

AGENDA: November 3, 2005

TO: Regional Transportation Commission
FROM: Tegan Speiser, Senior Transportation Planner
REGARDING: Implementation of Flexible Spending Account (FSA) Program for 2006

RECOMMENDATIONS

The Budget and Administration/Personnel Committee and staff recommend that the Regional Transportation Commission:

1. Approve entering into an agreement with the County of Santa Cruz regarding RTC participation in the County's Flexible Spending Account Program for 2006, as shown in Attachment 1.
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BACKGROUND

Currently the RTC provides benefits to its employees through participation in benefit programs offered by the County of Santa Cruz. When the RTC becomes an autonomous public agency, the Commission will become its own employer and provide a benefit program specific to the RTC. However, since RTC autonomy is scheduled to occur mid-year in 2006, some employee benefits like the Flexible Spending Account (FSA) program will require a special agreement to ensure that all parties' interests are protected during this transition year.

DISCUSSION

The County is offering a health care Flexible Spending Account (FSA) program to employees beginning January 2006. This program allows employees to pay for health care expenses with pre-tax dollars. Health care means medical, dental, vision and other preventative health expenses. FSAs can be used to cover eligible medical costs such as prescription drugs, office visit co-pays and deductibles. It cannot be used for health care plan premiums. The major provisions of the FSA program are dictated by IRS Tax Code.

The way the program typically works is that an employee calculates how much they anticipate their FSA eligible health care costs will be for the upcoming year. They then request that this amount be deducted from their paychecks spread in equal amounts over the pay periods in 2006. By December 31, 2006, the full amount of the FSA contributions elected will be paid in. Employees can spend a portion or the entire amount of the contributions they expect to make over a year's time at any time – even if their contributions do not yet total the amount of their expenses. After March 15, 2007, any unspent funds from 2006 FSA contributions become assets of the employer.

RTC employees may make contributions to the FSA program only as long as they remain County employees (per IRS Tax Code). When they formally become RTC employees on July 1, 2006, they cannot make any additional contributions. However, Commission employees participating in the County's FSA program may continue to spend funds that they already contributed to the FSA if they elect COBRA coverage and pay an administrative fee to continue in the program. They have the same 15 month window until March 15, 2007 in which to spend the funds that they have deposited through payroll deduction in 2006.

Participation in the County's FSA program is purely voluntary. Two RTC employees registered to participate in the FSA program during the open enrollment period.

County staff requested an agreement with the Commission regarding RTC participation in the 2006 Flexible Spending Account program. County and RTC staff have drafted an agreement ([Attachment 1](#)) that addresses: the period in which FSA contributions can be made by RTC employees; COBRA coverage; liability for un-reimbursed expenses; and the disbursement and tax implications of unspent FSA funds. Review and input on this agreement was also provided by the CAO, County Counsel, insurance broker Driver Alliant and the RTC's human resource and labor relations consultant Ellen Aldridge.

In addition, both SEIU Local 415, which represents the General Representation Unit of County employees, and the Mid-Management Association concur with the proposed FSA agreement.

At its October 13, 2005 meeting, the Budget and Administration/Personnel Committee approved recommending that the Commission approve entering into an agreement with the County regarding RTC participation in the County's 2006 Flexible Spending Program.

SUMMARY

Employees of the RTC currently receive their benefits through the employee benefit programs offered by the County of Santa Cruz. A new Flexible Spending Account (FSA) program that allows employees to pay health care expenses with pre-tax dollars begins in January 2006. Because the RTC will be transitioning to become an autonomous public agency in the middle of 2006, a special agreement is needed to outline the terms of RTC employee participation in the County FSA program. A proposed agreement ([Attachment 1](#)) developed between County and RTC staff has received the concurrence of SEIU Local 415, the County's Mid-Management Association and the RTC's Budget and Administration/Personnel Committee.

Attachment:

1. Proposed Agreement between the County of Santa Cruz and the RTC Regarding 2006 Flexible Spending Accounts