



Northwest Marketing Resources, Inc.

PREMIUM ONLY PLAN

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LOWER TAXES IS JUST ONE ADVANTAGE

One of the best ways to save taxes

IRS-sanctioned Premium Only Plans were created by the Revenue Act of 1978 and are governed by Internal Revenue Code Section 125. With a POP:

- Employees don't pay FICA, federal, or where applicable, state or local taxes on money used to pay for their portion of employer-sponsored insurance premiums.
- Employees' tax savings help defray the cost of insurance premiums.
- Employees can increase their take-home pay.
- Your taxable payroll is reduced by the total amount of employee contributions for benefits. Lower taxable payroll means lower payroll taxes.
- You can allow employees to realize an increase in pay and take credit for a terrific new benefit, while still saving money.
- You can increase your employees' share of insurance premiums without negatively affecting their take-home pay.

If you are not requiring employees to contribute to the cost of their insurance, a Section 125 Premium Only Plan allows you to do so with the least impact on employee salaries.

Any employer can sponsor a Premium Only Plan

Regular corporations, partnerships, S Corporations, Limited Liability Companies (LLCs), Sole Proprietors, Professional Corporations, and Not-For-Profits can all save money on payroll taxes by establishing a Premium Only Plan. While regulations prohibit a sole proprietor, partner, members of an LLC (in most cases), or individuals owning more than 2% of an S Corporation from participation in the POP, they may still sponsor a plan and benefit from the savings on payroll taxes.

Begin saving money on taxes any time

You can start a Premium Only Plan at any time. Plus, you can have a short plan year for the first year so that future plan years coincide with either your fiscal year or the calendar year. The choice is yours.

Typically, your first-year tax savings with a plan will far exceed the suggested retail price

ONE SIMPLE CHANGE IN THE PAYROLL PROCESS REDUCES YOUR TAXES

The Premium Only Plan lets you cut payroll taxes without cutting your payroll.

The Section 125 Premium Only Plan (POP) saves you and your employees money by reducing payroll taxes. It works by making one simple adjustment in your payroll process: Employees pay their portion of insurance premiums on a pre-tax basis rather

than on an after-tax basis.

The Premium Only Plan reduces your taxable payroll by reducing your employees' taxable income. So, both you and your employees pay less taxes.

Northwest Marketing Resources

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TAX-SAVINGS EXAMPLES

Example of Employer Savings

Company XYZ has 10 Employees

	Without POP	With POP
Annual Payroll	\$300,000	\$300,000
Annual pre-tax payroll deductions ¹	0	-24,000
Taxable payroll	300,000	276,000
Annual social security tax ²	\$22,950	\$21,114
Total annual employer social security tax savings	0	\$1,836

Example of Employee Savings

John Doe: Single, No Exemptions

	Without POP	With POP
Annual salary	\$30,000	\$30,000
Annual pre-tax contributions ³	0	-2,400
Taxable income	\$30,000	\$27,600
Estimated Taxes (30.65%) ⁴	-9,195	-8,460
Annual after-tax contributions	-2,400	0
Net take-home pay	\$18,405	\$19,140
Increase in take-home pay	0	\$735

Total Employer & Employee Annual Savings **\$9,186**

(for a business with 10 employees as illustrated above)

¹Based on insurance premiums averaging \$200 per month per employee.

²Based on tax rate of 7.65%.

³Based on a monthly premium of \$200.

⁴Based on an average 20% federal, 7.65% FICA, and 3% state tax rates.

Note: Social security benefits could be affected.

Calculate Your Tax Savings

Employer Estimated Tax Savings

Total annual payroll deductions for all employees		\$ _____
Social security tax (based on tax rate of 7.65%)	x	.0765
Total annual employer savings		\$ _____

Employee Estimated Tax Savings

Total annual employee premium contributions		\$ _____
Estimated taxes (based on 20% federal, 7.65% FICA, and 3% state tax rates*)	x	.3065
Total annual savings per employee		\$ _____

*varies by state.

Note: Actual savings may vary depending upon specific tax situation.

THE POP IS EASY TO IMPLEMENT

Plan Installation Services

The Premium Only Plan can more than pay for itself. The program is convenient because our service takes care of the paperwork for you. When you enroll for the service, you'll receive a signature-ready, customized POP Plan Installation Kit containing:

- Plan Adoption Agreement
- Plan Document
- Summary Plan Description
- Certificate of Resolution
- Election Forms
- Instructions on signing documents and distributing forms to employees.
- Instruction for maintaining your plan.
- Simplified explanation of payroll adjustments

Annual Compliance Service

Once your plan is established, you will receive complete administrative support services from NMR. We pride ourselves on our prompt and friendly service. Annual Compliance Services include:

- Updated documentation, required for keeping your plan in compliance with IRS regulation changes.
- Prior to each new plan year, you will receive an Annual Compliance Packet. The packet will include re-enrollment materials and "signature-ready" plan documents, forms, and procedures.
- Free assistance with discrimination testing (upon request).
- Continued access to NMR's POP Compliance Support Unit by phone: 800.565.0313, or by e-mail EzFlexPlan@northwestmarketingresources.com.

WILL A PREMIUM ONLY PLAN BENEFIT YOU?

Take the following Section 125 checkup to find out.

Should we participate in the Section 125 POP Plan?

	Yes	No
1 Do you currently deduct your employee's portion of qualified health insurance premiums on a pre-tax basis through a Section 125 plan?	<input type="checkbox"/>	<input type="checkbox"/>
2 Do your employees contribute toward the cost of the company's major medical insurance or other health, dental, or vision insurance?	<input type="checkbox"/>	<input type="checkbox"/>
3 Is your business a partnership, limited liability company (LLC), sole proprietorship, or S corporation?	<input type="checkbox"/>	<input type="checkbox"/>

- *If you answered "yes" to question 1, skip to part two of this checkup to analyze your compliance quotient.*
- *If you answered "yes" to question 2, you and your employees may benefit from implementing a Section 125 plan. You could save on payroll taxes, such as FICA, and your employees could save on federal income tax, FICA tax, or (where applicable) state or local income taxes. If you answered "no", you probably don't need a Section 125 plan at this time. However, consider implementing a plan later.*
- *If you answered "yes" to question 3, the owner, partners, members of an LLC, or greater than 2% shareholders (of an S corporation) cannot participate in the plan. However, you may still implement a Section 125 plan for your employees. If you answered "no", all employee may participate in the plan.*

My company has a Section 125 Plan.

Should we consider this program?

	Yes	No
1 Do you have a written plan document in your files?	<input type="checkbox"/>	<input type="checkbox"/>
2 Have you properly amended your plan to reflect any changes that you made to the plan year, eligibility requirements, benefits, or IRS regulations?*	<input type="checkbox"/>	<input type="checkbox"/>
<i>*There have been changes in IRS regulation in 1997 and 1999, 2001, and 2002.</i>		
3 Have your employees received a copy of the current Summary Plan Description?	<input type="checkbox"/>	<input type="checkbox"/>
4 Is the total of all benefits for key employees in the plan no more than 25% of the total of all benefits in the plan?	<input type="checkbox"/>	<input type="checkbox"/>
5 Do you have current signed election/enrollment forms on file for all eligible employees?	<input type="checkbox"/>	<input type="checkbox"/>
6 Do you require all election changes to be made only during the open enrollment period each year unless the employee has experienced a valid change in status as outlined in the latest Section 125 regulations?	<input type="checkbox"/>	<input type="checkbox"/>
7 As your new employees become eligible for participation in the plan, do you require that they complete election/enrollment forms?	<input type="checkbox"/>	<input type="checkbox"/>
8 Do you have documentation on file to support annual nondiscrimination requirements?	<input type="checkbox"/>	<input type="checkbox"/>
9 Are the premiums for all policies that include a "cash value" or a "return of premium" benefit deducted on an after-tax basis outside of the Section 125 plan?	<input type="checkbox"/>	<input type="checkbox"/>

NOTE: *If you answered "no" to any of these questions, your plan may be out of compliance. The Internal Revenue Code provides for significant penalties for failure to comply with these requirements. The severity of penalties depends on the severity of the infractions. You may want to consult with your tax professional and/or NMR regarding your noncompliance risk.*

NMR Premium Only Plan Application

If you require assistance completing this form, call 800.565.0313

1. Legal Name of Company Sponsoring Plan: _____
2. Business Entity Type: C Corporation Sole Proprietorship Partnership
 S Corporation Limited Liability Company Not-For-Profit
3. Principal Business Activity: _____
4. Federal Employer Identification Number (Must be 9 digits): _____ - _____
5. Contact Person: _____ Title: _____
6. Physical Address _____ Mailing Address (if different) _____
City, State, Zip: _____, _____ City, State, Zip: _____, _____
7. Phone: _____ Fax: _____ E-mail: _____
8. Effective Date—This Premium Only Plan (POP) will be:
- a. A new plan effective as of (date) _____
- b. An amendment and restatement of a previously established Section 125 plan of the employer.
(1) This amendment and restatement is effective as of (date) _____
(2) State the effective date of the original plan _____
9. Plan Year—The first plan year for this POP will be:
- a. A 12-consecutive-month period beginning (date) _____ and ending (date) _____
- b. A short plan year beginning (date) _____ and ending (date) _____
10. Employer's Principal Office—This POP shall be governed under the laws of the:
State of _____ Commonwealth of: _____
11. Benefits—The benefits selected below shall be included in the POP:
- | | | | |
|---|--|---|---|
| <input type="checkbox"/> Health | <input type="checkbox"/> Cancer | <input type="checkbox"/> Dental | <input type="checkbox"/> Group term life insurance ¹ |
| <input type="checkbox"/> Disability insurance ² | <input type="checkbox"/> Vision care insurance | <input type="checkbox"/> Critical illness insurance | <input type="checkbox"/> HSA Contributions |
| <input type="checkbox"/> Accidental death/dismemberment insurance | <input type="checkbox"/> Other (specify) _____ | | |
- ¹ Group-term life insurance up to \$50,000 coverage.
² If disability insurance is paid for on a pre-tax basis, any benefits received are taxable to the employee. Under most circumstances, it is recommended that disability insurance not be included in the plan. Note: Insurance products with a return-or-premium feature cannot be paid for on a pre-tax basis.

12. Plan Administrator Signature: _____ Date: _____

*This should be the employer or its designee. NMR, Inc. will provide administrative services, but will not be the Plan Administrator.

13. Legal Name(s) and addresses of Affiliated Company(ies) that will be Covered by this Plan: _____
14. If you have an HSA Plan, is the employer doing a Match contribution to the HSA Savings Account Yes No (additional \$50.00 setup fee)
If yes, what is the policy? "Employer will match employees contributions to a monthly maximum of \$_____. per month."
15. Total Number of Employees: _____, Total Eligible Employees _____.
16. Employee Eligibility matches medical? Yes No If No, What is eligibility? _____

Pricing Information

17. Installation fee for the New Plan Set-Up and Restatement \$200.
18. If the employer is matching HSA contributions, the Initial Setup Fee will be \$250.00.
19. Annual Compliance Service fee: NMR Bills \$100 at the end of the plan year.

Payment

20. Check enclosed for \$ _____ (payable to Northwest Marketing Resources, Inc.)

Agent Information

Agent Name _____ Agency/Company _____
Address (No PO Boxes): _____
City, State, Zip: _____
Phone _____ Fax: _____
E-Mail: _____

For NMR Use Only

Client#: _____
Rep#: _____
Source: _____

FAX this completed form to NMR: 360.754.1931 then mail w/ payment.

PO Box 447, Olympia, WA 98507 ~ 800.565.0313