

Paying for your premiums and contributions with pretax dollars

If you're an eligible state agency and higher-education institution employee, Internal Revenue Service Code Section 125 allows your employer to deduct certain expenses from your paycheck before calculating payroll taxes and your income tax. These expenses include:

- Monthly premiums for your medical coverage.
- Contributions to your flexible spending account (FSA) and Dependent Care Assistance Program (DCAP) offered to eligible state and higher-education employees, or a health savings account (HSA) offered through the Public Employees Benefits Board (PEBB) Program. You can find more information about these benefits at the [ASIFlex website](#) and the [HealthEquity](#) website.

If you are not a state agency or higher-education institution employee, ask your employer's personnel, payroll, or benefits office if they offer these benefits.

Why should I pay my monthly health premiums with pretax dollars?

You take home more money because taxes are calculated *after* the premium and any contributions are deducted. This reduces your taxable income, which lowers your taxes and saves you money.

Do I need to complete a form to have my medical premiums withheld pretax?

No. If you are a new employee who enrolls in a medical plan, and your employer offers this benefit, your payroll office will automatically have the premiums or contributions deducted before calculating taxes.

If you do not want to pay your medical premiums or contributions with pretax earnings, you must complete and submit a [Premium Payment Plan Election/Change Form](#) to decline (opt out of) participation in the premium payment plan **no later than 31 days** after you become eligible for PEBB benefits (generally the first day of employment; check with your personnel, payroll, or benefits office or see [WAC 182-12-114](#) for more information).

Can I change my mind about having my medical premiums withheld pretax?

You may change your participation under the state's premium plan (enroll, decline enrollment, or change election) only during an annual open enrollment or a special open enrollment as described in [WAC 182-08-199](#).

When would it benefit me *not* to have a pretax deduction?

If you have your medical premiums deducted pretax, it may also affect the following benefits:

- **Social Security**—If your base salary is under the \$110,100 annual maximum in 2012, Section 125 participation saves you money now by reducing your Social Security taxes. However, your lifetime social security benefit would be calculated using the lower salary.
- **Unemployment compensation**—Section 125 also reduces your salary base used to calculate unemployment compensation.

Your employer may also remove you from the Section 125 plan, with notice, if necessary to prevent excess tax deferral.

Where can I get more information?

To learn more about Section 125, talk to a qualified financial planner or your local [Social Security office](#). Information is also available at www.irs.gov.