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Correspondence Memorandum

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To: Group Insurance Board

From: Jessica Rossner, Program Manager
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Subject: Health Savings Accounts and Employee Reimbursement Accounts
Program Overview

This memo is for informational purposes only. No Board action is required.

The Health Savings Account (HSA) and Employee Reimbursement Account (ERA) programs are administered by Total Administrative Services Corporation (TASC), a third-party administrator (TPA), with support and oversight from Office of Strategic Health Policy (OSHP) staff and leadership. These benefit programs are authorized under Internal Revenue Code (IRC) Section 125, IRC Section 132 and Wis. Stats. § 40.85-40.875.

Participants in these benefit programs save money because contributions are exempt from federal, state and Federal Insurance Contributions Act (FICA) taxes. As the employer, the State of Wisconsin saves money because participant contributions are not subject to the employer portion of the FICA tax.

For plan year 2017, approximately 3,910 participants enrolled in an HSA and 24,898 participants enrolled in an ERA program. Table 1 provides a more detailed overview of program participation and estimated tax savings for plan year 2017.

Reviewed and approved by Lisa Ellinger, Director, Office of Strategic Health Policy

Electronically Signed 11/2/17

Board	Mtg Date	Item #
GIB	11.15.17	4A

Table 1. 2017 Participation and Program Savings

Benefit Type	Number of Participants	Total Amount Contributed	Estimated Employee Savings*	Employer FICA Savings
Health Care FSA	18,677	\$22,446,364.43	\$6,733,909.33	\$1,717,146.88
Dependent Day Care Account	3,271	\$13,205,505.48	\$3,961,651.64	\$1,010,221.17
Limited Purpose FSA	309	\$142,000.45	\$42,600.14	\$10,863.03
Parking Account	2,035	\$1,573,617.82	\$472,085.35	\$120,381.76
Transit Account	606	\$210,165.32	\$63,049.60	\$16,077.65
Health Savings Account	3,910	\$9,965,990.27	\$2,989,797.08	\$762,398.26
Totals	28,808	\$47,543,643.77	\$14,263,093.14	\$3,637,088.75

*Employee tax savings estimates are based on a 30% total tax rate (federal, state and FICA combined). Individual taxes will vary.

HSA Program Overview

The HSA is an individually-owned, tax-advantaged account which eligible State employees can use to pay for current or future eligible health care expenses. Participants can also build savings for retirement through self-directed investment options.

Participants determine how much to contribute on an annual basis during open enrollment; the amount is typically based on estimated expenses for the upcoming plan year. Contributions are deducted in equal amounts from each paycheck, pre-tax, throughout the plan year.

Since January 1, 2015, State participants in the Group Health Insurance Program (GHIP) participants electing an It's Your Choice (IYC) High-Deductible Health Plan (HDHP) must also enroll in the state-sponsored HSA. This dual-enrollment requirement is stipulated by Wis. Stat. § 40.515 (1) and intended to help participants successfully plan for health care expenses. In addition, Wis. Stat. § 40.515 (2) grants contractual authority for the HSA program to the Group Insurance Board (Board).

Table 2 provides the Internal Revenue Service (IRS) annual contribution limits for the HSA. Contributions from all sources combined, such as participant, employer, and third parties (e.g., parent, spouse) must not exceed these limits.

Table 2. Annual Health Savings Account Limits

Annual HSA Contribution Limits	2018	2017
Individual HSA Annual Contribution Limit	\$3,450	\$3,400
Family HSA Annual Contribution Limit	\$6,900	\$6,750
HSA Catch-Up Contribution Limit	\$1,000	\$1,000
HSA Carryover Limit	Unlimited	Unlimited

The HSA Catch-Up Contribution is only available to account holders who are between the ages of 55 and 65 and not enrolled in Medicare.

If eligible, participants may also receive an annual employer contribution of up to \$750 per individual or \$1,500 per family. Table 3 outlines important program statistics, estimated by TASC, for plan year 2017, including the total amount of HSA employer contributions.

Table 3. 2017 Health Savings Account Breakdown

Participant Level	HSA Employer Contributions	HSA Employee Contributions	Total # of Participants w/ Individual Coverage	Total # of Participants w/ Family Coverage
Active Employee	\$4,481,452.65	\$5,484,537.62	1,792	2,115

ERA Program Overview

The ERA program offers two types of accounts: Flexible Spending Accounts (FSA) and Fringe Benefit Accounts. These accounts allow State employees to set aside pre-tax funds to pay for certain eligible expenses. Eligible expenses, contributions limits, and carryover limits vary by account.

The FSA programs include:

- **Health Care FSA:** A pre-tax benefit used to pay for medical, dental, and vision care expenses not covered by insurance.
- **Limited Purpose FSA:** A pre-tax benefit used to pay for eligible dental, vision care, and post-deductible medical expenses for participants enrolled in an HDHP and an HSA.
- **Dependent Day Care FSA:** A pre-tax benefit used to pay for eligible day care expenses for qualified dependents in order for a participant or their spouse to work, look for work, or attend school full time.

The Fringe Benefit programs include:

- **Parking Account:** Allows participants to set aside pre-tax funds to pay for eligible work-related parking expenses.
- **Transit Account:** Allows participants to set aside pre-tax funds to pay for eligible mass transit expenses related to their commute to and from work.

Participants determine how much to contribute on an annual basis during open enrollment; the amount is typically based on estimated expenses for the upcoming plan

year. Contributions are deducted in equal amounts from each paycheck, pre-tax, throughout the plan year.

Table 4 provides the IRS annual contribution and carryover limits for the ERA programs.

Table 4. Annual ERA Contribution Limits

Annual ERA Contribution Limits	2018	2017
Health Care FSA Contribution Limit	\$2,600	\$2,550
Health Care FSA Carryover Limit	\$500	\$500
Limited Purpose FSA Contribution Limit	\$2,600	\$2,550
Limited Purpose FSA Carryover Limit	\$500	\$500
Dependent Day Care FSA Contribution Limit	\$5,000	\$5,000
Dependent Day Care Carryover Limit	\$0	\$0
Transit Account Contribution Limit	\$130/month*	\$130/month*
Transit Account Carryover Limit	Unlimited	Unlimited
Parking Account Contribution Limit	\$255/month	\$255/month
Parking Account Carryover Limit	Unlimited	Unlimited

* Contributions of \$130 are pre-tax State and Federal. Employees may contribute up to \$255 per month. However, contributions over \$130 up to \$255 would be pre-tax Federal and post-tax State.

Board Oversight

On September 21, 2017, the ETF Board approved the delegation of oversight for the HSA and ERA programs to the Group Insurance Board (Board).

The HSA and ERA programs are similar to other supplemental benefit programs managed by the OSHP, as they are closely aligned with ongoing total health management initiatives and directly affected by any changes to the GHIP. However, they are the only OSHP-managed programs that have not historically received oversight from the Board.

Specific reasons for delegating oversight of the HSA and ERA programs to the Board included:

- Overall Health Benefit Management:** Between the HSA program and ERA programs, approximately 80% of participants are enrolled in a health care pre-tax savings program (HSA, Health Care FSA, and LPFSA). The health care pre-tax savings programs are complementary to the GHIP. Changes to the GHIP directly affect participation and utilization of these programs. The IYC HDHP dual-enrollment requirement also directly influences participation and utilization of the HSA and LPFSA.
- Contract Structure:** The original terms for both the HSA and LPFSA Program contract and the ERA and Commuter Benefit Program contract with TASC, the current TPA, ran from October 1, 2015, through December 31, 2016, with an option to extend the contract for three additional one-year periods. The ETF Board has approved two of the three possible contract extensions for both

contracts. A final contract extension is available for the 2019 plan year for both contracts.

The current contractual structure pairs the HSA and LPFSA programs. This program pairing does not reflect industry best practice, as the LPFSA is an ERA program, which has different IRS regulations than the HSA. The contract structure will be changed as part of future procurement activity. However, the programs will remain contractually joined through the end of current contract and any additional contract extensions with TASC.

- **Request for Proposal:** Preliminary procurement activities related to these contracts began in the fall of 2017, with an anticipated Request for Proposal (RFP) release in the summer of 2018. Given that contractual authority for the HSA program is granted to the Board in Wis. Stats. § 40.515 (2), it is necessary to delegate program oversight to the Board in advance of releasing a new RFP so the Board may enter into a new contract with an HSA TPA when appropriate.

ETF's legal counsel advised that the delegation of oversight for the ERA programs did not require statutory changes or clarifications because the ETF Board has the authority to delegate its powers and duties as necessary or desirable under Wis. Stat. § 40.03(1)(L).

OSHP will continue to provide quarterly updates to the ETF Board Audit Committee in conjunction with the Office of Internal Audit (OIA) regarding the audit findings outlined in the memo, Third Party Audits of Total Administrative Services Corporation (Ref. GIB | 11.15.17 | Item 4C).

Administrator Performance

As stated above, the original contract term with TASC ran from October 1, 2014 through December 31, 2016, with an option to extend the contract three additional one-year periods. The ETF Board approved one-year contract extensions in March 2016 and March 2017.

Both contract extensions were linked to enhanced performance standards and guarantees TASC was required to meet during the one-year extension periods. The enhanced performance standards and guarantees focused on:

- Advanced Training and Guidance for Benefit, Payroll, and ETF Staff
- Annual Project Plan Establishment and Adherence
- Customer Service
- Member Communication, Engagement, and Education
- Non-Discrimination Testing Process Design and Project Plan
- Reporting Enhancements for Payroll Processing Centers and ETF
- Unsubstantiated Claim Process Design and Implementation

TASC has made substantial performance improvement in the past two years, particularly in regard to customer service satisfaction and payroll processing center support.

Additional improvements include:

- TASC customer care representatives received training on state-specific benefit options and program design.
- ETF and TASC created robust enrollment materials to provide detailed benefit information for employees
- TASC launched an enriched program landing page specifically for State participants; to view it, go to: <https://partners.tasconline.com/ETFEmployee>.
- ETF and TASC created state-specific ERA and HSA Participant Guides.
- ETF and TASC created state-specific ERA and HSA Administrative Guides.
- TASC is committed to improving and customizing reporting for ETF and the payroll processing centers.

Audit Activity and Findings

In January 2017, ETF and the ETF Board retained Wipfli LLP to conduct an audit of TASC's controls in several key areas, including billing and claims substantiation. ETF OIA staff performed a complementary audit of contribution reporting and billing for administrative fees for the same time frame.

The findings of these audits were presented to the ETF Board on September 21, 2017. Several control deficiencies were identified by Wipfli and OIA. Amelia Slaney, the OIA auditor who led the audit, will provide an overview of the audit and the audit finding follow-up process at the Board meeting (Ref. GIB | 11.15.17 | Item 4B).

OSHP staff have implemented or begun work on several audit recommendations for plan year 2018, including:

- Uniform number of payroll deductions across all Payroll Centers.
 - Bi-weekly payroll schedule – 24 deductions
 - Monthly payroll schedule – 12 deductions
 - Seasonal payroll schedule – 9 deductions
- Standard reporting file format.

Staff will provide additional audit information at future Board meetings.

Future Considerations

The current contract term with TASC runs through December 31, 2018, with an option to extend the contract for a final one-year period. ETF will present a renewal recommendation to the Board at the February 2018 Board meeting.

The Board will also receive a procurement activity update at the February 2018 Board meeting.

OSHP will continue to evaluate TASC's performance in relation to audit finding recommendation implementation and the contractually stipulated performance standards and guarantees. Updates will be provided at future Board meetings.

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