United States
Office of Personnel Management
The Federal Government's Human Resources Agency

Benefits Administration Letter

Number: 03-805 **Date:** June 19, 2003

Subject: **Billing Process for FSA Fees Paid By Agencies**

FSA Administrative Fees
As announced in BAL 03-804 on June 16, 2003, OPM and OMB have concluded that, assuming no specific constraint in a particular agency's authorizing or funding statute, agencies may use their tax savings to pay FSA administrative fees for their employees.

The negotiated administrative fees, ($4 per month per participant for a health care FSA [HCFSA]; 1.5% of the annual allotment per participant for a dependent care FSA [DCFSA]) can be paid from the savings your agency will gain by not contributing towards FICA and Medicare taxes on allotments that your employees make to a HCFSA and a DCFSA.

On June 13, 2003, OPM Director Kay Coles James sent a memorandum to heads of departments and agencies urging the payment of fees. It is important that Federal employees be allowed to keep their hard-earned money. We strongly encourage you to pay the modest FSAFEDS fees on behalf of your employees. It's the right thing to do. You may wish to note that our analysis, presented below, has shown that even after paying fees, agencies will still accrue savings.

Analysis on Agency Savings
Our Actuarial Group used distributions of actual FERS and CSRS employees and calculated an effective tax avoidance rate of 5.3%. This took into account the 110,000 FERS employees for whom there would be no Federal Contributions Insurance Act (FICA) tax avoidance because their salaries are over the FICA cap.

Perhaps an easy way to understand that agencies accrue savings from avoiding Health Insurance (HI) (1.45%) and Old Age Survivors and Disability Insurance (6.2%) taxes is through a breakeven analysis.

Using actual population distributions, 31% of the payroll is CSRS where only the 1.45% HI tax applies and 69% is FERS, where the 1.45% HI and 6.2% OASDI taxes apply, produces an average tax avoidance rate of 5.3% (after adjusting for 110,000 FERS employees whose salaries exceed the FICA wage cap). How much would the average employee have to elect to save in a health care account for an agency to recoup the $24 in 2003 fees, and the $48 in 2004 fees? The answer is $452 in 2003 and $904 in 2004. The amount gets smaller as the proportion of assumed

FERS or CSRS offset employees is increased for FSA purposes, but it's easy to see that breaking even is almost assured based on average employee amounts elected in existing FSA programs presented below.

With respect to dependent care accounts for the CSRS employees the agencies lose .05% of whatever is elected (1.45% in HI saving less the 1.5% fee). But for employees subject to full FICA, the agency saves 6.15% of each dollar allotted to a dependent care account.
For an agency to break even on the fees it pays, what proportion of dependent care account dollars must be for FICA employees for the agency to breakeven? The answer is just .8%. Of course, FERS employees are younger and more likely to establish dependent care accounts (up to $5,000 annually), so breaking even is a certainty.

Data from another Federal agency that has an FSA Program indicates that in 2003, an average of $1752 was being allotted by health care account holders and $3622 by dependent care account holders. Using our 31% CSRS assumption and these averages, an agency would save, after expenses for fees, $44.94 for each health care account, and 5.35% of each dollar put into an dependent care account ($193.78 per account based on 2003 data) in 2003 by employees subject to FICA taxes.

Billing Procedures

We've included an attachment showing the billing process by SHPS. This is a straight invoice or billing process and will require NO system changes. Agencies will be billed after the allotments taken from the second pay date in July are received by SHPS. That initial allotment file exchange will confirm with SHPS and the agencies the number of employees who have valid FSA accounts and the bill will be based on that number and the amounts elected. Once the initial invoice is issued, agencies will only receive an invoice if new employees (not previously enrolled in the Program) enroll in FSAFEDS.

Should you have any questions regarding this process please contact Jennifer Hirschmann at 202/606-3711 or jxhirsch@opm.gov. As we noted in BAL 03-804, all agencies must inform OPM of their decisions on whether or not to pay the fees no later than **June 27, 2003**. Please use the attached Invoicing Procedural Process form to indicate your agency's decision. As indicated on the form, all responses should be faxed to 202/606-2023.

Frank D. Titus
Assistant Director
for Insurance Services

Attachments

Please provide the following information after reviewing the SHPS Invoicing Procedural Process document:

Agency:	Contact Name:
Phone Number:	Fax Number:
Email:	Mailing Address:

Will your agency be paying FSA fees on behalf of your employees?

☐ YES (Please complete the remainder of this form)

☐ NO (Please sign and return form. You do not have to complete the sections below)

Choose one method listed below for receiving the Invoice from SHPS:

Preferred Method of Invoice Receipt Email Address for invoice to be sent:	☐ Email
Preferred Method of Invoice Receipt Mailing address for invoice to be sent:	☐ Regular Mail

Choose one method listed below to indicate how you will remit payment to SHPS:

☐ Check Payment	☐ ACH Payment	☐ Wire Payment

____
Signature

Please sign and fax form to Jennifer Hirschmann at 202/606-2023
All agencies must respond no later than June 27, 2003