



## ***Benefits Administration Letter***

**Number:** 04-801

**Date:** February 17, 2004

**Subject: The Federal Flexible Spending Account (FSA) Program:  
2004 Administrative Fees**

Recently, Director Kay Coles James sought input from Federal agencies through the Chief Human Capital Officer (CHCO) community on several proposed changes to the Federal FSA Program (FSAFEDS). We wanted to make sure that you were aware of the Director's final decisions on these changes.

After carefully considering feedback from agency CHCOs as well as other stakeholders, Director James made the final determination to:

- increase the amount that participants could elect for a health care flexible spending account (HCFSA) from \$3,000 to \$4,000, and
- to extend the FSAFEDS Open Season an additional week, to allow Federal workers more time to consider whether and how much to elect of their hard-earned dollars.

In addition, agency CHCOs agreed that an increase in fees is warranted, since coverage for over-the-counter (OTC) medicines and products began January 1, 2004. For the 2004 Plan Year, the fee for a HCFSA will be \$7.50 per participant per month. The Dependent Care Flexible Spending Account fee remains the same, at one and a half percent (1.5%) of the elected amount. The \$3.50 HCFSA increase is an estimate that accounts for the additional administrative costs and risk of overpayments associated with coverage of OTC medicines and products. This additional amount will be set aside in a reserve fund, and accounted for separately. It may be used only with approval from the Office of Personnel Management, and will be adjusted – up or down – in future years based on actual experience and review by the Director of OPM.

The National Defense Authorization Act for Fiscal Year 2004, Public Law 108-136, signed on November 24, 2003, requires all Executive Branch agencies, as well as other employing entities of the Government which provide the FSAFEDS program to its employees, to cover the administrative fee(s) on behalf of their employees. Our Actuaries Group performed an analysis that shows agencies will continue to accrue more in savings than they spend in fees. If you'd like more information on that analysis, or how many of your employees have enrolled in FSAFEDS for 2004, please send an email to [FSA@opm.gov](mailto:FSA@opm.gov).

A handwritten signature in black ink, appearing to read "Frank D. Titus".

Frank D. Titus  
Assistant Director  
for Insurance Services