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F I S C A L   I M P A C T   R E P O R T

SPONSOR:	Rawson	DATE TYPED:	2/21/01	HB	
SHORT TITLE:	Direct Payment to Health Care Providers			SB	685
				ANALYST:	Wilson

APPROPRIATION

Appropriation Contained		Estimated Additional Impact		Recurring or Non-Rec	Fund Affected
FY01	**FY02**	**FY01**	**FY02**		
	NFI				

(Parenthesis ( ) Indicate Expenditure Decreases)

SOURCES OF INFORMATION

Health Policy Commission (HPC)
Taxation and Revenue Department (TRD)

SUMMARY

Synopsis of Bill

SB 685 amends the Insurance Code to clarify under what specific instance eligible medical expenses are exempt from tax. SB 685l defines how payment can be made to a health care provider for qualified medical care and reimbursement obligations if payments do not follow guidelines.

Significant Issues

- Principle contributed to and interest earned on a medical care savings account and money **paid** for eligible medical expenses are exempt from taxation under the (State) Income Tax Act. SB 685 strikes language that refers to reimbursement of the savings account to an employee.

- SB 685 states that payments can be made to a health care provider with a debit card or with a check that accesses the employee’s medical savings account. Payments for goods and services, determined by the account administrator to be ineligible, will be reimbursed to the medical savings account by the employee. In addition the person will be liable for Federal and State taxes and penalties.

FISCAL IMPLICATIONS

None. TRD has indicated that there will be no significant revenue loss.

OTHER SUBSTANTIVE ISSUES

- A Medical Care Savings Account (Account) is a tax-deferred trust or custodial account, similar to an IRA, in which a person set aside money to pay for routine, out-of-pocket healthcare expenses and to build up savings for future medical costs. An employee or employer contributes money to the Account throughout the year or by making a lump-sum payment at the beginning of the year. Contributions are 100 percent tax-deductible. Any insurance company, bank, or similar financial institution is allowed to be a qualified Account trustee or custodian. Twenty-eight states currently have legislated Medical Care Savings Accounts;

- Medical Care Savings Accounts are typically set-up by policyholders who match the following national demographics: 55% of policyholders are families with children, 10% are single parents; and they are likely to be self-employed in technical, sales, and agricultural fields. The average age of the primary insured is 44 years old.

- Only 100,000 people nationwide have set up accounts and, of those, half are not even putting money into the accounts. It is believed that more people would open Medical Care Savings Accounts if the program were marketed better and if transactions were perceived by the public to be easy. The use of a debit card or check to facilitate transactions may make such transactions less complicated.

- By striking the word reimbursement and inserting the word paid, when referring to payment for services, SB 685 appears to be making the policyholder directly responsible for the transaction. In prior language it appears that the policyholder may have been allowed to make an out of pocket expense and then would have been responsible for submitting documentation to the account manager for reimbursement. While the Medical Care Savings Account manager is still responsible for reviewing transactions for legitimacy, the burden of some of the record keeping may have been alleviated. This may result in reduced administrative costs for the Account manager.

DW/njw