



**Council
Communication**
Office of the City Manager

Date

April 24, 2006

Agenda Item No. 61

Roll Call No. 06-

Communication No. 06-218

Submitted by: Thomas G. Turner, Human Resources Director

AGENDA HEADING:

Amendment of Plan Documents for Section 125 Cafeteria Plan Coverage (flexible spending accounts) for Supervisory, Professional and Management (SPM) and Collective Bargaining Units (Union).

SYNOPSIS:

Approve amended SPM and Union Plan Documents to include reimbursement for over-the-counter (OTC) medicines and drugs and to extend the plan year-end date to March 15 in accordance with collective bargaining agreements and the Internal Revenue Service.

FISCAL IMPACT:

Amount: None

Funding Source: N/A

ADDITIONAL INFORMATION:

Regular full-time City employees are eligible to participate in a Section 125 Cafeteria Plan, more commonly known as a Flexible Spending Account or FSA. An FSA allows employees to defer payroll earnings before-tax to offset the cost of uninsured medical expenses and/or dependent day-care costs. Employees eligible to participate in a FSA can defer up to \$5,000 of their salary per year into a medical account and up to another \$5,000 into a dependent day care account.

As required by the Internal Revenue Service (IRS), the City operates its FSA plans in accordance with written plan documents. The City has two plan documents, one for SPM employees and the other for employees represented by one of the City's seven collective bargaining units.

Since the original adoption of the City's FSA plans, the IRS has issued new rules that affect these cafeteria plans. In 2003, the IRS ruled that over-the-counter (OTC) medicines and drugs are eligible FSA expenses. In 2005, the IRS provided a 2½ month "grace period" for employees to use up their FSA funds.

These changes are not mandatory but rather at the employer's discretion. Until this year, only SPM employees could use FSA money to purchase OTC drugs. Through the collective bargaining process, CIPEC, the City's largest union, and MEA, the City's second largest unit, negotiated to receive the OTC benefit and the grace period.

The revised plan documents will effectuate these changes and any prospective changes with each of the bargaining units.

PREVIOUS COUNCIL ACTION(S):

Date: December 8, 2003

Roll Call Number: 03-2753

Action: Approve amended SPM Section 125 Plan document to include reimbursement for OTC medicines and drugs as promulgated by the Internal Revenue Service. Moved by Hensley to adopt. Motion carried 4-2. Absent: Vlassis

BOARD/COMMISSION ACTION(S): NONE

ANTICIPATED ACTIONS AND FUTURE COMMITMENTS: NONE