



Date: February, 2010

To: All Teachers and School Administrators who are paid on a 10 Month Basis

From: Pension & Benefits Office

**Re: Internal Revenue Service Section 125 - Cafeteria Plan Rules and Pre-tax Premium Shares**

Your share of premium paid for City Health Plans comes out of your paycheck on a pre-tax basis. (This means the money you spend for City Health Plans gets “put aside” to pay for health care premiums *before* the IRS takes their share, so you pay taxes on a lower salary amount.) Since the IRS allows this under the City Cafeteria Plan, we must strictly adhere to IRS rules.

As you know, you begin paying for the current year’s health care premiums when you start work in September. Once your premiums start, you pay premium over the next ten (10) months. Eight of your payments start in one tax year (September through December) and the remaining twelve payments come out of paychecks in another tax year (January through June.) Under the law the 20 payments cannot be spread equally over the 10 months because no part of the future July and August premium due can be built into the September to December payments. The IRS does not allow anyone to reduce income for a current year with expenses attributable to the next tax year.

In order to comply with IRS Section 125 Rules, here is how we calculate your premium. Everyone in the City owes 12 months of premium.

- The formula for the September through December calculation is:

**Employee monthly copayment X 4 months/8 paychecks.**

- The formula for the January through June calculation is:

**Employee monthly copayment X 8 months (you have to pay for July & August through payroll deductions January through June) /12 paychecks.**

- If you look at the rate sheets we hand out at open enrollment (also available on the Pension and Benefits web page) you can check the work by performing a breakeven analysis. The formula is:

**Employee monthly copayment X 12 months = annual premium due.**

**Compare that to:**

**Employee 4 month payroll deduction X 8 PLUS Employee 6 month deduction X 12 = annual premium due.**

***Since 8 paychecks PLUS 12 paychecks EQUAL 20 Paychecks you can see that what you are paying EQUALS the ANNUAL PREMIUM OBLIGATION YOU HAVE FOR COVERAGE.***

Your rates are not “going up” in January; you are simply paying for 8 months spread over 6 months of paychecks.

We notified all Teachers working for the City back in 2008 that this is the way premium would be calculated. This update is provided so that anyone hired since that date is clear about the process.