



**State of Wisconsin
Employee Reimbursement Accounts (ERA)
Program
FACT SHEET 2009**

The Employee Reimbursement Accounts (ERA) Program is an optional benefit that allows participants to use pre-tax dollars to pay for certain Internal Revenue Service-approved expenses.

PROGRAM REVIEW

- Authorized by Section 125 of the Internal Revenue Code and created by 1987 Wisconsin Act 399; offered to employees starting in January 1990.
- The Department of Employee Trust Funds (ETF) and the Employee Trust Funds Board (Board) have statutory authority for program administration and oversight.

Eligible expenses include:

- Employee's share of state group life, group health, EPIC Dental and Excess Medical, Spectera vision and DentalBlue dental insurance premiums.
- Dependent care expenses that allow the employee and spouse to work.
- Many out-of-pocket medical expenses not reimbursable by any insurance coverage (e.g., copayments, deductibles, glasses, prescription and over-the-counter drugs).
- By using pre-tax dollars to pay these types of expenses, participants effectively reduce their taxable gross income which can significantly reduce their state and federal tax liabilities and increase take-home salaries.

PROGRAM ADMINISTRATION

The Board contracts with a third-party administrator to provide marketing, recordkeeping, payment processing, and other administrative services. Fringe Benefits Management Company (FBMC) is under contract through 2009.

The administration of the ERA Program is divided into two parts:

AUTOMATIC CONVERSION OF INSURANCE PREMIUMS - Premium conversion is self-administered by ETF, working with the state's payroll processors. The program automatically takes an eligible employee's share of state group life, group health, EPIC Dental and Excess Medical, and Spectera vision and DentalBlue dental insurance premiums from pre-tax salary. Employees may file a waiver to prevent automatic conversion of their premiums from a post-tax to the pre-tax basis.

EXPENSE REIMBURSEMENT ACCOUNTS - Both dependent day care and unreimbursed medical expenses are reimbursed through individual accounts established by participants. FBMC provides enrollment, accounts posting, and claims services.

ELIGIBILITY

Who is Eligible for the ERA Program?

- **Eligible Employees** - State employees, including University of Wisconsin System employees, regardless of whether their appointments are classified, unclassified, represented, or full- or part-time.
- **Ineligible Employees** - Fellows, scholars, and research assistants in the University of Wisconsin System, limited term and temporary employees, and student hourlies.

2006 PARTICIPATION AND PROGRAM SAVINGS

In 2007, more than 67,000 state employees benefited by participating in the ERA Program through savings on their state group life, health, EPIC, OptumHealth vision (formerly Spectera) and DentalBlue dental insurance premiums. Combined estimated employee tax savings was over \$23.8 million.* As an employer, the state achieved a FICA savings of over \$6.3 million, which is tapped indirectly to pay program administrative costs.

| Account | Number of Participants | Amount Contributed | Estimated Employee* Savings | Employer FICA Savings |
|---|------------------------|---------------------|-----------------------------|-----------------------|
| Premium Conversion (Life, Health, EPIC, Spectera and/or DentalBlue Insurance) | 67,480 | \$69,000,000 | \$19,768,500 | \$5,278,500 |
| Medical Expense Accounts | 11,587 | 13,963,178 | 4,000,450 | 1,068,183 |
| Dependent Care Accounts | 2,389 | 8,824,394 | 2,528,189 | 675,066 |
| TOTAL | -- | \$91,787,572 | \$26,297,139 | \$7,021,749 |

* Employee tax savings estimates are based on a 15% Federal tax rate, 6% State tax rate, and 7.65% FICA rate. Individual taxes will vary.

ERA PROGRAM COSTS

- Administrative costs in the 2007 plan year totaled \$818,251. Of this amount, direct state costs were \$118,552; contractor administrative costs were \$699,699.
- Administrative expenses by three sources: interest income on the withheld amounts, forfeitures from the dependent care and medical expense accounts that are not fully depleted during the previous tax year, and a direct monthly charge to state agencies.
- In 2007, participant forfeitures totaled \$269,507 (\$52,424 for dependent day care; \$217,083 for medical expenses), and interest income on withheld payroll deductions totaled \$284,850. The direct monthly charge paid by state agencies was 50 cents per health insurance contract per month, for a total of \$457,303.