



STATE OF WISCONSIN
Department of Employee Trust Funds
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 SECRETARY

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CORRESPONDENCE MEMORANDUM

DATE: May 18, 2006
TO: Employee Trust Funds Board
FROM: Marcia Blumer, Program Manager
 Employee Reimbursement Accounts (ERA) Program
SUBJECT: Extending 2 ½ Month Grace Period to ERA Dependent Day Care Accounts

Recommendation

Staff recommends that the Employee Trust Funds Board approve amendment of the ERA program to allow extension of the ERA Dependent Day Care Reimbursement Account plan year by 2 ½ months, effective with the 2007 plan year. Staff will work with the plan administrator to implement the new provision and communicate the change to plan participants.

Discussion

In May 2005, the Treasury issued Notice 2005-42 that modified the rules governing Internal Revenue Code Section 125 cafeteria plans to permit expenses incurred within 2 ½ months after the close of the plan year to be reimbursed with funds carried over from the prior plan year. The Board approved extending the 2½ month grace period to ERA Medical Expense Accounts in the 2005 plan year. The grace period was not applied to ERA Dependent Day Care Accounts, however, because of reporting issues created by the carry-over provisions. It was not clear how participants would report carry-over amounts on Form 2441, which must be filed by participants who have child care expenses with their tax returns. On the employer side, there were issues regarding proper reporting of dependent care benefits on the W-2 form.

The Internal Revenue Service has subsequently addressed those concerns. Notice 2005-61, issued in September 2005, resolved the W-2 reporting questions. Participant reporting concerns have been addressed with a revised Form 2441 that now allows employees to report carry-over amounts.

Staff anticipated that the grace period might have a negative effect on plan funding because the amount of money forfeited to the plan at the end of each year may be reduced. However, it appears that the grace period has not had a significant effect on the medical expense account forfeitures. The preliminary medical expense forfeiture total for 2005 is \$188,835, a slight decrease from 2004's medical account forfeitures of \$221,629. However, the preliminary amount is still slightly more than in 2002 (\$142,323) and 2003 (\$177,800). The final forfeiture totals for 2005 will be available after June 30.

Reviewed and approved by Tom Korpady, Administrator.	
_____ Signature	_____ Date

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