



STATE OF WISCONSIN  
Department of Employee Trust Funds  
Robert J. Conlin  
SECRETARY

801 W Badger Road  
PO Box 7931  
Madison WI 53707-7931  
1-877-533-5020 (toll free)  
Fax (608) 267-4549  
<http://etf.wi.gov>

**CORRESPONDENCE MEMORANDUM**

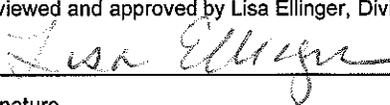
**DATE:** February 15, 2012  
**TO:** Employee Trust Funds Board  
**FROM:** Marcia Blumer, Program Manager  
Employee Reimbursement Accounts and Commuter Benefits Programs  
**SUBJECT:** Employee Reimbursement Accounts Program and  
Commuter Benefits Program Updates

**This memo is for informational purposes only. No Board action is necessary.**

**PROGRAM INFORMATION**

The Employee Reimbursement Accounts (ERA) Program is a flexible spending account plan authorized under Internal Revenue Code (IRC) Section 125, providing pre-tax medical expense and dependent care reimbursement accounts as well as pre-tax premium deduction for certain insurance premiums. The Commuter Benefits Program is a qualified transportation benefit program authorized under IRC Section 132 providing pre-tax deductions for mass-transit and parking expenses related to employment. Participants in both programs save money because contributions are exempt from federal, state, and FICA taxes. The programs are available to state employees only. The state saves money because participant contributions are not subject to the employer portion of the FICA tax.

The ERA and the Commuter Benefits Programs are administered by Fringe Benefits Management Company, a division of WageWorks (FBWW). The administrative expenses of the ERA Program are funded through three sources: account forfeitures, interest income on employee contributions, and fees contributed by each state agency. The current contract term with FBWW is from January 1, 2010, through December 31, 2012, with an option to extend the contract for two additional one-year periods.

Reviewed and approved by Lisa Ellinger, Division of Insurance Services  
 2/20/12  
\_\_\_\_\_  
Signature Date

Board	Mtg Date	Item #
ETF	3.8.12	6B

## **EMPLOYEE REIMBURSEMENT ACCOUNTS PROGRAM 2012 PROJECTED PARTICIPATION**

For plan year 2012, approximately 12,800 employees have enrolled in the ERA Program. About 11,960 employees have enrolled in medical expense accounts, with projected contributions of close to \$14.7 million. This reflects a 12% increase in participation, with a projected 8.4% increase in contributions. The increase in medical expense account participants and contributions may be attributed to the change in the state health care plan, which includes co-payments for the first time in 2012. Participation in the dependent care program remains steady at around 2,150; projected contributions will decrease about 6.5% to just over \$7.9 million. Approximately 1,310 employees participate in both the medical expense and dependent care accounts.

The regulations governing flexible spending accounts require employee contributions that are not used for eligible expenses to be forfeited. These funds are retained by the Department of Employee Trust Funds (ETF) to partially fund ongoing administrative expenses. The medical expense account forfeitures for the 2010 plan year were \$211,706 or about 1.4% of contributions. Dependent care expense account forfeitures totaled \$86,734 or slightly less than 1% of contributions. Over the years, the forfeiture rates for both the medical expense and dependent care accounts have remained stable. Forfeiture amounts for the 2011 plan year will not be finalized until after June 30, 2012.

The administrative fee paid to FBWW for ERA Program administration is \$4.77 per participant per month (pppm). In 2011, the fee totaled \$681,803. State agencies help fund the ERA Program through a monthly fee that is based on the number of health insurance contracts that the agency remits to ETF. Since 2008, the employer share has been \$.50/contract/month. The amount paid by state agencies in 2011 was \$427,725.

## **COMMUTER BENEFITS PROGRAM**

Unlike the ERA program, IRS regulations allow Commuter Benefits Program participants to change/cancel their participation at any time. Participation in this program has ranged from 1,200 to 1,400 participants since the Program began in 2002. As of February 1, 2011, there are 1,278 Commuter Benefits participants; annual employee contributions total about \$1.3 million.

The cost for administering the Commuter Benefits program is \$5.10 ppm. The administrative expenses of the Commuter Benefits program are funded through interest income on the contributions and an annual charge to state agencies based on the number of employees who participate in the program. In 2011, the administration fee paid to FBWW was \$77,274.

## **FUTURE CONSIDERATIONS**

The Patient Protection and Affordable Care Act will impose a \$2,500 limit on annual salary reduction contributions to health care expense accounts, effective for taxable years beginning after December 31, 2012. Currently the annual limit for the Wisconsin program is \$7,500. In plan year 2010, 742 participants elected contributions of \$3,000 to \$7,500, with annual elections in this contribution range totaling approximately \$3,352,000. The decrease in the annual limit to \$2,500 may result in \$1.5 million or more in decreased contributions.

Staff will be available at the Board meeting to answer any questions you may have.