

Section 125 Plan Annual Certification



Employer ID: _____

Employer Name: _____

Certification Period: January 1 to December 31, _____

Effective January 1, 2017, IPERS-covered employers that offer elective *employer* contributions to Section 125 plans whereby some of the contributions may be received by their employees as cash, must certify annually that certain conditions are met in compliance with IPERS administrative rules and the Internal Revenue Code. Only employer contributions to fringe benefit programs that meet the requirements for coverage in Iowa Code 97B and qualify under Internal Revenue Code (IRC) Section 125 may be treated as IPERS-covered wages.

According to the IRS, a qualified Section 125 plan must be written and offer at least one permitted taxable benefit and at least one qualified benefit. Your plan must include **all** of the following:

- Description of benefits available
- Plan rules governing participation
- Requirement that participants be employees
- Procedures governing employees' elections, including periods that elections may be made; and periods during which elections are effective, provided that elections are irrevocable
- The manner in which contributions may be made (for example, through salary reductions)
- Maximum amount of employer contributions available through the plan
- Plan year
- If paid time off, required ordering rules for non-elective and elective paid time off
- If flexible spending arrangements, provisions for complying with requirements
- If grace period, provisions for complying
- If distributions from health Flexible Spending Arrangements to employees' Health Savings Accounts, provisions for complying

I have legal and binding authority for the employer named above and I am authorized to complete this form. I certify that this employer is making employer contributions to a qualified plan under IRC Section 125. I acknowledge my organization's failure to comply with Iowa Code § 97B.58 and/or Iowa Administrative Code 495 relieves IPERS of all liability to any member or beneficiary.

Authorized signature: _____ Date: _____

Your name: _____ Title: _____

Phone: _____ Email: _____

Please sign and return to IPERS by December 31.

EMAIL: employerrelations@ipers.org FAX: 515-281-0053

MAIL: IPERS, P.O. Box 9117, Des Moines, IA 50306-9117

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A Q & A for Employers

What is a cafeteria plan?

According to the Internal Revenue Service, a cafeteria plan is a separate written plan maintained by an employer for employees that meets the specific requirements and regulations of Section 125 of the Internal Revenue Code.

Why does IPERS require employers to certify their Section 125 plans?

Effective January 1, 2017, employers, not IPERS, are responsible to certify that their Section 125 plan complies with all requirements in IRC Section 125. Elective employer contributions to certified Section 125 plans are eligible for IPERS coverage if they meet the requirements listed in Iowa Code 97B. If the plan is not certified as a Section 125 plan, the contributions to it cannot be covered under IPERS.

How does Iowa Code (IC) 97B apply?

IC 97B lists additional requirements that must be met in order for Section 125 plan employer contributions to be IPERS-covered. The employer contributions must be uniformly available. IC 97B.1A(26)“a”(1)“b” states that elective employer contributions shall be treated as covered wages only if made uniformly available and not limited to highly compensated employees.

How do we determine if our Section 125 plan is qualified?

Check with your CPA, tax advisor or legal counsel to determine whether your plan meets the definition of a Section 125 plan. Review the qualifications listed on the certification form.

What if we don't have a qualified plan?

If you do not have a Section 125 plan, there is no need to certify with IPERS. In this case, employer cash payments paid to members in lieu of benefits (outside of regular wages), will not be considered as IPERS-covered wages.

When is the form due?

The annual certification must be submitted by December 31 each year. If plan certification is not provided, wage adjustments may be necessary.

Uniform treatment example

An organization has two types of employees covered under its Section 125 plan – teaching staff and support staff. The two groups have different collective bargaining agreements, so the benefit allowances are \$3,000 for teaching staff, and \$2,500 for support staff. Both groups are still required to purchase, at a minimum, single employee medical coverage for \$1,000.

For the teachers, \$2,000 of the allowance is IPERS-covered (the \$3,000 allowance minus the mandatory medical coverage costing \$1,000). For the support staff, \$1,500 is IPERS-covered (the \$2,500 allowance minus the mandatory medical coverage costing \$1,000).

For teaching staff:

\$3,000	benefit allowance
<u>- 1,000</u>	mandatory medical coverage
\$2,000	IPERS-covered amount

For support staff:

\$2,500	benefit allowance
<u>- 1,000</u>	mandatory medical coverage
\$1,500	IPERS-covered amount

A variation in covered wages is permitted when the reason for it is consistently applied to all members of each employee group. Thus, in this case, you would report different IPERS-covered amounts for the members of the two groups.

Proceed with caution

The rules governing Section 125 plans are complex. If you are unsure which wages should be covered, submit your plan documents to IPERS for review.

For more information, visit

<https://www.ipers.org/employers/section-125-plan-certification>.