



BOARD OF SUPERVISORS
AGENDA LETTER

Agenda Number:

Clerk of the Board of Supervisors
105 E. Anapamu Street, Suite 407
Santa Barbara, CA 93101
(805) 568-2240

Department Name: CEO/Human Resources
Department No.: 064
For Agenda Of: 11/20/2007
Placement: Administrative
Estimate Time: n/a
Continued Item: NO
If Yes, date from:
Vote Required: Majority

TO: Board of Supervisors

FROM: Department Director(s) Susan Paul, 568-2817

Contact Info: Scott Turnbull, 568-2821

SUBJECT: Approval of Flexible Benefits Plan Amendment to Allow the Rollover of Health Care Reimbursement Account Funds to Health Savings Accounts

County Counsel Concurrence:

As to form: Yes No N/A

Auditor-Controller Concurrence:

As to form: Yes No N/A

Other Concurrence: N/A

As to form: Yes No N/A

Recommended Action(s):

Approve the attached amendment to the County's Flexible Benefits Plan to allow employees with a Health Care Reimbursement Account balance on December 31, 2007 or December 31 of any subsequent year through December 31, 2011 to establish a pre-tax Health Savings Account (HSA) for unreimbursed medical expenses on January 1 of the following year.

Summary:

This recommended action will amend the County's cafeteria plan document, the Flexible Benefits Plan, to allow employees with a Health Care Reimbursement Account to transfer those funds at the end of the calendar year under certain conditions. Employees who establish an HSA account and transfer their Health Care Reimbursement Account funds will no longer be required to use their funds by the end of the plan year or during the grace period extension. Transfer of these funds to an HSA will allow employees to carry over HSA account balances each year indefinitely and without penalty. HSA funds can also be used to pay for COBRA coverage and long term care insurance.

Background:

The County has maintained an IRS qualified cafeteria plan with pre-tax benefits since the 1980's. The goal of the cafeteria plan is to allow employees to pay for a variety of benefits with pre-tax dollars, thus reducing their overall benefit costs and increasing net earnings. One of the cafeteria plan options is the Health Care Reimbursement Account also known as a Health

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Care Flexible Spending Account or FSA. Employees can choose to deduct up to \$5,000 from their salary before taxes, to pay for medical, dental, and vision expenses including over-the-counter medical items that are not covered by their insurance plans. By definition, FSA accounts have a “use it or lose it” penalty in which the IRS requires the holder to spend all designated funds by the end of the plan year or lose the remaining funds. When this occurs the employer retains the unspent funds for administrative expenses. One way for employees to avoid the loss of funds is to establish an HSA and transfer the employee’s existing FSA funds into an HSA.

The amendment recommended to the Board would enable employees to transfer their health care FSA funds into HSAs upon meeting certain IRS requirements. In order to transfer their account balance, employees would need to:

- Have had a Health Care Reimbursement Account on September 21, 2006
- Have a balance as of December 31 that is less than or equal to their September 21, 2006 balance
- Enroll in a high deductible PPO health plan for the following year and establish an HSA
- Maintain an HSA account for at least one year

There are currently 816 employees with health care reimbursement accounts under the County’s cafeteria plan, not all of whom will meet the eligibility requirements listed above. Blue Shield provided the County with the opportunity to have a special open enrollment period, prior to January 1, in order to allow eligible employees to enroll in and take advantage of this option. Other employees without health care FSAs could also enroll in the high deductible PPO health plan and start an HSA at that time.

Performance Measure: N/A

Fiscal and Facilities Impacts:

Budgeted: Yes No

Fiscal Analysis:

There are no net County costs for this program. The County annually contributes \$550 to HSA’s for those employees who enroll in a high deductible PPO health plan. The County’s cost of coverage for employees’ health plan coverage is reduced sufficiently to cover the employer contribution to the HSA.

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Staffing Impact(s):

Legal Positions:

0

FTEs:

0

Special Instructions:

Please sign the two attached amendments and return one to the CEO/Human Resources Department.

Attachments:

Amendment A – Health Care Reimbursement Account Component Plan

Authored by:

Scott Turnbull, Employee Benefits Manager

cc: All Department Heads
All Employee Organizations

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