

**CITY COUNCIL
COMMUNICATION:**

03-584

AGENDA:

DECEMBER 8, 2003

SUBJECT:

PLAN AMENDMENT
FOR SPM SECTION
125 CAFETERIA PLAN

TYPE:

RESOLUTION
ORDINANCE
RECEIVE/FILE

SUBMITTED BY:

TOM TURNER
HUMAN RESOURCES
DIRECTOR

ITEM _____

**OFFICE OF THE CITY MANAGER
CITY OF DES MOINES, IOWA**

SYNOPSIS —

Amendment of Supervisory, Professional and Management (SPM) Plan Document for Section 125 Cafeteria Plan Coverage (flexible spending accounts) to include over-the-counter (OTC) medicines and drugs effective January 1, 2004.

FISCAL IMPACT —

None.

RECOMMENDATION —

Approve amended SPM Section 125 Plan document to include reimbursement for OTC medicines and drugs as promulgated by the Internal Revenue Service.

BACKGROUND —

In July 1994, the City established a Section 125 Cafeteria Plan for SPM employees for the purpose of reimbursing SPM employees for non-insured medical expenses and dependent daycare expenses. This plan, more commonly known as Flexible Spending Arrangements (FSA) allows employees to defer up to \$5,000 of their salary per year into a medical and/or dependent day care account. Currently, 129 SPM employees defer some of their salary into a medical FSA account and 29 SPM employees defer into a dependent daycare account. By deferring salary into these programs, employees pay for certain medical and daycare expenses pre-tax.

In an IRS Revenue Ruling 2003-102 issued on September 3, 2003, the IRS changed its long-standing position and ruled that Over-the-Counter (OTC) "medicines and drugs" can be reimbursed by employer sponsored health plans. Only OTC drugs purchased to alleviate or treat personal injuries or illnesses are eligible for reimbursement. Drugs that are merely beneficial to the general health (facial creams, vitamins, toothpaste, etc.) are not reimbursable. In order to effectuate this new provision, the SPM plan document must be amended to include OTC drugs as an eligible expense.

A separate Section 125 Cafeteria Plan covers all other City employees covered by collective bargaining agreements. Inclusion of OTC drugs and medicines is a benefit subject to bargaining and may be negotiated with each union.