Strategic Spotlight: Containing Healthcare Costs
Proven Strategies for Success in the Public Sector

Strategy: Promote Section 125 Plans

What is a Section 125 Plan?
Section 125 of the Internal Revenue Code makes it possible for employers to offer their employees a plan with the option of receiving certain health, dependent care and other qualifying benefits on a pre-tax basis. These “cafeteria plans” can insulate employee contributions for qualified expenses from certain taxes. This type of plan can produce tax savings for both employees and employers.

Respondents Promoting Section 125 Plans
77% Promote Section 125 Plans

Of those using promoting section 125 plans, how many would recommend it to others?
- 73% Very likely
- 13% Somewhat likely
- 11% Neutral
- 3% Unlikely

Of those using promoting section 125 plans, how important is this technique to their overall cost management efforts?
- 20% Essential
- 25% Very Important
- 19% Important
- 28% Somewhat
- 8% Not Important

Comments on Promoting Section 125 Plans
It Works “Tax savings to the employees and to the employer is real and measurable”
Low Cost “Low cost benefit with high value to employees” “Inexpensive way to give a benefit to employees”
Automatic “This is standard practice” “This is a no-brainer”
Labor Support “Employees appreciate the tax savings on their side so it is a positive that can be used in negotiations”
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Of those Not Promoting Section 125 Plans, Why have you Not Used this Technique?

23% Not Using this Technique

Some top reasons why not using:
- 28% Not enough staff and/or time to implement
- 20% Not enough information to determine potential benefits
- 12% Potential benefits do not outweigh the costs

Comments on Not Promoting Section 125 Plans

Staffing “Implementation of the plan takes staff time” “There is staff time involved in administration”

Lack of Focus “Have the plan do not emphasize” “We have not used to full benefit”

Program Limitations “Loss of unused dollars is a downside to the program”

Participation “Employees have not been interested in the past”

Summary & Key Points

• Section 125 plans are highly utilized and recommended by government organizations.

• Many government organizations acknowledge they could be doing more to promote and emphasize their section 125 benefits to their employees.

• Staffing levels required to administer and promote the benefits of section 125 plans to employees are severe impediments to employers and employees accruing all possible benefits from their plan.

• Level of payroll tax savings may differ by state.

To learn more about this study and to download the full report visit: www.gfoaconsulting.org/researchreports

Other Strategic Spotlight Topics Available
- Dependent Verification
- Increase Deductibles
- Increase Co-pays
- Self-Funded Benefits
- Promote Wellness
- Voluntary Benefits
- Right-Sourcing Enrollment
- Shift Benefits Communication Expense
- Promote Section 125 Plans
- Benefit Waiver Program
- Preventive Treatment
- Health Plan Redesign
- Cooperative Purchasing

Government Finance Officers Association