

# Flexible Benefits

## Premium Only Plan

### Enhances your benefits

Wouldn't you like to make your benefits more affordable? You can with a premium only plan (often referred to as POP), and it's available through your employer.

Premium only plans are made possible by Internal Revenue Code Section 125. The United States Congress created Code Section 125 to make benefits more affordable for you.

### How it works

If you participate, you may choose qualified insurance coverages and pay the premiums with pretax dollars. These pretax dollars are subtracted from your gross earnings before taxes are taken out. Thus, when you pay qualified insurance premiums before taxes, you lower your taxable income.

#### For example...

### *John's Status*

John is married and has two children. His bimonthly salary is \$1000. He currently pays \$180 per pay period to cover his family under a major medical plan.

With a premium only plan, John can pay his major medical premium before taxes are taken out. Take a look below for a comparison of his paycheck with and without a premium only plan.

John reduced his pretax income by paying his premiums before taxes were deducted from his paycheck. Because John's taxable income is less, his taxes are lower—\$156.30 instead of \$202.02. Each paycheck, John's spendable income increases by \$45.72. By the end of the plan year, John's spendable income increased by \$1,097.28.

	Without Premium Only Plan	With Premium Only Plan
Gross pay	\$1000.00	\$1000.00
Pretax reduction (major medical ins.)	-0-	- 180.00
Taxable Income	1000.00	820.00
FICA, fed. & state taxes	- 202.02	-156.30
Net pay	797.98	663.70
Post tax deduction (major medical)	- 180.00	-0-
Spendable income	\$617.98	\$663.70

#### With a premium only plan:

- Your benefits are more affordable.
- Your spendable income increases.
- You pay less in taxes.

## Once enrolled, can I make a change?

To comply with IRS requirements, you may make a change in your election only at the beginning of each plan year. Cafeteria plan regulations have a process for determining if a participant is allowed to make a change in election during the plan year. The two-step process is:

- 1) A change in status must have occurred. A change in status has occurred if the event falls into one of the categories below:
  - Legal marital status
  - Number of dependents
  - Employment status
  - Dependent satisfies (or ceases to satisfy) eligibility requirements
  - Change of residence
- 2) The participant's election change must be consistent with the status change event. To be consistent, a requested change must be on account of and correspond with the change in status that affects eligibility for coverage under an employer-sponsored plan.

## Understand your choices

With this program, you have choices and opportunities you never had before, so it's important to understand these choices as completely as possible. Reading this newsletter is the first step. Attending a one-to-one meeting is the next step.

During an individual one-to-one meeting, your Colonial Life benefits representative will answer questions and estimate tax savings you could achieve by using a premium only plan. After enrolling, you will receive a confirmation of your decisions.

## Adding additional benefits

During enrollment, you can take advantage of your increased spendable income and add more supplemental benefits that meet your needs. Many of Colonial Life's coverages qualify for your employer's premium only plan.

For example, if John chooses to purchase Colonial Life coverage in addition to his major medical plan, these samples show how it would affect his spendable income.

## Premium Only Plan Illustration

**Employee status: Married, two federal/state exemptions**

**Bimonthly salary: \$1000**

**Qualified benefit expenses: Major Medical/\$180,  
Colonial Life coverage/\$21.56**

POP, Major Med	
Gross pay	\$1000.00
Major Med pretax reduction	- 180.00
Taxable income	820.00
FICA, federal, & state taxes	- 156.30
<b>Spendable income</b>	<b>\$663.70</b>

POP, Major Med. & Colonial Life Coverage	
Gross pay	\$1000.00
Major Med + Colonial Life cov. pretax reduction	- 201.56
Taxable gross	788.44
FICA, federal, & state taxes	- 150.98
<b>Spendable income</b>	<b>\$647.46</b>

The premium for the Colonial Life coverage is \$21.56. However, because the Colonial Life premiums are pretaxed under the premium only plan, John has tax savings of \$5.32 and his spendable income is reduced by only \$16.24. With a premium only plan, John's benefits are more affordable.

## Will this impact Social Security benefits?

The Social Security benefit is based on total wages accumulated during your lifetime, and the government's formula used to calculate these benefits is always subject to change. Any reduction in your taxable pay may also lead to a reduction in your Social Security benefits; however, for most employees, the reduction in Social Security benefits is insignificant compared to the value of paying lower taxes today.

## Free-Look Provision

According to state regulations, you have a certain number of days after receiving your policy to cancel it. This is known as the free-look provision. The number of days varies from state to state, but is typically 30 days. It's important to know this because if you cancel your coverage after the effective date of the flexible benefits plan, the IRS may not allow your employer to stop payroll deductions. All requests for cancellation of pretaxed coverage must be made to your employer.

## The next step

During enrollment, your Colonial Life benefits representative will explain how a premium only plan can work for you. Then you will sign an election form indicating your decision whether or not to participate. When the plan year begins, your paycheck will reflect your participation in the plan.

Take the time to meet with your Colonial Life benefits representative and discover how a Premium Only Plan can help you!