Wisconsin Department of Administration
Division of Executive Budget and Finance

Fiscal Estimate - 2005 Session

☒ Original ☐ Updated ☐ Corrected ☐ Supplemental

LRB Number **05-2922/3**	Introduction Number **AB-1140**

Description
Creating the Private Health Insurance Purchasing Corporation of Wisconsin, establishing a health insurance purchasing arrangement through the use of private accounts for all state residents, adopting federal law as it relates to health savings accounts for state income and franchise tax purposes, making appropriations, and providing a penalty

Fiscal Effect

State:
☐ No State Fiscal Effect
☐ Indeterminate
- ☐ Increase Existing Appropriations
- ☐ Decrease Existing Appropriations
- ☐ Create New Appropriations
- ☐ Increase Existing Revenues
- ☒ Decrease Existing Revenues
- ☐ Increase Costs - May be possible to absorb within agency's budget ☐ Yes ☐ No
- ☐ Decrease Costs

Local:
☐ No Local Government Costs
☐ Indeterminate
1. ☐ Increase Costs ☐ Permissive ☐ Mandatory
2. ☐ Decrease Costs ☐ Permissive ☐ Mandatory
3. ☐ Increase Revenue ☐ Permissive ☐ Mandatory
4. ☐ Decrease Revenue ☐ Permissive ☐ Mandatory
5. Types of Local Government Units Affected
☐ Towns ☐ Village ☐ Cities
☐ Counties ☐ Others
☐ School Districts ☐ WTCS Districts

Fund Sources Affected
☒ GPR ☐ FED ☐ PRO ☐ PRS ☐ SEG ☐ SEGS

Affected Ch. 20 Appropriations

Agency/Prepared By	**Authorized Signature**	**Date**
DOR/ Rebecca Boldt (608) 266-6785	Paul Ziegler (608) 266-5773	4/11/2006

Fiscal Estimate Narratives

DOR 4/12/2006

LRB Number **05-2922/3**	Introduction Number **AB-1140**	Estimate Type **Original**
Description Creating the Private Health Insurance Purchasing Corporation of Wisconsin, establishing a health insurance purchasing arrangement through the use of private accounts for all state residents, adopting federal law as it relates to health savings accounts for state income and franchise tax purposes, making appropriations, and providing a penalty		

Assumptions Used in Arriving at Fiscal Estimate

The bill establishes a private health insurance purchasing arrangement to provide heath insurance coverage for state residents. All state residents under 65 who have been domiciled in the state for at least six months would be eligible for the health insurance coverage, except for inmates in a penal facility, residents of an institution for the mentally ill or disabled, and individuals who are eligible for health coverage from the federal government, Medical Assistance or Badger Care.

Under the bill, a private insurance purchasing account will be established for every eligible resident to pay for insurance coverage beginning in 2009. While the bill does not provide a funding source or mechanism, the purchasing accounts will be credited with the full premium amount for coverage under a Tier 1 plan (the lowest risk-adjusted cost plan offered).

Under the bill, the account of each eligible resident who is at least 18 years old will include a health savings account (HSA). Beginning in 2009, $500 will be credited to each HSA account annually, adjusted for changes in the U.S. consumer price index for years after 2009. In addition, the bill would adopt, for state tax purposes, the federal treatment of HSAs as created by Public Law 108-173.

This analysis describes the fiscal effect associated with the tax provisions of the bill. It does not include an analysis of the fiscal effect of providing health insurance coverage. Please see the fiscal analysis performed by the Department of Health and Family Services for an analysis of the insurance coverage provided under the bill.

An HSA is a trust created or organized in the U.S. and established exclusively for the purpose of paying the qualified medical expenses of the account beneficiary. Public Law 108-173 creates a deduction from federal gross income for amounts contributed during the taxable year to an HSA. Individuals are eligible for the deduction if they are covered under a high deductible health plan and if the individual is not simultaneously covered under a health plan which is not a high deductible health plan or which provides coverage for any benefit that is covered under the high deductible health plan. For tax year 2005, a high deductible health plan must have an annual deductible of at least $1,000 for single coverage and $2,000 for family coverage. The sum of the annual deductible and other annual out-of-pocket expenses required to be paid under the plan for covered benefits may not exceed $5,100 for single coverage and $10,200 for family coverage.

The amount of the allowable deduction is reduced by the amount paid to Archer medical savings accounts (MSAs) for the individual during the taxable year. Amounts contributed to an individual's HSA by his or her employer are not deductible because they are already excluded from the individual's gross income. Employers contributing to the HSA of their employees must make comparable contributions to the HSA of each employee or pay a tax equal to 35% of the amount contributed by the employer to the HSAs of employees for the relevant taxable year.

HSA distributions may not be used to purchase health insurance. Any HSA distributions not used to pay the qualified medical expenses of the account beneficiary are included in federal adjusted gross income (FAGI). The individual must also pay a penalty in the amount of 10% of the distributions not used to pay qualified medical expenses. There is no penalty if the distributions were made after the account beneficiary becomes disabled, dies, or becomes eligible for Medicare.

The bill would adopt a state penalty equal to 33% of the 10% federal penalty imposed on HSA distributions used for non-qualified expenses.

Under current federal law, a taxpayer who itemizes deductions may deduct eligible medical expenses that exceed 7.5% of FAGI. However, any distributions from an HSA to pay the qualified medical expenses of the account beneficiary may not be treated as qualified medical expenses for the purpose of itemized deductions.

Adopting for state purposes the federal treatment of HSAs as created by Public Law 108-173 would have the effect of reducing Wisconsin adjusted gross income by the amount of allowed federal deductions made for HSA contributions made by or on behalf of Wisconsin taxfilers.

Assuming that all eligible residents are not simultaneously covered under a health plan which is not a high deductible health plan or which provides coverage for any benefit that is covered under the high deductible health plan, the bill would have resulted in a $92.7 million revenue loss had the HSA contributions been made in 2005, according to the 2003 Individual Income Tax Model, adjusted for 2005 law. The number of residents who would be covered under a health plan in addition to the proposed plan is not known. To the extent that some residents would be simultaneously covered under another type of health insurance plan and hence not eligible to deduct HSA contributions, the revenue loss would be less. On the other hand, to the extent that individuals would make HSA contributions in addition to the $500 credited to their private insurance purchasing accounts, the revenue loss would be higher.

Data do not exist to estimate the extent of non-qualified distributions from HSAs; however, neither the federal penalty nor the proposed state penalty is expected to have a significant fiscal effect.

Long-Range Fiscal Implications

Wisconsin Department of Administration
Division of Executive Budget and Finance

Fiscal Estimate Worksheet - 2005 Session

Detailed Estimate of Annual Fiscal Effect

☒ Original ☐ Updated ☐ Corrected ☐ Supplemental

LRB Number **05-2922/3**	Introduction Number **AB-1140**

Description
Creating the Private Health Insurance Purchasing Corporation of Wisconsin, establishing a health insurance purchasing arrangement through the use of private accounts for all state residents, adopting federal law as it relates to health savings accounts for state income and franchise tax purposes, making appropriations, and providing a penalty

I. One-time Costs or Revenue Impacts for State and/or Local Government (do not include in annualized fiscal effect):

II. Annualized Costs:	**Annualized Fiscal Impact on funds from:**	
	Increased Costs	Decreased Costs
A. State Costs by Category		
State Operations - Salaries and Fringes	$	
(FTE Position Changes)		
State Operations - Other Costs		
Local Assistance		
Aids to Individuals or Organizations		
TOTAL State Costs by Category	$	$
B. State Costs by Source of Funds		
GPR		
FED		
PRO/PRS		
SEG/SEG-S		

III. State Revenues - Complete this only when proposal will increase or decrease state revenues (e.g., tax increase, decrease in license fee, ets.)		
	Increased Rev	Decreased Rev
GPR Taxes	$	$
GPR Earned		
FED		
PRO/PRS		
SEG/SEG-S		
TOTAL State Revenues	$	$

NET ANNUALIZED FISCAL IMPACT		
	State	Local
NET CHANGE IN COSTS	$	$
NET CHANGE IN REVENUE	$See text of fiscal note	$

Agency/Prepared By	**Authorized Signature**	**Date**
DOR/ Rebecca Boldt (608) 266-6785	Paul Ziegler (608) 266-5773	4/11/2006