



STATE OF WISCONSIN
Department of Employee Trust Funds
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CORRESPONDENCE MEMORANDUM

DATE: February 14, 2013
TO: Employee Trust Funds Board
FROM: Bill Kox, Deputy Administrator
SUBJECT: Employee Reimbursement Accounts (ERA) Program and Commuter Benefits Program Information

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 that provides 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 that provides 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. As the employer, the State of Wisconsin (state) saves money because participant contributions are not subject to the employer portion of the FICA tax. With projected contributions to the ERA and Commuter Benefits programs in 2013 of over \$24.2 million, the state will realize a FICA savings of almost \$1.9 million.

The ERA and the Commuter Benefits programs are administered by WageWorks (formerly Fringe Benefits Management Company). The current contract term with WageWorks is through December 31, 2013, with an option to extend the contract for an additional year.

Program Administration

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.

Reviewed and approved by Robert J. Marchant, Deputy Secretary

Electronically Signed 2/18/13

Board	Mtg Date	Item #
ETF	3.7.13	5C2

The regulations governing flexible spending accounts require that employee contributions not used for eligible expenses be forfeited. These funds are retained by ETF to partially fund the ongoing administrative expenses. The medical expense account forfeitures, as calculated by ETF for the 2011 plan year were \$80,387 or about .19% of contributions. Dependent care expense account forfeitures totaled \$57,012 or .08% of contributions. Over the years, the forfeiture rates for both the medical expense and dependent care accounts have remained stable. Forfeiture amounts for the 2012 plan year will not be finalized until after June 30, 2013.

The administrative fee paid to WageWorks for ERA program administration in 2012 totaled \$753,307. State agencies help fund the ERA program through a monthly fee based on the number of health insurance contracts the agency remits to ETF. Since 2008, the employer share has been \$.50/contract/month. Effective January 1, 2013, the employer share paid by state agencies increased to \$0.60 per health contract per month. The reserve balance has been decreasing over the last few years with the anticipated reserve balance at the end of 2012 at approximately \$200,000, although the actual ending balance is affected somewhat by the rate of interest earned on our accounts and the level of forfeitures. The target reserve balance is \$100,000. However, the rate of draw down has been around \$150,000 per year. To maintain a target balance of \$100,000, the fee was increased to \$.60, in order to slow the rate of drawdown.

The cost for administering the Commuter Benefits program is \$5.18 per member, per month (PPPM). 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 2012, the administration fee paid to WageWorks was \$73,211.

Employee Reimbursement Accounts Program 2013 Projected Participation

About 12,536 employees have enrolled in medical expense accounts, with projected contributions of more than \$15 million. This reflects a less than 1% decrease in participation, with a projected 7.5% decrease in contributions. Participation in the dependent care program experienced a 2.3% increase to 2,400 participants. The projected contributions will increase about 2.5% to more than \$9.4 million. The decrease in medical expense contributions may be attributed to the federally-mandated decrease in the medical expense account limit from \$7,500 to \$2,500.

Commuter Benefits Program

Unlike the ERA program, IRS regulations allow Commuter Benefits program participants to change or 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, 2013, there are 1,330 Commuter Benefits participants, with annual employee contributions of about \$1.5 million.

Future Considerations

The contract with WageWorks will expire at the end of 2014, if a one-year extension is approved. A Request for Proposals (RFP) will need to be issued in early 2014 to allow time for evaluation and a recommendation to the Board by mid-2014.

Staff will be at the Board meeting to answer any questions.