Fiscal Note & Local Impact Statement

123 rd General Assembly of Ohio

BILL:	**H.B. 210**	DATE:	**May 12, 1999**
STATUS:	**As Introduced**	SPONSOR:	**Rep. Netzley**
LOCAL IMPACT STATEMENT REQUIRED:	**Yes**	**Minimal cost**	
CONTENTS:	**Requires certain private-sector employers to open a medical savings account on behalf of an employee, upon the employee's request**		

State Fiscal Highlights

STATE FUND	FY 2000	FY 2001	FUTURE YEARS
General Revenue Fund			
Revenues	Potential decrease	Potential decrease	Potential decrease -
Expenditures	- 0 -	- 0 -	- 0 -
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 2000 is July 1, 1999 – June 30, 2000.

- The bill requires an employer with 50 or fewer employees that provides health care coverage to its employees through a sickness and accident insurance plan or a health plan of a health insuring corporation, to open an MSA on behalf of the employee, at the employee's request.

- Federal legislation authorized a four-year pilot program, which began January 1, 1997, that allows up to 750,000 individuals with MSA's to receive a federal tax exemption. This program is limited to self-employed individuals, companies with 50 or fewer employees, and the uninsured. There is also an Ohio tax incentive created by H.B. 179 of the 121st General Assembly (effective October 1996). Participation in MSAs up to this point has been limited. The combination of the federal and state tax incentives with the requirement in this bill may increase employee participation in MSA programs, which would result in a loss of state personal income tax revenue to the General Revenue Fund.

Local Fiscal Highlights

LOCAL GOVERNMENT	FY 1999	FY 2000	FUTURE YEARS
Counties			
Revenues	Potential decrease -	Potential decrease	Potential decrease
Expenditures	- 0 -	- 0 -	- 0 -
Other Local Governments			
Revenues	Potential decrease	Potential decrease	Potential decrease

Expenditures	- 0 -	- 0 -	- 0 -

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

- As with the state tax revenue impact, there is the likelihood of a loss to the three local government funds (the LLGSF, LGF, and LGRAF) through lower personal income tax collections if MSA participation increases due to the interaction of federal and state tax incentives and the requirements of the bill.

Detailed Fiscal Analysis

Medical saving accounts (MSAs) are tax-exempt personal savings accounts established for the purpose of paying for medical expenses, in conjunction with a high-deductible health plan. MSAs are similar to individual retirement accounts (IRAs) in that they are established for the benefit of an individual, and are portable. Thus, if the individual changes jobs or leaves the work force, the MSA stays with the individual, not the former employer. Amounts not expended on health care during a given year could be rolled over and accumulate over time. MSAs have long been promoted as one mechanism for controlling health care expenditures.

The bill requires an employer with 50 or fewer employees that provides health care coverage to its employees through a sickness and accident insurance plan or a health plan of a health insuring corporation, to open an MSA on behalf of the employee, at the employee's request. According to ***County Business Patterns*** (CBP) 1996, 250,603 of Ohio's 266,927 establishments (94%) had 49 or fewer employees. LBO is not sure if the CBP 1996 definition of establishment and the bill's definition of employer are the same. "Employer" may cover more than one "establishment." Even so, it seems likely that the requirement will affect the vast majority of Ohio employers.

The total amount contributed by the employer to the medical savings account, combined with the premiums paid by the employer for health care coverage for the employee, must not be less than 90% of the amount the employer pays for the health insurance premiums of a similar employee without an MSA. The bill's provisions first apply to requests for medical savings accounts made by employees on or after January 1, 2001.

Tax Impacts

In Ohio, there are both federal and state tax incentives available for MSAs. The state tax deduction is unconditional. However, the federal tax incentive is only for employers with fewer than 50 employees, self-employed individuals, and persons without insurance. There is a further restriction on the employees of small companies – they must not have health insurance through their spouse. The federal tax incentive is a pilot project with a nationwide cap of 750,000 individuals. There is also a federal pilot for Medicare MSAs, with a nationwide cap of 390,000 individuals. However, there should be no interaction between Medicare MSAs and the provisions of this bill.

Participation in MSAs up to this point has been lower than expected. Golden Rule Insurance Company of Indianapolis bills itself as "the pioneer of medical savings accounts" and is the acknowledged industry leader. Golden Rule's Web site states that about 80,000 individuals or families

had MSAs through the company in 1998. In a phone conversation, a Golden Rule spokesperson put the current number at about 90,000 MSAs. Based on a Golden Rule estimate that they have 50% - 60% of the MSA market, there are 150,000 to 180,000 MSAs nationwide.

Apparently, many of these currently held MSAs do not qualify for favorable federal tax treatment. Some do not qualify because the employer has over 50 employees; some do not qualify because health insurance is available through an employee's spouse. The IRS reports that there were only 41,668 MSA deductions claimed for taxable year 1997. Preliminary data for taxable year 1998 suggests that the 1998 number of deductions will not be much higher. If there are only 50,000 MSA deductions nationwide, then it is reasonable to assume that there are no more than 2,500 federal tax deductions for MSAs (5% of the national figure) being claimed in Ohio.

The state tax deduction is broader, so LBO assumes that there are more MSA deductions being claimed on Ohio tax returns. If there are 180,000 MSA accounts nationwide, and Ohio has 4% of that amount (roughly equal to Ohio's percentage of the population), then Ohio has about 7,200 MSA recipients.[1] Using Golden Rule information on MSA buyers, we can assume that 60% of these filers are joint filers, while the other 40% are not (instead they are single, married filing separate, head of household, etc.). If 60% claimed the maximum joint deduction of $6,298 in taxable year 1998 (ignoring investment income), and the other 40% claimed the maximum single deduction of $3,149, and the joint filers faced an average tax rate of 4.715%, and the single filers faced an average tax rate of 4.04%, then the state tax revenue loss would have been $1.65 million.[2] LBO has asked the Ohio Department of Taxation for state-level data on MSA deductions, but has not received any to this point.

If LBO's assumptions are correct, then only 7,200 Ohio families are using MSA deductions are being claimed in Ohio, out of roughly 4.3 million households. This is a participation rate of only 0.2%. LBO does not know how much participation may be increased by the requirements in the bill. A very high percentage of Ohio employers would be required to at least offer the MSA option, but it is unclear how many employees would then take advantage of it. The federal tax deduction, which was thought to be the biggest incentive, has not yet increased participation much.

If participation increased to only 1% of Ohio households from the current estimated 0.2%, then the additional income tax loss could be up to an additional $8.7 million. There could be some comparatively small amount of offsetting corporate tax revenue increase if MSAs led to lower total employer payments for health insurance, and thus to higher before-tax profits.

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[1] This number actually may be somewhat higher, since H.B. 212

[2] There could be some additional loss from out-of-state filers, but we assume that this amount is minimal.