

Memorandum



DATE: March 5, 2010

In Re: SB 360, An Act Concerning Flexible Spending Accounts (FSAs)

Evolution Benefits strongly urges the General Assembly to act favorably on this legislation to facilitate the establishment of an FSA program for state employees. Evolution Benefits is based in Avon, CT, and administers debit cards used in connection with FSAs for over 1.3 million employees around the country, including for nine state public employee programs. The reasons for passing this bill are simple and straightforward:

- 1. CONNECTICUT IS THE ONLY STATE THAT DOES NOT OFFER AN FSA** program to its employees. As the attached exhibit shows, the median contribution limit for state programs is \$5,000.
- 2. CONNECTICUT WILL SAVE MONEY** by offering an FSA.

- That happens because payroll deductions deposited into FSAs are exempt from FICA taxes, lowering the state's own FICA tax bill. Based on an employee with an annual salary of \$60,000 and a \$1,500 FSA contribution, the state would save \$41.25 per year per employee:

State FICA savings	\$114.75
State administrative cost	(36.00)
State income tax loss	<u>(37.50)</u>
Overall state impact	41.25

Across Evolution Benefits' nine state FSA accounts, the average participation rate is 17.6% which, applied to the total CT benefits eligible population would produce approximately 13,500 FSA participants upon full implementation. That then would product total annual state savings of \$557,000. Certainly the savings to the state would be lower in the first year or two taking into account implementation costs and participation ramp-up. The Office of Fiscal Analysis has made its own estimates of savings and reported them as "in-line with the approximately \$500k annual savings EB estimates the state can achieve with the next 2 to 3 years". (Jennifer Campbell email to Rep. Linda Schofield, February 1, 2010)

- 3. In addition, participating STATE EMPLOYEES WOULD SAVE OVER \$500 PER YEAR**, by reason of not having to pay federal and state income and FICA taxes on contributed funds. Plus, the State would be able to offer a new benefit that encourages savings and personal responsibility for health care costs to its employees—for no added cost.

State Employees FSA Contribution Limits				
≤ 2500	3000	4000	5000	6000 ≥
AK (1200)	ID	DE	AL	CO
DC	IA	MO (4500)	AZ	NV
HI (2400)	LA	NC (4200)	AR	ND
NJ	MA	NH	CA	PA (8000)
	MD	NY	FL	UT
	ME		GA (5040)	WI (7500)
	NE		IL	
	OH		IN	
	TN (3600)		KS	
	TX (3500)		KY	
	WA (3600)		MI	
	WV		MN	
	WY		MS	
			MT	
			NM	
			OK	
			OR	
			RI	
			SC	
			SD	
			VA	
			VT	

