

Office of the City Manager

City of Richland Hills, Texas

Memorandum

To: Honorable Mayor Bill Agan and members of the Richland Hills City Council
From: Eric Strong, City Manager
Date: September 16, 2014
Subject: FSA Carry Forward

Council Action Requested:

Approve resolution amending the Section 125 Flexible Spending Account (FSA) Cafeteria Plan.

Background Information:

One of the benefits that the City of Richland Hills provides employees is the ability to enroll in a Section 125 Flexible Spending Account (FSA). FSA's are accounts that employees set up in which they divert a portion of their pay into a separate account which can be used for certain eligible expenses. The benefit to the employee is that these monies come out without being taxed, so it is a way to maximize their pay for eligible expenses. FSA's have no financial impact on the city, as the money comes straight out of the employee's check.

Traditionally FSA has a "use it or lose it" rule - any unspent money in an employee's account at the end of the plan year is lost. Healthcare Reform created a carryover provision that helps employees keep more of their FSA money. The carryover provision allows the employee at the end of a year to carryover any unspent money in their FSA, up to \$500, to the next plan year. Generally, employers who implement the carryover provision see increased FSA participation, increased FICA savings and higher employee satisfaction because employees get to hang onto their money.

This is an enhancement of the benefit that we can offer employees, which carries no material financial impact on the City.

Board/Citizen Input: N/A

Financial Impact: N/A

Staff Contacts:

Eric Strong
City Manager
estrong@richlandhills.com

Attachments: Amendment to the Cafeteria Plan
Resolution of the City Council
Summary of Modifications to the Plan

**FIRST AMENDMENT TO THE
City of Richland Hills
CAFETERIA PLAN**

THIS AMENDMENT TO THE CITY OF RICHLAND HILLS CAFETERIA PLAN (the "Plan") is adopted by City of Richland Hills, effective as of the dates set forth herein.

NOW, THEREFORE, effective as set forth below, the Plan is amended as follows:

- A. Effective [10/01/2013], pursuant to Internal Revenue Service Notice 2013-71, Article IV A is hereby amended to remove the Grace Period option as outlined in Sections 4.01A and 4.02A and allow Participants to carry over up to five hundred dollars (\$500.00) of unused Health FSA amounts at the end of the Plan Year to their Health FSA balance for the subsequent Plan Year. For avoidance of doubt, the carryover of up to \$500.00 does not impact the subsequent maximum Health FSA Participant Salary Reduction amount set by the IRS.

City of Richland Hills

By: _____

Title: _____

**ACTION TAKEN AND RESOLUTION ADOPTED BY CONSENT
OF THE BOARD OF DIRECTORS OF
City of Richland Hills**

The undersigned, being all of the members of the Board of Directors of City of Richland Hills (the "Employer"), hereby adopt the following Resolution by unanimous consent and direct that this Consent Resolution be entered in the minute books of the Employer.

WHEREAS, the Employer previously adopted a Code Section 125 plan, also known as the Cafeteria Plan, (the "Plan");

WHEREAS, effective immediately, Internal Revenue Service Notice 2013-71 (the "Notice") modified the "use-or-lose" rule for health flexible spending arrangements (FSAs) to allow, at the plan sponsor's option, employees participating in health FSAs to carry over up to five hundred dollars (\$500.00) of unused amounts remaining at year-end; and

WHEREAS, effective [10/01/2013] the Employer desires to amend the Plan as set forth in the attached Amendment and Summary of Material Modifications to make changes to allow employees a carryover of up to \$500.00 to the flexible spending account, consistent with the requirements set forth in the Notice.

NOW, THEREFORE, BE IT RESOLVED that the Board of Directors has hereby reviewed the attached Amendment and Summary of Material Modifications and does hereby approve the adoption of the Amendment as set forth therein;

BE IT FURTHER RESOLVED that the officers of the Employer are authorized and directed to take any and all action as may be necessary to effectuate this Resolution.

By _____ Date_____

By _____ Date_____

By _____ Date_____

**SUMMARY OF MATERIAL MODIFICATIONS TO THE
SECTION 125 PLAN**

This document summarizes important changes to your [Section 125 Plan] (the "Plan"). If you have any questions regarding the changes outlined in this Summary of Material Modifications ("SMM"), you should contact alt Bentley Yates. Keep a copy of this SMM with your Summary Plan Description for future reference.

**Changes to "Use-or-Lose" Rule for Health Flexible Spending Arrangements
("FSAs")**

Effective immediately, and for all future tax years after [10/01/2013], employees will be allowed to carry over up to \$500 of unused FSA amounts for qualified medical expenses incurred during the following year.

In order to take advantage of the carry over, the Plan is required to eliminate the Grace Period provision that allowed employees to use remaining FSA amounts to pay for expenses incurred during the two and half months after the end of the plan year.