

COUNCIL ACTION FORM

SUBJECT: FLEXIBLE SPENDING PLAN DOCUMENT REVISION

BACKGROUND:

The City Council previously adopted a Flexible Spending Plan document to enable each benefit-eligible City of Ames employee to set aside a portion of his or her earnings to pay for qualified expenses such as health insurance premiums, as well as medical and dependent care expenses. Money deducted from an employee's pay into a Flexible Spending Account is not subject to payroll taxes resulting in substantial payroll tax savings.

In May 2005, the IRS issued Notice 2008-42 which allowed employers to adopt a grace period of up to 2 ½ months after a plan year for participants in Flexible Spending Accounts (FSAs) to use FSA funds that were unused during the plan year. The IRS reasoning behind this new rule is that other areas of tax law do not treat amounts paid within 2 ½ months after the calendar year as deferred compensation and that this principle may be applied to FSAs.

Implementation of this change requires that the City's Flexible Spending Plan Document be amended to allow for the additional grace period. This extended grace period provides for an improved benefit to plan participants without additional cost to the City.

ALTERNATIVES:

1. Amend the Flexible Spending Plan Document to allow for a 2 ½ month grace period at the end of the plan year in which to incur claims.
2. Do not amend the Flexible Spending Plan Document to allow for a 2 ½ month grace period at the end of the plan year in which to incur claims.

MANAGER'S RECOMMENDED ACTION:

This amendment is an enhancement of benefits to participants in the City's Flexible Spending Plan allowing for greater opportunity for members to utilize their flexible spending dollars without additional cost to the City. FSA funds unused at the end of the grace period will still be forfeited.

Therefore, it is the recommendation of the City Manager that the City Council adopt Alternative No. 1, thereby approving the amendment to the Flexible Spending Plan Document to allow for a 2 ½ month Grace Period at the end of the plan year in which to incur claims.