



January 7, 2005

## Payroll Letter 873

To: HR Administrators, Payroll Officers, Personnel Officers, Fiscal Officers, Labor Relations Officers, and EEO Officers of All Departments, Institutions, Boards and Commissions

From: Dan R. Parks, State Payroll Administrator

Subject: Health Care Spending Account

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A new pre-tax benefit is available to state employees beginning in 2005. The Health Care Spending Account (HCSA) permits employees to elect an amount to be deducted from his/her pay check every pay period. These pre-tax deductions are sent to FlexSave who is the third party administrator for maintenance of the employee accounts. As employees incur eligible expenses during the year, they may submit requests for reimbursement from their account directly to FlexSave.

During the first year of the program, employees may contribute up to \$500.00 into their HCSA. For 2006, this amount increases to \$1000.00. FlexSave will monitor the annual maximum employee contribution amounts. This Payroll Letter will provide an overview of the process.

### Initial Enrollment

FlexSave will provide HRD Payroll Administration the initial enrollment file of state employees who enrolled via the web. Effective pay period ending 12/25/2004 (payday January 7<sup>th</sup>), Payroll Administration will post to corresponding employee payroll records the following deductions codes: HSA and HSF. HSA will represent the employee's pay period amount to be deducted. This deduction will be set to deduction frequency "B", denoting deduct the first and second pay period of a month. In addition to the employee's regular deduction, FlexSave will also provide the biweekly service fee amount. This deduction will be identified as deduction code HSF, where the amount will equal, in most cases \$1.12. Both the HSA and HSF deductions will be processed as pre-tax deductions.

## **Ongoing Enrollment**

After the initial enrollment has been posted to employee payroll records, FlexSave will provide to Payroll Administration a biweekly file of changes only. This would include newly enrolled employees, as well as those employees who have changed their deduction due to a life event. Regardless, it will be the responsibility of each enrolled employee to communicate directly to FlexSave any changes in their enrollment. Please note that once HCSA deductions have been initiated on payroll, no online adjustment via "PAYU" will be permitted. Only Flexsave may report changes to the employee deduction amount.

## **Reconciliation Reporting**

The Office of Payroll Administration will be responsible for reporting reconciliation information to Flexsave on a biweekly basis. Information that will be reported will include: employee name, Social Security number, the biweekly HSA and HSF deduction amounts, a termination date if the employee is separating state service, and a leave of absence indicator, including beginning and ending dates (if known). Flexsave will use this data to reconcile employee account balances, as well as to report future changes in biweekly deductions to Payroll Administration.

## **Pending Leaves**

When employees are processed for Workers Compensation Pending (WCPEND), Disability Pending (DPEND) and Military Pending (MPEND), the HSA and HSF deduction will be disabled. It will be the responsibility of FlexSave to recognize the absence of employee contributions and to adjust the deduction amount on the subsequent "on going" enrollment file.

## **W-2 Reporting**

The combined HSA and HSF contributions will be reported on the 2005 W-2 Wage and Tax Statement as Health Savings Account contributions. All HCSA deductions will be processed as pre-tax deductions when computing federal, state, local, Medicare and school district income tax.

If you have any questions regarding the Health Care Spending Account, please contact Benefits Administration at 614-644-5724.

DRP/drp