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Correspondence Memorandum

Date: January 15, 2018

To: Group Insurance Board

From: Jessica Rossner, Program Manager
Sara Brockman, Health Program Manager
Office of Strategic Health Policy

Subject: Request for Proposals – Section 125 Cafeteria Plan, Health Savings Account, Employee Reimbursement Account, and Fringe Benefit Account Programs

ETF recommends the Group Insurance Board (Board) approve the development and release of a Request for Proposals (RFP) to select an administrator(s) for the Section 125 Cafeteria Plan, Health Savings Account (HSA) program, Employee Reimbursement Account (ERA) programs, and Fringe Benefit Account programs, to be effective for the 2020 plan year.

If approved, ETF will develop and release an RFP with the intention to contract with one or more vendors that meet the following goals:

- Implement contracts that reflect industry best practices
- Deliver high quality, high value services
- Ensure advanced compliance and tax code guidance
- Champion member communication, engagement, and education

Background

In April 2014 ETF released an RFP for two contracts:

- ETE0002: Third Party Administration for ERA and Commuter Benefits
- ETE0003: Third Party Administration for Health Savings Accounts (HSA) and Limited Purpose Flexible Spending Accounts (LPFSA)

The Employee Trust Funds (ETF) Board issued a letter of intent to award both contracts to eflexgroup, Inc. in June 2014. eflexgroup, Inc. merged with Total Administrative Services Corporation (TASC) later that same month. TASC is the current third-party administrator for both contracts.

Reviewed and approved by John Voelker, Deputy Secretary

Electronically Signed 2/2/18

Board	Mtg Date	Item #
GIB	2.21.18	6C

The original ERA and Commuter Benefit programs contract term with TASC ran from September 1, 2014, through December 31, 2016, with an option to extend the contract for three additional one-year periods. The ETF Board approved one-year contract extensions for the 2017 and 2018 plan years. A third and final contract extension remains for plan year 2019. ETF will request the Board approve the final contract extension at the February 21, 2018 Board meeting.

The original HSA and LPFSA program contract term with TASC ran from September 1, 2014, through December 31, 2016, with an option to extend the contract for three additional one-year periods. The ETF Board approved one-year contract extensions for the 2017 and 2018 plan years. A third and final contract extension remains for plan year 2019. ETF will request the Board approve the final contract extension at the February 21, 2018 Board meeting.

On September 21, 2017, the ETF Board approved delegating oversight for the HSA and ERA programs (including LPFSA and Commuter Benefits) to the Board. The delegation was necessitated due to Wis. Stats. § 40.515 (2), which provides contractual authority for the HSA program to the Board. Additional rationale for the delegation of oversight can be found in the memo, [Delegation of Oversight of the ERA Programs and HSA Programs from the Employee Trust Funds Board to the Group Insurance Board](#) (Ref. ETF | 9.21.17 | 4A).

RFP Structure

Preliminary procurement activities related to these programs began in the fall of 2017. The new RFP will be a single release with four contractual components:

1. Section 125 Cafeteria Plan
2. Health Savings Account Program
3. Employee Reimbursement Account Programs
4. Fringe Benefits

Vendors will be able to bid on one program, a combination of any programs, or all four of the components. The RFP will be structured in a way that maximizes bidding efficiency by reducing duplicative questions or submissions.

It is possible the four RFP components may be awarded to four different vendors, a mix of vendors, or a single vendor. Table 1 provides possible vendor contract scenarios related to a four-component RFP.

Table 1 – Possible Vendor Contract Scenarios

1 Vendor	2 Vendors	3 Vendors	4 Vendors
Cafeteria Plan	Cafeteria Plan	Cafeteria Plan	Cafeteria Plan
HSA Program	HSA Program	HSA Program	HSA Program
ERA Programs	ERA Programs	ERA Programs	ERA Programs
Fringe Benefits	Fringe Benefits	Fringe Benefits	Fringe Benefits

Component 1 – Section 125 Cafeteria Plan

A Cafeteria Plan is an employee benefits program designed to take advantage of Section 125 of the Internal Revenue Code. A Cafeteria Plan allows employees to pay certain qualified expenses, such as health insurance premiums, Health Care FSA, Dependent Day Care FSA, on a pre-tax basis, thereby reducing their total taxable income and increasing their spending/take-home income. Since the Cafeteria Plan offers a tax-advantage, employers experience tax savings from reduced FICA.

ETF has not previously sought a third-party administrator for the Section 125 Cafeteria Plan. A qualified Cafeteria Plan third party administrator will:

- Provide expert guidance regarding ETF’s Section 125 Cafeteria Plan Document and Summary Plan Description (SPD)
- Establish accurate and current plan documentation to avoid compliance issues and any possible adverse tax consequences
- Conduct non-discrimination testing on a consistent annual basis
- Provide guidance as IRS regulations changes

Annual non-discrimination testing is required by the IRS. Non-discrimination rules are designed to ensure plans do not discriminate in favor of highly compensated employees. TASC currently provides non-discrimination testing for ETF.

Non-discrimination tests are complex and most employers use an outside service provider to complete them. Testing is typically completed in the first half of the year to allow plenty of time to address any issues identified during the testing process. The current annual non-discrimination testing process will continue to be refined and improved with a Cafeteria Plan vendor.

OSHP staff are developing comprehensive plan documentation with the assistance of ETF’s Office of Legal Services. Additional tax and compliance expertise is required to produce accurate and current documentation, given ETF’s non-ERISA status and benefit complexity.

A qualified Cafeteria Plan third party administrator will ensure the Plan Document and SPD will be revised in a timely manner to reflect benefit design changes, legislation, and IRS regulation changes.

A Cafeteria Plan Document should allow every employee, upon examination, to understand his or her rights and obligations under the plan. Plan documents should also be consistent with plan administration.

An SPD is the document provided to participants to explain their rights and obligations under the plan. The SPD is also intended to provide a summary of the plan's terms and should be written in a way the average participant can understand.

A lack of current plan documentation and required non-discrimination testing can lead to adverse tax consequences, and in some cases, the loss of Cafeteria Plan eligibility. A Section 125 Cafeteria Plan administrator will ensure that ETF is compliant with all requirements and simultaneously increase administrative efficiency.

Component 2 – Health Savings Account Program

As noted in the memo, [HSA and ERA Program Overview](#) (Ref. GIB | 11.15.17 | 4A), the current contract structure pairs the HSA and LPFSA programs; however, this program pairing does not reflect industry best practice. The LPFSA is an ERA program, which has different IRS regulations than the HSA.

Offering the HSA as a separate contract will make program administration less complicated for both the vendor and ETF. It may also attract more HSA-focused vendors during the bidding process, which would bring a new level of expertise and potential improved financial performance to the program.

HSA-focused vendors include banks and investment firms, which inherently specialize in fund performance and financial outcomes. Partnering with an HSA-focused vendor will help to properly promote interest earning opportunities and educate members how to make the most of their HSAs.

Component 3 – Employee Reimbursement Account Programs

The ERA programs contract will include the administration of:

- **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.

Component 4 – Fringe Benefit Programs

The Fringe Benefit programs contract will include the administration of:

- **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.

RFP Considerations

Lessons learned from current vendor implementation and performance enhancements will be the cornerstone of the RFP. The following will be key components of the RFP:

- **Standard Business Practices:** The findings and recommendations stemming from the recent audits conducted by Wipfli and ETF's Office of Internal Audit will be incorporated into the RFP. Vendors will be asked to demonstrate expertise in providing business recommendations for program improvement as well as standard reports, including discrepancy reporting and adjustments.
- **Project Management:** A standard annual project plan must be provided as part of the RFP. Issue resolution and high-level customer service will also be important for new vendor(s) to demonstrate.
- **Compliance:** Vendors shall provide detailed information regarding their compliance capabilities and a dedicated compliance contact for the State of Wisconsin shall be identified.
- **Payroll Center and Benefit Staff Support:** Vendors shall provide detailed information regarding resources and training materials available to State payroll centers and benefits staff. These resources may include, but are not limited to, communication templates, administrative guides, training webinars or tutorials, technical support, and account management assistance.
- **Debit Card Functionality:** Vendors submitting proposals for the HSA, ERA, and Fringe Benefit program contracts will be required to provide detailed information pertaining to debit card functionality. Currently, the LPFSA has limited debit card functionality, while parking and transit accounts have very limited debit card functionality.
- **Educational Materials:** Vendors should either have pre-existing educational resources (webinars, participant guides, etc.) or be willing to work with ETF to

develop them based on existing custom State of Wisconsin materials. Participant guides will provide complete guidance for each program and be made available to participants without the need to log in to an account.

- **Marketing Materials:** Open enrollment materials will be developed by the vendor(s). Vendors will be required to submit sample communication templates.
- **Performance Standards and Guarantees:** Since 2016, ETF has implemented performance standards and guarantees in TASC contract extensions. These include items listed above, as well as customer service standards, reporting enhancements, and unsubstantiated claim resolution assistance.

Procurement and Implementation Timeline

An approximate timeline of next steps, including procurement and implementation, follows below.

February 2018	Board approves issuing RFP for Section 125 Cafeteria Plan, HSA, ERA, and Fringe Benefit programs
June 2018	ETF issues RFP
August 2018	Proposals due
February 2019	RFP results reviewed by the Board and Board approves recommended vendor(s) to contract with for 2020
May 2019	Onboarding of new vendor(s) begins
July 2019	Launch member education and communications plan
October 2019	Enrollment begins

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