



# Section 125 Plan Services

## Welcome Package Booklet

Welcome and thank you for choosing Paychex to assist with your company's Section 125 plan. Enclosed you will find legal documents that we provide as part of the Section 125 plan service, as well as the initial Section 125 Compliance Test. Please review the contents of this package and take action on the items that are noted with a check box (☐).



## Package Contents

### Adoption Agreement

The Adoption Agreement is executed by the employer and formally adopts the Paychex Section 125 Plan.

- Review and sign the agreement
- Retain with your company records  
*(Please do not return to Paychex)*

### Summary Plan Description

The Summary Plan Description provides participants with an outline of the benefits, plan effective dates, and eligibility requirements of the employer-sponsored Section 125 plan. It is required under the Employee Retirement

Income Security Act (ERISA) for certain benefits offered under the plan.

- Review the Summary Plan Description
- Retain a copy with your company records  
*(Please do not return to Paychex)*
- Copy and distribute to your plan participants **within 90 days** of the plan effective date

### Employee Deduction Report

The Employee Deduction Report lists all employees enrolled in your plan as of the date the report was generated, which can be found in the lower left corner of the report. Please verify that the section titled "Contributions Per Pay," detailing pretax, post tax, and employer contributions, is accurate.

**Note: Premium Only deductions may not appear on the report until after the first payroll is processed.**

### Employee Account Balance Report

*(Note: Included only for Flexible Spending Account (FSA) plans.)*

The Employee Account Balance Report is specific to your FSA and details your employees' annual elections for unreimbursed medical expenses and/or dependent care as of the date the report was run, which can be found in the lower left corner of the report.

### HIPAA Business Associate Agreement

*(Note: Included only for Flexible Spending Account (FSA) plans.)*

The HIPAA Privacy and Security rules require implementation of security standards to protect and ensure the privacy and confidentiality of individually identifiable health care information. This means plans must ensure the confidentiality, integrity, and availability of all protected health information (PHI), including electronic PHI, that they create, receive, maintain or transmit; protect against any reasonably anticipated threats of security or integrity of electronic PHI; protect against any reasonably anticipated uses or disclosures of electronic PHI that are not permitted or required by the HIPAA Privacy Rule; and ensure compliance with the HIPAA Security Rule.

As a business associate of your employer-sponsored health FSA plan, Paychex is also required to adhere to HIPAA Privacy and Security rules. We have enclosed a copy of the HIPAA Business Associate Agreement for your health FSA. This agreement is designed to assure you that Paychex has the proper processes in place for securing participants' PHI in accordance with the regulations.

- Review the agreement and sign and date the Employer/ Plan Sponsor section
- Retain with your company records  
*(Please do not return to Paychex)*



## Section 125 Plan Compliance Test

The Section 125 Plan Compliance Test calculates the total pretax dollars being withheld for your company's Section 125 plan to ensure the plan does not discriminate in favor of key employees, highly compensated employees (HCEs), or owners. The IRS requires that your plan be tested each year and that appropriate changes are made to put the plan into compliance by the end of the plan year (for Paychex plans, December 31). On a semiannual basis, Paychex provides your company with your Section 125 test results. You then have the opportunity to review the results and make changes to pretax contributions of the key employees, HCEs, or owners to put the plan into compliance. Once a compliance adjustment is made to lower the pretax contribution amounts to the plan (and annual elections, if applicable, for a Flexible Spending Account), it cannot be increased until the following year. Changes to the contributions of other employees are not allowed unless they experience a qualifying event. For a complete list of qualifying events, please go to [www.paychexflex.com](http://www.paychexflex.com).

The enclosed test results are a projection of what the total contributions will be at the end of the year, based on current per pay period deductions. Changes in employee status or contributions throughout the year may change the test results. An additional compliance test will be run after your first payroll is processed. If the plan is out of compliance at that time, a representative from Paychex will contact you to review the test results and provide you with options for putting the test into compliance.

## Understanding Employee Classifications

An employee is considered to be a key employee, HCE, or owner when he meets one or more of the respective criteria listed in this table. To ensure accurate test results, be sure your employees are classified correctly on the enclosed test.

Key Employee	Highly Compensated Employee (HCE)	Owner
<b>5% Stockholder/Owner</b> - All employee who owns, directly or indirectly, greater than 5% of the stock, capital, or profits of the company (previous year).	<b>5% Stockholder/Owner</b> – Any employee who owns, directly or indirectly, more than 5% of the stock, capital, or profits of the company (prior or current year).	<b>5% Stockholder/Owner</b> – Any employee who owns, directly or indirectly, greater than 5% of the stock, capital, or profits of the company (current year only).
<b>1% Owner</b> - Any employee who owns, directly or indirectly, more than 1% of the stock, capital, or profits of the company and earned greater than \$150,000 annually (previous year).	<b>Employee Who Earns More than \$130,000</b> - All employees who earn more than \$130,000 in the prior year and was in the top 20% paid group (if plan elects this clause).	
<b>Officer</b> - Any employee who has the authority of an administrative executive and earned more than \$185,000 in the prior year. The number of officers that will be classified as Key is limited to the great of 10% of all employees or three, and not to exceed 50 (previous year).	<b>Officer</b> - Any employee who has the authority of an administrative executive (previous year).	
<b>Family Member</b> - Spouses, children, parents, and grandparents of shareholders (noted above) employed by the company (previous year).	<b>Family Member</b> – Spouses and dependents of HCEs (within the meaning of Section 152) who are employed by the company (previous year).	<b>Family Member</b> – Spouses and dependents of shareholders who are employed by the company (current year).



HR | Payroll | Benefits | Insurance

[www.paychexflex.com](http://www.paychexflex.com)

**Paychex Employee Services**

**877-244-1771**