Fiscal Note & Local Impact Statement

127 th General Assembly of Ohio

Ohio Legislative Service Commission
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BILL: **H.B. 116** DATE: **May 10, 2007**

STATUS: **As Introduced** SPONSOR: **Rep. Blessing**

LOCAL IMPACT STATEMENT REQUIRED: **Yes**

CONTENTS: **Would generally require public employers to make health savings accounts available to public employees**

State Fiscal Highlights

STATE FUND	FY 2007	FY 2008	FUTURE YEARS
Human Resources Services Fund (Fund 125)			
Revenues	- 0 -	- 0 -	- 0 -
Expenditures	- 0 -	Potential minimal increase	Potential minimal increase
Other State Funds			
Revenues	- 0 -	- 0 -	- 0 -
Expenditures	- 0 -	- 0 -	- 0 -

Note: The state fiscal year is July 1 through June 30. For example, FY 2007 is July 1, 2006 – June 30, 2007.

- The bill would require the Department of Administrative Services (DAS) to offer state employees a high deductible health plan linked to health savings accounts. This provision would increase administrative costs to DAS. Such increase is expected to be minimal, and would be paid from Fund 125.

Local Fiscal Highlights

LOCAL GOVERNMENT	FY 2007	FY 2008	FUTURE YEARS
Counties, municipalities, townships, school districts			
Revenues	- 0 -	- 0 -	- 0 -
Expenditures	- 0 -	Potential increase	Potential increase

Note: For most local governments, the fiscal year is the calendar year. The school district fiscal year is July 1 through June 30.

- The bill would generally require any public employer that currently provides health benefits to workers to offer them a high deductible plan linked to a health savings account. Though such plans are generally presented to be lower-cost health plans, they may not be so in all cases. The requirement likely imposes administrative costs on some local governments, and it may, in some cases, require a local government to offer a health plan that is higher in cost than currently offered plans.

Detailed Fiscal Analysis

H.B. 116 would require public employers that provide health benefits to employees to contract with at least one insurance company to provide one (or more) policies or contracts for a high deductible health plan to cover its employees who have opened a health savings account (HSA). At the state level, the bill would specifically impose this requirement upon the Department of Administrative Services (DAS). The requirement would not apply to a public employer that is party to a collective bargaining agreement (that does not itself carry such a requirement), but such an employer would be required to offer such a health benefit option during collective bargaining over subsequent agreements. Moreover, the requirement would not apply for an enrollment period if the number of employees that signed up for the high deductible health plan in the preceding enrollment period was less than 1% of eligible employees.

The bill would also permit a public employee that is enrolled in a high deductible health plan to open an HSA, and would permit the employer to make contributions to the employee's HSA.

Background

H.B. 46 of the 126th General Assembly permitted political subdivisions to establish a health savings account program and permitted public moneys to be used to make contributions to HSAs or to pay for federally qualified high deductible health plans that are linked to HSAs.

Health savings accounts as authorized by section 223 of the Internal Revenue Code are described in IRS Publication 969. They are tax-exempt trusts or custodial accounts that the taxpayer sets up with a qualified HSA trustee. No permission is required from the IRS to establish an HSA; however, to be eligible for the tax benefits a taxpayer must have a "high deductible health plan" and no other health coverage.[1] A "high deductible health plan" means that the plan's minimum annual deductible is $1,050 for individual coverage and $2,100 for family coverage, and that the plan has a specified maximum limit on the sum of the annual deductible and out-of-pocket expenses for covered medical services. The maximums for tax year 2006 are $5,250 for individual coverage and $10,500 for family coverage.

The State Employment Relations Board (SERB) conducts an annual survey of local governments regarding the health benefit plans they offer to employees. Responses to their most recent survey indicate that in fiscal year 2006 responding counties offered five HSAs, and two offered a similar type of account—a health reimbursement account, or HRA. Responding municipalities offered 14 HSAs and 10 HRAs, responding townships offered 2 HSAs and 4 HRAs, and responding school districts offered 17 HSAs and eight HRAs.[2]

[1] There are a few limited exceptions to the latter eligibility requirement.

[2] According to a SERB official, 69 of the 88 counties responded to the survey. There were 321 responses from municipalities and 103 responses from townships, but in both cases there may be more than one response from an

The state does not currently offer a high deductible health plan to employees, and there is not such an option being offered for FY 2008.

Fiscal effects

High deductible health plans linked to HSAs are generally presented as cost-reducing options for employers. According to an August 2006 study by the U.S. Government Accountability Office, such plans "typically have lower premiums than other types of health plans because high-deductible health plan enrollees bear a greater share of the initial costs of care." Because current law expressly permits political subdivisions to offer such plans to employees, though, it does not seem that the bill would reduce costs to local governments to provide health benefits to workers. Since the bill would generally require political subdivisions to offer such plans, it may be possible that the bill would increase their costs.

According to the data collected by SERB, only a few of the local governments and school districts that can offer high deductible plans linked to HSAs do so. There may be a number of reasons for this. Some may plan to do so, but simply haven't managed to design and implement a plan yet; such plans are relatively new. Another possible reason that some such employers do not offer them, though, is because doing so would raise costs rather than reduce them. There are likely to be administrative costs associated with offering multiple health plans to employees. A local government or school district may have knowledge about how many employees would likely sign up for the high deductible plan, and have calculated that the anticipated cost savings would be less than the administrative costs of offering another plan. Furthermore, while premiums are "typically" lower for high deductible plans, this is not necessarily always true. Thus the bill may require a political subdivision, in some atypical cases, to offer employees a higher cost plan. Due to data limitations, LSC staff cannot identify any specific entity that would experience an increase in costs, nor can LSC staff estimate the magnitude of any such potential increase.

Some of the reasoning above applies to the state as well, but some does not. Assuming the state is currently permitted to offer a high deductible health plan to employees, it does not seem that the bill would reduce costs to the state of providing health benefits to workers. On the other hand, because the state employs over 60,000 employees, it does not seem likely that DAS has a good idea that the number of state employees that would be likely to sign up for a high deductible plan would be too little to justify the administrative costs. There would still be some cost to DAS of designing and implementing a high deductible plan, but such costs are likely to be minimal. They would be paid from the Human Resources Services Fund (Fund 125).

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individual municipality (or township). And there were 762 responses from school districts, which may also double-count a school district in some cases.