

The State of Delaware

FY27 Planning - FSA Dependent Care Contributions

State Employee Benefits Committee Meeting

February 23, 2026

Disclaimer

Willis Towers Watson has prepared this information solely in our capacity as consultants under the terms of our engagement with you with knowledge and experience in the industry and not as legal advice. This information is exclusively for the State of Delaware's State Employee Benefits Committee to use in the management, oversight and administration of your state employee group health program. It may not be suitable for use in any other context or for any other purpose and we accept no responsibility for any such use.

Willis Towers Watson is not a law firm and therefore cannot provide legal or tax advice. This document was prepared for information purposes only and it should not be considered a substitute for specific professional advice. As such, we recommend that you discuss this document with your legal counsel and other relevant professional advisers before adopting or implementing its contents. This document is based on information available to Willis Towers Watson as of the date of delivery and does not account for subsequent developments after that date.

Willis Towers Watson shares available medical and pharmacy research and the views of our health management practitioners in our capacity as a benefits consultant. We do not practice medicine or provide medical, drug, or legal advice, and encourage our clients to consult with both their legal counsel and qualified health advisors as they consider implementing various health improvement and wellness initiatives.

This material was not prepared for use by any other party and may not address their needs, concerns or objectives. This document may not be reproduced, disclosed or distributed to any other party, whether in whole or in part, other than as agreed with you in writing, except as may be required by law.

We do not assume any responsibility, or accept any duty of care or liability to any other party who may obtain a copy of this material and any reliance placed by such party on it is entirely at their own risk.

Context for today's discussion

- During the February 13th meeting, the SEBC was provided a background and overview of the FSA Dependent Care Maximum increase
- One minor clarification was updated on slide 4 in **magenta font**
- Today, the SEBC is to vote on whether to increase the DCFSA maximum to \$7,500

Appendix

FSA Dependent Care Maximum Increase - Background and Review

- Background
 - As of January 1, 2026, the DCFSA maximum has increased to \$7,500 – employers can choose to offer that amount or set a limit lower than this amount
 - This provides an opportunity for employees to save additional money, on a pre-tax basis, to be used for dependent care expenses
- Considerations
 - The DCFSA limit is not indexed for inflation, so may not increase on an annual basis (will need Congressional action to change the limit)
 - The increase in limit, while beneficial to some employees, may result in the plan becoming “discriminatory”
 - It is typically highly compensated employees (HCEs) who contribute the most to these accounts
 - Additional participation by HCEs, either in participation, in amount contributed, or both could cause the plan to become discriminatory
 - Plans may want to conduct projection testing to determine if they want to increase their maximums.
 - The State of Delaware conducted projection testing in 2025 for the 2026 plan year; when tested at the \$7,500 level, corrections would need to be made to the contributions of HCEs in order to pass

FSA Dependent Care Maximum Increase Recommendations

- Determine whether to adopt the \$7,500 maximum. Conduct nondiscrimination testing and, if a failure occurs, reduce the contributions of HCE's by the amount needed to maintain plan compliance.