



City of Riverside, California
Human Resources Policy and Procedure Manual

Approved:

Human Resources Director

City Manager

SUBJECT: SECTION 125/CAFETERIA PLAN: HEALTH CARE FLEXIBLE SPENDING ACCOUNT (FSA), DEPENDENT CARE SPENDING ACCOUNT (DCSA), AND HEALTH SAVINGS ACCOUNT (HSA) PLANS

PURPOSE:

To define the City of Riverside's Section 125/Cafeteria Plan which include the Health Care Flexible spending Account (FSA), Dependent Care Spending Account (DCSA), and Health Savings Account (HSA) for uniformity of interpretation and application.

POLICY:

All benefitted employees, may participate in the Section 125/Cafeteria Plan and its related components, the Health Care Flexible Spending Account (FSA), Dependent Care Spending Account (DCSA), and Health Savings Account (HSA) Plans offered by the City.

1. Definition

As defined under Sections 125,105,106,129, and 213(d) of the Internal Revenue Code (IRC), all eligible benefitted employees may redirect a portion of their salaries to pay for certain allowable expenses on a pre-tax basis. This allows employees to reduce their taxable income. -The City of Riverside offers three optional Plans for eligible employees: Health Care Flexible Spending Account (FSA), Dependent Care Spending Account (DCSA), and a Health Savings Account (HSA).

2. Enrollment

- A. Section 125/Cafeteria Plan, FSA or DCSA Plans - All eligible benefitted employees can elect to participate in the Section 125/Cafeteria Plan, FSA or DCSA Plans. Eligible employees are automatically enrolled in the Section 125/Cafeteria Plan which allows the employee to contribute the employee portion of the health/vision and dental insurance premiums on a pre-tax basis.

Enrollment requests for the FSA and DCSA Plans must be submitted within the first 30 days of employment for new hires or promotions (non-benefitted to a benefitted position). Benefits are effective the first of the month following 30 days of employment. If the 30-day initial enrollment period is missed, enrollments for new or promoted employees may be submitted with the next open enrollment period, or mid-year, if the

employee experiences a “Qualifying Event”, such as marriage, divorce and/or birth adoption of a child.

Current participants in a FSA or DCSA Plan must submit an annual request to re-enroll during each open enrollment period for the upcoming calendar year. If a request to enroll is not submitted to Human Resources, deductions from the employee's paycheck will stop effective the last pay period of the current calendar year.

B. Section 125/Cafeteria Plan, HSA Plans - Eligible employees who are enrolled in a qualified High Deductible Health Plan (HDHP) may elect to make pre-tax contributions to a Health Savings Account (HSA) through this Section 125 Cafeteria Plan.

The HSA is an individually owned account established outside of this Plan, and all funds contributed to the HSA belong to the employee. Funds roll over from year to year and remain with the employee even after termination of employment.

The Cafeteria Plan allows employees to contribute to their HSA on a pre-tax basis through payroll deductions. These contributions are subject to IRS annual limits and eligibility requirements.

HSA payroll contribution elections under this Plan must be made each Plan Year during the annual open enrollment period. Elections do not carry over automatically from one year to the next. If no new election is made, HSA contributions will cease as of the start of the new Plan Year, though the employee's HSA account will remain active.

Employees are responsible for ensuring they remain HSA-eligible and may only participate in the HSA payroll deduction option if they are not enrolled in a general-purpose Health Care Flexible Spending Account (FSA) or other disqualifying coverage.

3. Administration:

Participation in the Section 125/Cafeteria Plan, FSA and DCSA Plans is administered as follows:

A. Internal Revenue Code (IRC) Sections 105 and 106 allows for certain out-of-pocket health, vision, and dental expenses for eligible employees, spouse and dependents, to be paid via pre-tax contributions made to a Health Care FSA. Refer to the FSA Plan document for specific coverage information, eligible expenses and the calendar year (January 1st to December 31st) funding maximum as allowed under Federal Law. Reimbursements are prepared and administered by the Plan administrator. Proper documentation must be submitted to prove that a claim is legitimate. Failure to provide required documentation may result in a denial of a claim. Qualified expenses must be related to:

1. Dependent child(ren) age 26 or younger.

2. Spouses or registered domestic partner: or
3. Other individuals who reside in the employee's home for at least six months of the year and who can be claimed as dependents for income tax purposes.

Qualified expenses can be incurred on eligible dependents even if dependents are not covered under the employee's health insurance plan.

B. Internal Revenue Code Section 129 allows for certain child and dependent care expenses to be funded on a pre-tax basis using the DCSA Plan. Qualified expenses must be related to:

1. Dependent child(ren) under age 13 who can be claimed as a dependent for income tax purposes or if legally separated or divorced, for whom the employee is the custodial parent.
2. A child or spouse who is physically or mentally unable to care for themselves and who can be claimed as a dependent for income tax purposes; or
3. Other Individuals unable to care for themselves and who can be claimed as a dependent for income tax purposes.

Refer to the DCSA Plan document for specific coverage information, eligible expenses and the calendar year (January 1st to December 31st) funding maximum as allowed under Federal Law. Reimbursements are prepared and administered by the Plan Administrator. Proper documentation must be submitted to prove that a claim is legitimate. Failure to provide required documentation may result in a denial of a claim.

Eligible Employees may participate in any one or combination of the above referenced plans provided eligibility requirements are satisfied. There is an applicable administration fee for participating in either (or both) the FSA and /or DCSA Plans. The administrative fee is automatically deducted on an after-tax basis: please refer to the Plan document for details. All fees and contributions to the FSA and DCSA Plans are automatically deducted from the employee's paycheck.

The IRC requires that amounts not reimbursed to the participant be forfeited (referred to as a use it or lose it plan). Employees should enroll in a FSA or DCSA Plan only after careful review of the Plan and calculation of estimated costs.

If the Plan Administrator finds incurred expenses made from the FSA or DCSA Plans to be ineligible due to insufficient documentation or to expenses not complying with IRS guidelines, employees will be required to furnish sufficient documentation and receive Plan administrator approval or pay the City the full amount of any ineligible transactions. Employees must contact the Human Resources Department for detail information on repaying the Plan.

C. Effective January 1, 2026, eligible employees may elect to make pre-tax contributions to a Health Savings Account (HSA) through this Cafeteria Plan. Per Internal Revenue Code (IRC) Section 223, employees may contribute to an HSA via payroll deduction on a pre-tax

basis, provided they are enrolled in a qualified High Deductible Health Plan (HDHP) and otherwise meet IRS eligibility requirements.

Employees may be eligible to participate in a Limited-Purpose FSA (LPFSA), which reimburses only dental and vision expenses, while still maintaining HSA eligibility.

To be eligible to contribute to an HSA, the employee must not:

1. Be covered by any other health plan that reimburses general medical expenses, unless it is another HSA-qualified HDHP;
2. Be enrolled in a general-purpose Health FSA (including a spouse's FSA, if it covers the employee);
3. Be enrolled in Medicare (Part A or B);
4. Be claimed as a dependent on someone else's tax return.

Important Notes:

- If you participate in both an HSA and FSA, your HSA can be used for medical expenses only, while your FSA must be limited to dental and vision expenses.
- If your spouse is enrolled in a general-purpose FSA that reimburses your medical expenses, you are not eligible to contribute to an HSA.
- Enrollment in Medicare (any part) disqualifies you from contributing to an HSA, although you may continue to use existing HSA funds.

4. **Changes**

Under the IRC, employees may change or revoke their elections only if experiencing a "Qualifying Event" which results in a change in status. Qualifying events are defined by, and limited by Federal Law and are outlined in the appropriate Plan documents. For mid-year changes related to a qualifying event, all employees will have 30 days from the qualifying event date to document the event and submit an enrollment request. Otherwise, current city employees may make changes only during the next open enrollment period, which is generally during the month of November, except in instances wherein the employee is subject to a qualifying event. For mid-year enrollments related to a qualifying event, all employees will have 30 days from the qualifying event date to document the event and submit an enrollment request.

For HSA participants, employees may start, stop, increase, or decrease their HSA payroll contributions **at any time during the Plan Year**, subject to payroll processing deadlines and IRS annual limits. These changes do **not require a qualifying life event**, provided the employee remains HSA-eligible under IRS rules. Contributions will be made on a pre-tax basis through the Section 125 cafeteria plan and may be adjusted prospectively.

5. **Health and Benefit Committee (HBC)**

A committee consisting of representatives from the City's various bargaining units will meet periodically to discuss employee health, wellness, and insurance issues. This

committee makes recommendations to the Human Resources Director regarding the insurance providers, policies and/or provisions, employee health and wellness resolving employee concerns and/or problems, and other issues as they arise.

Disclaimer: This policy is for internal processes only. Should a discrepancy exist between this document and the Section 125 Plan Document and Regulations, the Section 125 Plan Document and Regulations will prevail. Should a discrepancy exist between this document and Federal or State Law, the Federal or State Law will prevail.