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ORGANIZATIONS ENDORSE SIMPLE CAFETERIA PLAN LEGISLATION

April 20, 2005 - (*Arlington, Va.*) – The Small Business Council of America (SBCA), the American Society of Pension Professional & Actuaries (ASPPA), the Small Business Legislative Council (SBLC) and the Employers Council on Flexible Compensation (ECFC) submitted comments today to a hearing held by the Senate Committee on Small Business and Entrepreneurship entitled: “Solving the Small Business Health Care Crisis: Alternatives for Lowering Costs and Covering the Uninsured.” In their comments, the organizations strongly endorsed S. 723, the SIMPLE Cafeteria Plan Act of 2005, introduced by the Senate Small Business and Entrepreneurship Chair, Olympia Snowe (R-ME), and co-sponsored by Senators Kit Bond (R-MO) and Jeff Bingaman (D-NM).

“We applaud the efforts of Senators Snowe, Bingaman and Bond to enable the purchase of health insurance and other employee benefits by small business employees through a tax-qualified vehicle. The SIMPLE Cafeteria Plan will allow small businesses to offer the same health insurance and savings options currently available to employees of large companies and government agencies,” said Brian Graff, Executive Director/CEO of ASPPA.

Paula Calimafde, Chair, SBCA, explained that “this bipartisan legislation would amend the tax code so that owners of small businesses, including sole proprietors, partners and all S-corporation stockholders, could participate in a cafeteria plan if they work in the business. This bill would enable them and their non-owner employees to be able to purchase employer-provided health insurance and other benefits with pre-tax dollars.”

In addition, the measure would allow cafeteria plans to offer long term care insurance as an optional benefit. It would also permit the carryover of unused flexible spending accounts funds, as well as simplifying and increasing dependent care accounts for employers of all sizes. It also eliminates the despised “use it or lose it” rule, which causes employees to have their own salary revert back to their employer if they do not spend as much money on medical

care as they had anticipated. In effect, instead of being rewarded for being healthy (as is true with the Health Savings Accounts), the current rule causes employees to forfeit their own dollars to their employers because they did not need to spend those dollars on health care.

This legislation is important for all employees, but in particular for small business employees. This legislation will make it far easier for small business employees to be covered by a cafeteria plan so that they will be able to select the benefits that they need most in the same way that employees for mid- and large-sized businesses are currently able to do. Even more important, by giving the small business owners an incentive to sponsor cafeteria plans, this legislation will go a long way in helping small business employees afford health insurance.

“Small business employees are in need of access to health care in a cost effective manner. Congress understands how vital health care is for our citizens and has decided that individuals should be incentivized to undertake as much of the burden of providing for this health care as possible. S. 723 does this—small business employees would now be able to join their counterparts in mid- and large-sized businesses and save for health care and other employee benefits in a tax advantaged manner,” said John Satagaj, President of SBLC.

A cafeteria plan is a flexible spending account created by section 125 of the Internal Revenue Code (IRC) that allows participants to pay their health insurance premiums and other employee benefit expenses through a tax-qualified plan. S. 723 would enable small business owners and their employees to be able to purchase employer-provided health insurance and other benefits with pretax dollars. It is a very popular plan with employees of mid- and large-sized businesses and of the federal government. Because of technical tax provisions which prevent small business owners from participating in the plan, it is seldom offered by small businesses.

For additional information about these organizations, please visit the following websites:

SBCA at www.sbca.net

ASPPA at www.asppa.org

SBLC at www.sblc.org

ECFC at www.ecfc.org