

MISSISSIPPI DIVISION OF MEDICAID

Eligibility Policy and Procedures Manual

CHAPTER 200 – Income: Aged, Blind and Disabled (ABD) Categories

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200.09.03 **CAFETERIA PLANS**

A cafeteria plan is a written benefit plan offered by an employer in which:

- All participants are employees and

- Participants choose cafeteria-style from a menu of two or more cash or qualified benefits.

A qualified benefit is not considered part of an employee's gross income. Qualified benefits include, but are not limited to:

- Accident and health plans, including medical plans, vision plans, dental plans, accident and disability insurance;

- Group term life insurance plans up to \$50,000;

- Dependent care assistance plans;

- Certain stock bonus plans under Section 401(k)(2) of the IRC, but not 401(k)(1) plans.

NOTE: Cash is not a qualified benefit.

Salary Reduction Agreement

A salary-reduction agreement is an agreement between the employer and employee whereby the employee, in exchange for the right to participate in a cafeteria plan, accepts a lower salary or foregoes a salary increase. Most pay slips do not reflect that a salary-reduction agreement exists. However, the amount of a salary-reduction agreement is not part of gross income and is not subject to Social Security, Medicare or other income taxes. Amounts used to purchase qualified benefits with a salary-reduction agreement are not the employee's wages and are not considered income for Medicaid purposes.

Employer Contributions

Many cafeteria plans are funded by salary-reduction agreements; however, employers may also contribute to fund basic benefit levels under a cafeteria plan. Amounts an employer contributes to fund basic benefit levels under a cafeteria plan, with or without a salary reduction agreement, are not the employee's wages and are not considered income for Medicaid purposes.

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Payroll Deductions

Payroll deductions used to purchase cafeteria-plan benefits are the employee's wages and are earned income. For example, employees who want more than basic benefits contributed by the employer may pay additional costs through payroll deductions. The amounts of those voluntary payroll deductions are the employee's wages and are considered earned income for Medicaid purposes. Unless an exception applies, FICA will be deducted from these payroll deductions.

NOTE: Be aware that paystubs that appear to show voluntary payroll deductions may actually show how funds from a salary-reduction agreement are allotted among qualified benefits.

Cash Received Under a Cafeteria Plan

Cash received under a cafeteria plan in lieu of benefits is wages. However, cash received as reimbursement for qualified-benefit expenses, such as child care, is not income.

Example: ABC, Inc., contributes \$50 per week to fund basic benefits under a cafeteria plan. Mr. White selects insurance that costs \$35 per week and opts for a weekly cash payment of \$15 in lieu of additional coverage. The \$15 cash payment is part of Mr. White's countable wages.

Determining Countable Income under a Cafeteria Plan

When a cafeteria plan is involved, countable wages for Medicaid purposes can be less than the gross amount on the check stub. It can be difficult to tell whether paystubs represent payroll deductions, which are part of gross wages, or cafeteria-plan itemizations, which are not. One indicator is when the deduction for Social Security and Medicare taxes is less than the tax rate times the gross wages shown on the checkstub. A cafeteria plan is also indicated when the pay stubs uses terms such as:

FLEX;
CHOICES;
Sec. 125;
Cafe Plan.

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To determine countable wages when there is Cafeteria Plan participation, take the following steps:

If the paystub shows FICA wages or equivalent, use the FICA wage amount as countable wages, otherwise:

Multiply the gross amount shown on the checkstub by 7.65% or .0765 (or by 5.65% or .0565 for paystubs issued in 2011 and 2012 only) and compare to the FICA tax withheld (if itemized, include the Medicare tax with FICA).

$$\frac{\text{Gross wages from checkstub}}{\text{SS/Medicare Tax Rate}} \times \text{SS/Medicare Tax Rate} = \text{Expected Tax}$$

If the actual amount withheld is within cents of the expected tax amount, consider them the same and use the gross wages shown on the checkstub.

If FICA and Medicare tax withheld is less than the expected amount, use the following formula to compute countable wages:

$$\frac{\text{Social Security/Medicare Tax from Pay Stub}}{\text{Multiplier*}} \times \text{Multiplier*} = \text{Countable Wages}$$

*Multiplier = 13.071 for paychecks issued in 2010 and 17.699 for paychecks issued in 2011 and 2012 only.

Example: A June 2010 monthly pay stub reflects gross wages of \$999.94, a deduction for FICA/Medicare taxes of \$68.85 (does not equal 7.65 percent of the gross wages) and a \$160 voluntary deduction for health insurance. The employer confirms the company contributes \$100 per month to fund basic benefit levels under a cafeteria plan that offers a variety of insurance coverages. The \$100 that the employer contributes toward benefits under a cafeteria plan is not wages. Also, the employer confirms the employee voluntarily pays \$60 for additional benefits.

The specialist could use the checkstub and contact with the employer to determine and document countable wages of \$899.94 (\$999.94 - \$100 employer contribution) or use the formulas above:

$$\begin{array}{rclcl} \$999.94 & \times & .0765 & = & \$76.50 \text{ (FICA actually withheld is less)} \\ \$68.85 & \times & 13.071 & = & \$899.94 \end{array}$$