopted this resolution through your Employer Access account at www.imrf.org.*

In both cases, if the member declines to participate in the cafeteria plan, the amount the member would have paid for the cafeteria plan benefits is now treated as cash compensation on the member's paycheck, and is subject to federal, state, and Social Security taxes, as well as IMRF contributions.

Impact on a member's benefits

If the governing body has not passed the resolution and the wages reported to IMRF are reduced by cafeteria plan deductions, these reduced IMRF wages may have a large impact. The amount of a member's IMRF benefits is based on his or her reported wages. Therefore, a decrease in wages subject to IMRF contributions could decrease the amount of IMRF benefits paid.

For more information

For more information, refer to General Memo 367, "IMRF Earnings and Section 125 plans," August 3, 1992, available at www.imrf.org or call 1-800-ASK-IMRF (1-800-275-4673).