

**LRB-RESEARCH AND ANALYSIS SECTION**

**FINANCE AND PERSONNEL COMMITTEE**

**ITEM 5, FILE # 060097**

**MAY 24, 2006**

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File # 060097 is a resolution increasing the Flexible Spending Medical Account limit from \$3,000 to \$4,000 per year.

**Background**

1. This resolution increases the Flexible Spending Medical Account limit from \$3,000 to \$4,000 per year. The flexible spending limit was last increased by \$1,000/year in 2003 for effect in 2004.
2. The Flexible Spending Account was initiated in 1992. The Flexible Spending Account (FSA) program allows employees to set aside pre-tax dollars for certain medical care and dependent care expenses. Section 125 of the Internal Revenue Service Code governs the Flexible Spending Account.
3. Since the city is not required to make Social Security contributions for wages deposited in this account, the cost of the program is offset by a decrease in Social Security contributions.

**Discussion**

1. This resolution will increase the amount of pre-tax dollars that a City of Milwaukee employee may reserve from \$3,000 to \$4,000 per year. This new maximum will be effective for 2007.
2. City employees have requested this increase.
3. This resolution applies to the medical flex account only. The federal government limits the amount for the dependent care account to \$5,000, the current city maximum.

**Fiscal Effect**

There is no fiscal effect associated with this resolution as employee funds are reserved for this account and savings in the Social Security tax offset, in general, the administrative cost of the plan.

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