

SENATE BILL REPORT

HB 1286

As Reported By Senate Committee On:
Ways & Means, March 30, 2005

Title: An act relating to creating the medical flexible spending account.

Brief Description: Creating the medical flexible spending account.

Sponsors: Representatives Cody, Simpson, Morrell and Kenney; by request of Office of Financial Management.

Brief History: Passed House: 3/04/05, 96-0.

Committee Activity: Ways & Means: 3/23/05, 3/30/05 [DP].

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: Do pass.

Signed by Senators Prentice, Chair; Doumit, Vice Chair; Fraser, Vice Chair; Zarelli, Ranking Minority Member; Brandland, Fairley, Hewitt, Kohl-Welles, Parlette, Pflug, Pridemore, Rasmussen, Regala, Roach, Rockefeller and Schoesler.

Staff: Erik Sund (786-7454)

Background: Health Care Flexible Spending Accounts (FSAs) are benefit plans established by employers under Section 125 of the federal Internal Revenue Code to reimburse employees for health care expenses such as health care deductibles, copayments, eligible non-prescription medications, and other items not covered by insurance. The FSAs are usually funded by employees through salary reduction agreements; however, employers are permitted to contribute.

An employee must elect to participate in a FSA at the beginning of each year, and during the plan year the amount of salary deducted for a member's FSA is generally irrevocable. An employee's balance builds each month as salary deductions are placed in the account, and is reduced by reimbursements for eligible expenditures. Any unspent balance remaining in an employee's FSA at the end of each year is forfeited.

Employee (or employer) contributions to FSAs are made from an employee's salary prior to reductions for taxes, and reimbursements from FSAs are also tax exempt. As employee contributions to an FSA are made prior to reductions for income tax, Social Security, and Medicare, they offer employees with anticipated uninsured medical expenses the opportunity for tax savings. An employee in the 25 percent tax bracket, for example, who decides to deposit \$900 in a FSA and spends the entire balance on eligible medical expenses during the year would save about \$225 on federal income taxes and \$69 in Social Security and Medicare taxes.

In the 2002 budget bill, the Health Care Authority (HCA) was directed to work with the state-supported colleges and universities and the Department of Personnel to explore opportunities to offer flexible spending accounts to state employees. This resulted in a limited pilot program offered to employees of institutions of higher learning.

Some of the collective bargaining agreements reached between the Governor's Labor Relations Office and the unions representing state employees for the 2005-07 biennium call for the state to offer FSAs to employees during the second fiscal year of the biennium.

Summary of Bill: A Medical Flexible Spending Account (MFSA) is created in the custody of the State Treasurer. Revenues from employing agencies associated with the cost of operating the medical FSA program and unclaimed FSA money left at the end of the plan year are deposited into the MFSA. Money may also be transferred from the MFSA to the Public Employees' and Retirees' Insurance account, and from the Public Employees' and Retirees' Insurance account to the MFSA to provide for reserves and start-up funding for the operation of the FSA program.

Every division, department, or agency and participating counties, municipalities, school districts, educational service districts, or other political subdivisions must fully cooperate with the HCA and carry out all actions necessary for the operation of the HCA-administered programs. These agencies must also report all data relating to employees eligible to participate in the HCA programs in a format designed by the HCA.

Appropriation: None.

Fiscal Note: Available.

Committee/Commission/Task Force Created: No.

Effective Date: Ninety days after adjournment of session in which bill is passed.

Testimony For: This bill would allow the Health Care Authority to establish necessary reserve funds and expand its flexible spending account program to state and local government employees outside of higher education.

Testimony Against: None.

Who Testified: PRO: Richard Onizuka, Washington Health Care Authority; Connie Robins, Washington Health Care Authority.