

HOUSE BILL REPORT

HB 2652

As Reported by House Committee On: Appropriations

Title: An act relating to coordination of benefit plans that allow state and public employees to pay on a pretax basis to participate in benefits offered under sections 125 and 129 of the internal revenue code, including transfer of the dependent care assistance program to the health care authority.

Brief Description: Transferring the dependent care assistance program to the health care authority by coordinating benefit plans that allow state and public employees to pay on a pretax basis.

Sponsors: Representatives Morrell, Fromhold, Moeller, McIntire, Simpson and Kenney; by request of Health Care Authority and Department of Retirement Systems.

Brief History:

Committee Activity:

Appropriations: 1/23/08, 1/30/08 [DP].

<h3>Brief Summary of Bill</h3>

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| <ul style="list-style-type: none">• Transfers administration of the Dependent Care Assistance Program from the Department of Retirement Systems to the Health Care Authority. |
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HOUSE COMMITTEE ON APPROPRIATIONS

Majority Report: Do pass. Signed by 32 members: Representatives Sommers, Chair; Dunshee, Vice Chair; Alexander, Ranking Minority Member; Bailey, Assistant Ranking Minority Member; Haler, Assistant Ranking Minority Member; Chandler, Cody, Conway, Darneille, Ericks, Fromhold, Grant, Green, Haigh, Hinkle, Hunt, Hunter, Kagi, Kenney, Kessler, Linville, McDonald, McIntire, Morrell, Pettigrew, Priest, Ross, Schmick, Schual-Berke, Seaquist, Sullivan and Walsh.

Staff: David Pringle (786-7310).

Background:

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.

The Dependent Care Assistance Program (DCAP) allows state employees to set aside a portion of their salary, before taxes, to be used to reimburse dependent care providers. The federal Internal Revenue Service establishes various limitations on the amount of money that can be set aside and how it may be used. One limitation is that any amounts set aside that are not used by the end of the year are forfeited. Forfeitures are currently transferred to the General Fund, as is the interest earned during the year on funds set aside by employees. Employers experience a slight cost savings when employees participate in the plan because the employer does not have to pay social security taxes on any salary dollars set aside under the DCAP.

The DCAP is administered by the Department of Retirement Systems (DRS), and about 1,100 public employees are utilizing the DCAP, with annual deferrals totaling about \$4.3 million.

The Health Care Authority administers health, life, disability and other benefit and insurance programs for employees and retirees of the state government, local governments, and school districts. Among those programs are ones like the Health Care Flexible Spending Account Program (FSA), which is a pre-tax salary set-aside program operated under the same provisions of the federal Internal Revenue Code as the DCAP administered by the Department of Retirement Systems. The FSA program reimburse employees for health care expenses such as health care deductibles, copayments, eligible non-prescription medications, and other items not covered by insurance.

In 2007 the Department of Retirement Systems and the Health Care Authority arranged by interagency agreement that beginning January 1, 2008, the DCAP will be administered by the Health Care Authority's Public Employees Benefits Board (PEBB) program.

Summary of Bill:

The administration of the Dependent Care Assistance Program and associated funds are transferred from the Department of Retirement Systems to the Health Care Authority. Changes are made to the definition of "benefits contribution plan" within the Health Care Authority laws, renaming them "premium payment plans" and expanding the definition sufficiently to encompass both the DCAP and the Medical Flexible Spending arrangement, or Health Care Flexible Spending Account program. Department of Retirement Systems laws related to the DCAP are repealed.

Appropriation: None.

Fiscal Note: Available.

Effective Date: The bill takes effect on January 1, 2009.

Staff Summary of Public Testimony:

(In support) The goal was to move the responsibility for administration to the HCA so that we could use a single vendor to administer both the DCAP and Medical Flexible Spending Account programs – currently our vendor already administers both of these types of programs for other employers. In addition, a significant number of participants in each of these programs already are enrolled in both. The HCA administration by interagency agreement has already resulted in a 10 percent increase in participation in the DCAP program, perhaps because it was incorporated into our open enrollment process. The convenience of one-stop shopping for benefits programs like this is significant, and DRS supports this move.

(Opposed) None.

Persons Testifying: Dennis Martin, Health Care Authority; and Jeff Wickman, Department of Retirement Services.

Persons Signed In To Testify But Not Testifying: None.