# Employer Compliance Resource: Section 125 Premium Only Plan (POP)

*Presented by **IBT Consulting – Innovative Benefits***

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## What Is a Section 125 Premium Only Plan (POP)?

A **Section 125 Premium Only Plan (POP)** is a formal IRS-recognized plan document that allows employers to deduct the **employee portion of health insurance premiums on a pre-tax basis**. This reduces taxable income for employees and payroll tax liability for employers.

If your organization offers group health insurance and employees contribute toward premiums, **a Section 125 POP is not optional**—it is a compliance requirement.

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## Why a POP Document Is Required

Under **Internal Revenue Code Section 125**, pre-tax payroll deductions are only permitted if the employer has:

- A **written Section 125 plan document** in place
- The plan **adopted before** pre-tax deductions occur
- Ongoing **administrative compliance** with IRS rules

Without a valid POP document, employee premium deductions must legally be treated as **post-tax**, even if payroll is currently deducting them pre-tax.

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## Who Needs a Section 125 POP?

You are required to have a POP document if:

- You offer **group medical, dental, or vision insurance**, **and**
- Employees pay any portion of the premium through payroll

This applies to:

- Fully insured plans
- Level-funded plans

- Small and mid-sized employers
- Public and private employers (with limited exceptions)

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## Compliance Risks of Not Having a POP

Employers operating without a compliant POP may face:

- IRS audit exposure
- Loss of pre-tax status for employee deductions
- Back taxes and penalties
- Payroll and W-2 reporting issues

Most employers are unaware they are **out of compliance** because payroll systems allow pre-tax deductions by default—but **software does not replace a legal plan document**.

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## What a Compliant Section 125 POP Includes

A properly structured POP document should include:

- Plan eligibility rules
- Defined pre-tax benefits
- Election and change rules
- Employer and employee rights
- Compliance with IRS nondiscrimination requirements

The document must also be:

- Adopted by the employer
- Maintained on file
- Updated as regulations change

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## How IBT Consulting Supports Employers

At **IBT Consulting**, we approach compliance from a **fiduciary and advisory perspective**, not a transactional one.

Our Section 125 POP support includes:

- Verification of whether a POP is required
- Review of existing plan documentation (if applicable)

- Coordination of compliant POP documentation
- Alignment with payroll and benefits administration
- Ongoing compliance guidance

Our goal is simple: **protect the employer, reduce risk, and ensure employees receive the intended tax advantage—properly and legally**.

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## POPs and Fiduciary Responsibility

While Section 125 POPs are not ERISA plans themselves, they directly intersect with **employer fiduciary responsibility** and IRS compliance.

Having the correct documentation in place demonstrates:

- Good-faith compliance
- Responsible plan governance
- Proactive risk management

These are foundational elements of a well-run benefits strategy.

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## IRS Reference Documentation

Employers who wish to review the source regulation directly may reference the IRS guidance below:

- **Internal Revenue Code Section 125 (Cafeteria Plans)**
  https://www.irs.gov/government-entities/federal-state-local-governments/cafeteria-plans

This IRS guidance outlines the legal requirement for a **written plan document** in order to allow pre-tax salary reductions for employee benefits, including Premium Only Plans (POPs).

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## Next Steps for Employers

If you are unsure whether your organization has a compliant Section 125 POP—or whether your current document is still valid—now is the time to review it.

**IBT Consulting can help you assess your current status and close any compliance gaps.**

## Contact IBT Consulting

**IBT Consulting – Innovative Benefits**
Trusted advisor to employers navigating benefits, compliance, and fiduciary responsibility.

📞 817-367-7774
🕘 Monday–Friday | 8:00 AM – 5:30 PM

*This resource is intended for educational purposes and does not constitute legal or tax advice. Employers should consult with appropriate professionals regarding their specific circumstances.*