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**Correspondence Memorandum**

**Date:** July 6, 2023

**To:** Group Insurance Board

**From:** Xiong Vang, HSA & ERA Accounts Program Manager  
 Luis Caracas, Health Plan Policy Advisor  
 Office of Strategic Health Policy

**Subject:** Authority to Automatically Adjust Pre-Tax Savings Account Programs' and High Deductible Health Plan (HDHP) Limits

**The Department of Employee Trust Funds (ETF) requests the Group Insurance Board (Board) grant ETF authority to automatically reflect the maximum contribution and carryover limits defined by the Internal Revenue Service (IRS) for the Board's Pre-Tax Savings Account Programs and the minimum deductible for the High Deductible Health Plan (HDHP) effective for 2024. ETF also recommends authority to make related Plan Document updates.**

**Pre-Tax Savings Accounts**

Section 125 of the Internal Revenue Code (IRC) allows state employees to pay for health, dental, vision, and life insurance premiums with pre-tax dollars via paycheck deduction. Pre-tax savings account programs, such as the Health Savings Account (HSA), Health Care Flexible Spending Account (FSA), Limited Purpose FSA, and Dependent Day Care Account also have contributions deducted pre-tax under Section 125, also known as the Cafeteria Plan.

Section 132 of the IRC, Wis. Stat. § 40.02(26g), and Wis. Stat. § 40.85 allows ETF to offer 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, also known as Transit Account and Parking Account, can be used for qualified transportation expenses incurred getting to work, such as parking or bus transit passes. Since 2020, Optum Financial (Optum) is the third-party administrator (TPA) for these pre-tax savings account programs.

The IRS can change the maximum allowable contributions and respective carryover limits for pre-tax savings accounts, but individual plan sponsors set their own contribution and carryover limits within those maximums.

*Eileen K Mallow*

Reviewed and approved by Eileen Mallow, Director, Office of Strategic Health Policy  
 Electronically Signed 07/19/2023

Board	Mtg Date	Item #
GIB	07.26.23	9

Each year ETF requests new contribution and carryover limits to be adopted that follow the IRS maximum limits. The Board has approved ETF's recommendations since the offering of the pre-tax savings account programs.

### **HDHP Minimum Deductible and HSA**

Wis. Stat. §40.515 requires the Board to offer all state employees the option of coverage through an HDHP. This statute also requires that the HDHP may be used in conjunction with an HSA. This primarily means that the deductible must meet the minimums defined by the IRS. When the HDHP began in 2015, the deductible was set at \$1,500 for an individual and \$3,000 for a family plan. Until now, this amount has been at or above the minimum deductibles set by IRS.

IRS notice ([Rev. Proc. 2023-23](#)), issued in May 2023, increases the minimum deductible amount to \$1,600 for individual coverage and \$3,200 for family coverage. These amounts were adjusted due to inflation and may be adjusted annually moving forward.

The IRS notice also established an HDHP maximum out-of-pocket. In the case of the Board's HDHP, the out-of-pocket limits are substantially lower than the released amounts (\$8,050 for individual coverage or \$16,100 for family coverage). There are no changes to the State HDHP maximum out-of-pocket limit (\$2,500 for individual coverage and \$5,000 for family coverage). The 2024 HDHP inflation-adjusted deductible amounts are as follows:

*Table 1. HDHP Minimum Deductibles*

<b>HDHP Minimum Deductible</b>	<b>2023</b>	<b>2024</b>
<b>Individual</b>	\$1,500	\$1,600
<b>Family</b>	\$3,000	\$3,200

In order to remain compliant with both Wisconsin State Law and IRS guidance, the Board's HDHP deductibles must be increased for program year 2024.

### **Plan Document Requirement**

The IRS requires a plan document to be established for accurate documentation of how a Cafeteria Plan and commuter fringe benefit plan work. ETF maintains a [Section 125 Cafeteria Plan Document](#) and [Transit and Parking Plan Document](#) that constitute the official plan documents of how each of the pre-tax benefit plans work.

Plan documents are reviewed annually by ETF and Optum to ensure compliance with state and federal law and plan design changes. The IRS can change the maximum allowable contribution limits, 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 set by the Board. The Board has oversight authority for the plan documents, and the documents are signed by the Board's chairman on or before the first day of each plan year that they will

be effective.

### Conclusion

ETF requests the Board to grant ETF the authority to automatically make annual updates to monetary limits defined by the IRS for the Board's pre-tax savings account programs and the HDHP effective for 2024. Adopting these limits allows members to save more by reducing their tax liability and paying for eligible medical and commuter expenses. This will allow the Board to prioritize efforts in other benefit areas instead of having to approve the reoccurrence of a monetary set by IRS each year. Optum will provide communication to participating members regarding the changes during the 2024 open enrollment period. Optum and ETF will also notify employers of these contribution limit changes in August 2023. Plan documents will be revised to include updated contributions and carryover limits and plan design changes effective for the plan year 2024.

If the Board does not approve ETF's recommended authority, ETF recommends the Board approve the changes below for 2024.

### Pre-Tax Savings Accounts

#### HSA Contribution Limit Changes

The IRS has issued its annual inflation adjustment to the HSA contribution limits for the calendar year 2024 ([Rev. Proc. 2023-23](#)). Inflation was much higher than normal last year and is responsible for a second consecutive unusually large HSA contribution limit increase. The result is a \$300 and \$550 increase to the 2024 individual and family coverage HSA contribution limits, respectively.

*Table 2. 2023-2024 HSA Contribution Limits*

HSA Coverage Level	2023	2024
Individual	\$3,850	\$4,150
Family	\$7,750	\$8,300

ETF recommends the Board revise the Section 125 Cafeteria Plan to increase the HSA limits accordingly to the amounts in Table 2 for 2024 and grant ETF the authority to make updates to HSA monetary limits.

#### FSA Contribution and Carryover Limit Changes

On October 18, 2022, the IRS released [Rev. Proc. 2022-38](#), which outlines the 2023 adjustments for FSA annual contribution limit and carryover amount. The limits increase significantly. However, ETF did not adopt these limits for 2023 because the notice was released in the middle of the open enrollment period (September 26–October 21, 2022).

The Board had already adopted new FSA limits at the August 2022 meeting ([Ref. GIB | 08.17.22 | 10](#)). Late adoption of the Rev. Proc. 2022-38 would have required extensive changes with stakeholders and created an unbalanced administrative burden for

employers and the TPA of the pre-tax saving accounts, Optum. ETF notified employers that the release of Rev. Proc. 2022-38 would be proposed for adoption in 2024.

The FSA annual contribution limit increased from \$2,850 to \$3,050, and the maximum carryover limit increased from \$570 to \$610. The result is a \$200 increase in the FSA contribution limit and a \$40 increase in the carryover limit. These changes affect the Health Care FSA and Limited Purpose FSA.

*Table 3. 2023-2024 FSA Contribution Limits and Carryover*

<b>FSA Limits</b>	<b>2023</b>	<b>2024</b>
<b>FSAs Contribution Limit</b>	\$2,850	\$3,050
<b>Carryover Limit</b>	\$570	\$610

ETF recommends the Board revise the Section 125 Cafeteria Plan to increase the FSA contribution limit and carryover amount accordingly to the national standards in Table 3 for 2024. It is also recommended that the Board grant ETF the authority to make updates to FSA monetary limits.

Commuter Benefits Contribution Limit Changes

Similarly, the IRS released new commuter fringe benefits contribution limits through the [Rev. Proc. 2022-38](#). For commuter benefits, the monthly contribution amount for transportation in a commuter highway vehicle and any transit pass is \$300. The monthly contribution amount for parking is \$300.

*Table 4. 2023-2024 Commuter Benefits Contribution Limits*

<b>Commuter Benefits</b>	<b>2023</b>	<b>2024</b>
Parking Account	\$280	\$300
Transit Account	\$280	\$300

ETF recommends the Board revise the Transit and Parking Plan Document to increase contribution limits to \$300 per month accordingly to the national standards in Table 4 for 2024. It is also recommended that the Board grant ETF the authority to make updates to commuter plan monetary limits as needed.

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