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Correspondence Memorandum

Date: July 22, 2022

To: Group Insurance Board

From: Xiong Vang, HSA & ERA Accounts Program Manager
 Office of Strategic Health Policy

Subject: Section 125 and Transit/Parking Plan Document Updates

The Department of Employee Trust Funds (ETF) requests the Group Insurance Board (Board) adopt the following changes to the Section 125 Cafeteria Plan and Transit and Parking Plan Document effective January 1, 2023:

- 1) Increase the Health Savings Account (HSA) annual contribution limit to \$3,850 for an individual plan and \$7,750 for a family plan;
- 2) Increase the Health Care Flexible Spending Account (FSA) and Limited Purpose FSA annual contribution limit to \$2,850;
- 3) Increase the Health Care FSA and Limited Purpose FSA annual carryover limit to \$570; and
- 4) Increase the Transit Account and Parking Account contribution limit to \$280 per month.


Background

Section 125 of the Internal Revenue Code (IRC) allows ETF to establish a cafeteria plan 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 deduction. Pre-tax saving accounts, such as the HSA, Health Care FSA, Limited Purpose FSA, and Dependent Day Care Account also have contributions deducted pre-tax under the cafeteria plan.

Section 132 of the IRC, Wis. Stat. § 40.02(26g), and Wis. Stat. § 40.85 allows ETF to offer the commuter fringe benefit accounts to state employees. Participants may elect pre-tax deductions for qualified parking expenses and/or mass transit expenses. This benefit plan can be used for qualified transportation expenses incurred getting to work, such as parking or bus transit passes.

The Internal Revenue Service (IRS) requires a Plan Document be established for accurate documentation of how a cafeteria plan and transit/parking plan works. ETF

Reviewed and approved by Eileen K Mallow, Director, Office of Strategic Health Policy
 Electronically Signed 07/28/2022



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maintains a [Section 125 Cafeteria Plan Document](#) and [Transit and Parking Plan Document](#) that constitutes the official plan document of the how each of the benefit plan works. The Board has oversight authority for the plan documents. ETF and Optum maintain the plan documents to ensure compliance with state and federal law and plan design changes. IRS can change the maximum allowable, but individual plan sponsors set their own contribution and carryover limits within those maximums. The Board must annually revise its plan if it wishes to adopt IRS changes that are higher than the current limits.

HSA Contribution Limit Change

On April 29, 2022, the IRS released Rev. Proc. 2022-24 that allows an employer to adopt an HSA contribution increase for 2023 plan year. A person with individual coverage under a High Deductible Health Plan (HDHP) can contribute up to \$3,850 (an increase from \$3,650 for 2022), and a person with family coverage under a HDHP can contribute up to \$7,750 (an increase from \$7,300 for 2022).

ETF recommends the Board revise the Section 125 Cafeteria Plan to increase the HSA limits accordingly.

FSA Contribution and Carryover Limit Change

On November 10, 2021, the IRS released the [Revenue Procedure 2021-45](#), allowing an employer to adopt an annual contribution increase up to \$2,850 for the Health Care FSA and Limited Purpose FSA. For those plans that allow a rollover of unused funds, the maximum rollover amount will increase from \$550 to \$570 for 2022.

ETF did not adopt the provisions allowed in Rev. Pro. 2021-45 for 2022 because the notice was released after the open enrollment period (September 27– October 22, 2021). A late adoption would have required extensive changes with the stakeholders and created an unbalanced administrative burden for employers and the third-party administrator of the pre-tax saving accounts, Optum.

ETF recommends the Board revise the Section 125 Cafeteria Plan to increase the FSA contribution limit to \$2,850 and the carryover to \$570.

Commuter Benefits Contribution Limit Change

The Rev. Proc. 2021-45 also allows an employer to adopt the provision increasing contribution limits for the commuter benefits to \$280 per month. Similar to the FSA contributions, ETF did not adopt the limit increase for the 2022 plan year because the notice was released after the annual open enrollment period.

ETF recommends the Board revise the Transit and Parking Plan Document to increase contribution limits to \$280 per month.

Communications

Optum will provide communications to participating members regarding the changes adopted by the Board during the 2023 open enrollment period. Plan Documents will be

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revised to include updated contributions and plan design changes effective for plan year 2023.

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