

OFFICE OF THE CITY MANAGER  
DES MOINES, IOWA

CITY COUNCIL COMMUNICATION 96-490  
NOVEMBER 18, 1996 AGENDA

SUBJECT:	TYPE:	SUBMITTED BY:
AMENDMENT TO FLEXIBLE SPENDING ACCOUNTS	◆ RESOLUTION ORDINANCE RECEIVE/FILE	MARK SCHULTZ RISK MANAGEMENT COORDINATOR

**SYNOPSIS —**

On October 17, 1994, by Roll Call No. 94-4059, and January 2, 1996, by Roll Call No. 96-105, the City Council approved Flexible Spending Account (FSA) programs for SPM and union employees, respectively. At that time, the maximum amount allowed for Medical Care Expense Reimbursement under each plan was limited to \$2,600 per year. However, Internal Revenue Service regulations do not limit the amount that may be allowed. Therefore, at the City Manager's direction, the Risk Management Office is requesting that this limit be increased to \$5,000 per plan year.

**FISCAL IMPACT —**

None. This action only allows employees to place more of their own earnings into an FSA for the purpose of Medical Care Expense Reimbursement.

**RECOMMENDATION —**

Approval.

**BACKGROUND —**

The advantage and disadvantage of this action lie in the fact that when offering an FSA, both the employer and the employee are placed at risk. The employee is placed at risk because IRS rules state that if the employee does not use all of the money set aside in the FSA, the employee loses the balance and it reverts to the employer to be used to offset administration costs. However, because the employer gains the benefit of receiving any unused FSA funds, if the employee leaves prior to the end of the year and has not contributed to the plan an amount equal to that reimbursed from the plan, the employer cannot require repayment for the portion received but not contributed to by the employee.

However, in calendar year 1995, employees contributed \$45,104.76 for Medical Care Expense Reimbursement, and the plan reimbursed \$44,104.80. Thus, the City gained the remaining balance of \$999.96, which was used to offset administration costs associated with the FSA plan.