



UNITED STATES OFFICE OF PERSONNEL MANAGEMENT

Washington, DC 20415

The Director

Friday, November 7, 2003

MEMORANDUM FOR: Chief Human Capital Officers

FROM: Kay Coles James
Director

Subject: Changes in the Flexible Spending Account Program

I am writing to seek your input on changes to the Flexible Spending Account Program for Federal employees (FSAFEDS). Because the open season for employees to make FSAFEDS decisions for 2004 runs from November 10 through December 8, I would appreciate your comments by Wednesday, November 12.

We are in a position to make the program more meaningful to Federal employees by expanding the benefits of the health care component of FSAFEDS. On October 27, I announced that FSAFEDS would be among the first flexible spending account programs to cover over-the-counter drugs. I am now considering an increase in the contribution limit that employees have for their health care accounts from \$3,000 to \$4,000 per year, beginning in 2004. This will result in an economic benefit to all participating employees, and better protect our employees and their families against the rising costs of health care.

Unfortunately, the increase in value comes with an increase in the cost of operating the program. Covering over the counter drugs will generate more claims and will result in less forfeited reserves to cover costs. A higher employee contribution limit may also increase the risk to the plan administrator because employees may use their full-year election and leave Federal service before making all of their contributions. As a result, we need to increase fees for the health care accounts. This increase will be set aside and accessible to the plan administrator only with Office of Personnel Management (OPM) approval.

At this time, we believe the increase will be approximately \$3.50 per month per health care account, in addition to the \$4.00 per month per account you now pay in administrative fees. Agencies will continue to realize a net savings in overall operating costs. OPM Actuaries estimate that the net savings in 2004 to Federal agencies paying the administrative fees would have been \$61 per person per year per health care account. This analysis is based on governmentwide data, including the distribution of employees between the two retirement systems, and the number of FERS covered enrollees who have salaries above the OASDI cap. With an increase of \$3.50 per employee, agencies still will realize a net savings of \$19 per year per employee for each FSA health care account.

Please send your comments on this proposal to Steve Benowitz, Associate Director for Human Resources Products and Services, by email (sbenowit@opm.gov) or fax (202-606-2711). I appreciate your continued support for our employees through this program.

cc: Human Resource Directors