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 SECRETARY

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## **Correspondence Memorandum**

**Date:** July 19, 2021  
**To:** Group Insurance Board  
**From:** Xiong Vang, HSA & ERA Accounts Program Manager  
 Office of Strategic Health Policy  
**Subject:** Section 125 Cafeteria Plan Document Update

**The Department of Employee Trust Funds (ETF) requests the Group Insurance Board (Board) approve the Health Savings Account (HSA) contribution limit increase to \$3,650 for individual plan and \$7,300 for family plan within the Section 125 Cafeteria Plan effective January 1, 2022.**

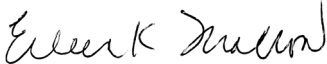
### **Background**

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 (LPHSA), and Dependent Day Care Account Program (DCAP), 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.

### **HSA Contribution Limit**

On May 10, 2021, the IRS released [Rev. Proc. 2021-25](#) that allows inflation-adjusted amounts for the HSA for calendar 2022, 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 \$3,650 (an increase from \$3,600 for 2021), and an individual with family

Reviewed and approved by Eileen K Mallow, Director, Office of Strategic Health Policy  Electronically Signed 08.09.21
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coverage under a HDHP can contribute up to \$7,300 (an increase from \$7,200 for 2021).

ETF is proposing this contribution limit increase be included in the revised Section 125 Cafeteria Plan for plan year 2022.

### **FSA Contribution Limit and Carryover**

The FSA annual contribution will remain up to \$2,750 and no changes. FSA rollover contributions increased in 2020 to 2021 from \$550 up to \$1,000. The recent FSA carryover adopted by the Board on May 12, 2021 is only applicable for the current year in response to the pandemic ([Ref. GIB | 04.12.21 | 12C](#)). FSA carryover will revert back to the limit of up to \$550 from 2021 into 2022.

### **DCAP Contribution Limit and Carryover**

The provisions related to the DCAP contribution limit of \$10,500 and carryover balance up to \$2,500 approved by the Board will revert back to their original limits. IRS regulations allowed a temporary relief in response to members not being able to utilize their contributions during the pandemic. The DCAP contribution limits will be \$5,000 and will have no carryovers for 2022. ETF will look to expand these provisions in the future when federal law allows for employers to adopt them permanently.

### **Plan Document Changes**

ETF recommends the following changes to the Plan Document for plan year 2022:

- Amended and restated effective date to January 1, 2022
- HSA contribution limits increased to \$3,650 for individual and \$7,300 for family

Optum Financial, the third-party administrator of the pre-tax saving account benefits, will provide communications to participating members regarding the provision changes during 2022 Its Your Choice Open Enrollment period.

Plan Document revisions will be provided to the Board for approval on an annual basis.

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