



Municipal Government Town of Dracut

OFFICE OF THE TREASURER
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ANN M. VANDAL
ASSISTANT TOWN MANAGER
FINANCE DIRECTOR

COLLEEN I. MERRILL
ASSISTANT TREASURER

DATE:

TO: Eligible Employees

FROM: Ann Vandal
Assistant Town Manager/Finance Director

RE: Section 125 Cafeteria Plan Participation

As you know the Town of Dracut offers a premium only Section 125 Plan. This will enable you to have your premium contributions for group health, life, dental and cancer insurance plans deducted from your pay on a pre-tax basis, thereby decreasing your Federal and State withholding taxes.

Should you choose to participate, your gross wages for Social Security purposes will be reduced. However, because all of our pension benefit eligible employees are not paying the 6.2% FICA withholding taxes, participation in the Section 125 Plan will have little or no consequences in this regard. Should you choose to participate, you may not take your premium contributions into account when itemizing health insurance costs on your federal tax return (Schedule A).

Please complete either the "Election to Participate" or "Election NOT to Participate" and return it to the Treasurer's office by Friday, December 18, 2015, the plan begins January 1, 2016.

MAKE THE MOST OF YOUR PAYCHECK

**"It's not what you earn
It's what you keep that counts"**

The Section 125 program is a tremendous opportunity for you to enhance your benefits package. Your employer knows that this is a highly beneficial program and wants you to have the opportunity to participate in a Section 125 program.

That's why your employer has asked Cafeteria Plan Advisors, Inc., a leader in the implementation of Section 125 programs, to implement this program.

When you use pre-tax dollars, you will reduce your taxable income and have fewer taxes taken out of your paycheck. Under a Section 125 program, you can actually have more spendable income.

Your employer wants you to fully understand the advantages of your Section 125 program. Following are the most frequently asked questions about Section 125. This information will help you better understand how you can make better use of your paycheck.

What is Section 125?

Section 125 is part of the Internal Revenue Code that allows employees to convert a taxable cash benefit (salary) into non-taxable benefits. Under a Section 125 program, or Flexible Benefits Plan, you may choose to pay qualified benefit premiums before any taxes are deducted from your paycheck.

Is Section 125 legal?

Yes. Even though Section 125 may sound "too good to be true", the program is legal and beneficial. The United States Congress created Code Section 125 in an effort to make benefit programs more affordable for employees. Code Section 125 was established in the Revenue Act of 1978.

What are pre-tax dollars?

Pre-tax dollars are the premiums you pay for qualified benefits under your Section 125 program. These premiums are deducted from your gross earnings — before taxes are taken out.

How can Section 125 work for me?

Your Section 125 program can make your benefits plan more affordable. You can pay for your qualified benefits with pre-tax dollars. By paying for qualified benefits before you pay taxes, you actually lower your taxable income, which means you pay less taxes. Paying less taxes usually results in more spendable income. When you take advantage of your Section 125 program, you will actually get "more for your money".

Can I enroll in a Section 125 program whenever I want to?

Your employers Section 125 plan is an annual plan. You must enroll in the Section 125 plan during the eligible enrollment period or during the plan year if you experience a qualifying event or change in family status.

What do I do to participate?

If you decide to enroll in the plan, you will simply need to sign the election form to indicate your participation. At the beginning of the plan year, your paycheck will indicate that the Section 125 program has gone into effect.

Do I have to participate?

No. You are under no obligation to participate in a Section 125 program. However, you are required to sign an election form to indicate your choice.

Who is offering me this plan?

Your employer is offering this Section 125 program and has endorsed it to provide you with an enhanced employee benefits package.

The Section 125 Program is a positive step toward making your benefits package more affordable. Your employer offers this program and recommends that you take advantage of this opportunity to make the most of your paycheck.

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PREMIUM ONLY PLAN

**AUTHORIZATION FOR CAFETERIA PLAN
PAYROLL REDUCTION**

EMPLOYER: _____ PLAN YEAR: _____

EMPLOYEE: _____ SS#: _____ - _____ - _____

ADDRESS: _____ CITY: _____

STATE: _____ ZIP: _____ EMAIL ADDRESS: _____

PHONE: (____) _____ ANNUAL SALARY: \$ _____

D.O.B. ____/____/____ D.O. HIRE: ____/____/____

PAY CYCLE: (Circle One) Weekly (52) Bi-Weekly (26) Semi-Monthly (24) Monthly (12) Other: _____

PRE-TAX PREMIUMS:

Medical _____ Dental _____ Other _____

I hereby authorize a salary reduction for the amounts shown above. I understand that this election CANNOT BE REVOKED during the plan year unless there is a qualifying event.

PARTICIPANT'S SIGNATURE: _____ DATE: _____

The Cafeteria Plan under Section 125 has been offered to me and I understand its benefits. I decline to participate at this time.

DECLINATION SIGNATURE: _____ DATE: _____