



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

Wisconsin Department
 of Employee Trust Funds
 PO Box 7931
 Madison WI 53707-7931
 1-877-533-5020 (toll free)
 Fax 608-267-4549
 etf.wi.gov

Correspondence Memorandum

Date: July 23, 2020
To: Group Insurance Board
From: Xiong Vang, HSA & ERA Accounts Program Manager
 Office of Strategic Health Policy
Subject: Section 125 Cafeteria Plan Approval for 2021

The Department of Employee Trust Funds (ETF) requests the Group Insurance Board (Board) approve the proposed changes to the Section 125 Cafeteria Plan effective January 1, 2021.


Background

A cafeteria plan is a plan established in accordance with the requirements prescribed by Internal Revenue Code (IRC) Section 125 and provides participants the option to pay for certain qualified benefit premiums pre-tax through a salary reduction agreement, reducing their taxable gross income. Benefits such as health, dental, vision, and life insurance premiums can be made with pre-tax dollars via paycheck deductions. Pre-tax saving accounts, such as the Health Savings Account (HSA), Health Care Flexible Spending Account (FSA), Limited Purpose Health Care Flexible Spending Account (LPFSA), and Dependent Day Care Account (DCA), also have contributions deducted pre-tax.

The Internal Revenue Service (IRS) requires a Plan Document be established for accurate documentation of how a cafeteria plan works. The Board has oversight authority for the Section 125 Cafeteria Plan under Wis. Stats. § 40.03(6) & 40.85. ETF and ConnectYourCare (CYC) maintain the Plan Document to ensure compliance with state and federal law changes.

FSA Contribution Limit

On November 6, 2019, the IRS announced a contribution increase of up to \$2,750 for the Health Care FSA and LPFSA under [Rev. Proc. 2019-44](#). The State of Wisconsin [Section 125 Plan Document](#) did not adopt a contribution limit increase for the 2020 plan year because the notice was released after the open enrollment period (September 30, 2019 – October 25, 2019). Furthermore, the increase was not significant, amounting to \$50 more than the 2019 FSA contribution limit of \$2,700. A late adoption would have required extensive changes to printed materials, online information, communications,

Reviewed and approved by Eileen K Mallow, Director, Office of Strategic Health Policy
 Electronically Signed 8/3/20

Board	Mtg Date	Item #
GIB	8.19.20	10

and system updates, which would have created an unbalanced administrative burden for employers and the third-party administrator, CYC.

ETF is proposing this contribution limit increase be included in the revised Section 125 Cafeteria Plan for plan year 2021.

HSA Contribution Limit

On May 20, 2020, the IRS released [Rev. Proc. 2020-32](#) that allows inflation-adjusted amounts for the HSA for calendar 2021, as determined under Section 223 of the IRC. An individual with self-only coverage under a High Deductible Health Plan (HDHP) can contribute up to \$3,600 (an increase from \$3,550 for 2020), and an individual with family coverage under a HDHP can contribute up to \$7,200 (an increase from \$7,100 for 2020).

ETF is proposing this contribution limit increase be included in the revised Section 125 Cafeteria Plan for plan year 2021.

Plan Document Changes

On June 29, 2020, the Board approved the FSA carryover limit of up to \$550 for the 2021 plan year ([Ref. GIB | 6.29.20 | 4A](#)). ETF recommends the following changes to the Plan Document for plan year 2021:

- Amended and restated effective date to January 1, 2021
- HSA contribution limits increased to \$3,600 for individual and \$7,200 for family
- Health Care FSA and LPFSA contribution limits increased to \$2,750
- Health Care FSA and LPFSA carryover limits increased to \$550
- Added Appendix 2 in reference to the component plans

See Attachment A for more detail. The proposed modifications to the contribution rates will create a better experience for members and employers, resulting in cost savings and improved quality of the programs.

The Plan Document has been reviewed by ETF program managers, CYC legal staff, and ETF's Office of Legal Services to certify the appropriate changes for 2021 have been made. There were no concerns about the changes from the reviewers, as the changes are limited in scope.

ETF will continue to present Plan Document revisions to the Board for approval on an annual basis.

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

Where Is It Located?	Description of Change Requested	Effective Date	Proposed Language	Comments	Triple Aim Analysis: How will this change impact quality/experience, health and cost?
Title Page	Amended & Restated Date	January 1, 2021	Amended & Restated: January 1, 2021	2020 Plan Document was amended and restated January 1, 2020	Quality: none; internal administrative change only Health: none; internal administrative change only Cost: none; internal administrative change only
Article 6 - 6.01	IRS limit on Health Care and Limited Purpose FSA contribution change	January 1, 2021	The maximum annual reimbursement under the Health Care FSA and LPFSA for 2021 shall be \$2,750.	2020 plan year contribution was \$2,700	Quality: Allows additional contribution and up to date with IRS regulations Health: Provides additional savings and reimbursement for medical expenses Cost: none; system administrative change only
Article 6 - 6.02	IRS limit on HSA contribution change	January 1, 2021	Only the current balance of the HSA shall be available to the Participant, and the maximum annual reimbursement under the HSA for 2021 shall be \$7,200 for a family plan and \$3,600 for a single plan, and any additional qualifying catch-up contributions or rollover contributions from an HSA.	2020 plan year contribution was \$3,550 for individual plan and \$7,100 for family plan	Quality: Allows additional contribution and up to date with IRS regulations Health: Provides additional savings and reimbursement for medical expenses Cost: none; system administrative change only
Article 6 - 6.05	FSA carryover limit	January 1, 2021	The carryover maximum will be the lesser of the amount communicated in the enrollment materials or \$550.	2020 plan year FSA carryover balance was up to \$500. Note: The FSA carryover was approved by the Board on June 29, 2020.	Quality: Allows additional carryover and up to date with IRS regulations Health: Provides additional savings and reimbursement for medical expenses Cost: none; system administrative change only
Appendix 2	Add links reference to each of the component plans	January 1, 2021	APPENDIX 2 – COMPONENT PLANS REFERENCE: Health Insurance Dental Insurance Vision Insurance Life Insurance Health Savings Account Flexible Spending Accounts		Quality: none; internal administrative change only Health: none; internal administrative change only Cost: none; system administrative change only