

Georgia Passes

HRA/HSA Health Insurance Reforms

On May 7, 2008, Georgia's Governor Sonny Perdue signed into law health reform legislation that will allow insurers to develop significantly more affordable products for small companies and individuals. The new laws (HB 977 and SB 383) focus on the uninsured working poor.

The new Georgia law is a market-based individually-centered package of reforms that eliminate outdated insurance laws that unintentionally limit the offering of affordable insurance. To make insurance more affordable, the new law allows financial "dividends" to be placed into Health Savings Accounts (HSAs) for engaging in wellness, prevention, and treatment compliance. In addition, Georgia eliminated all state and local "sales taxes" on HSA eligible plans (technically called premium taxes). As an incentive to offer insurance, companies (with fewer than 50 employees) are granted a \$250 tax credit for each employee enrolled in an HSA eligible plan. For individual insurance buyers there is a special Georgia income tax deduction for the premium associated with the purchase of an HSA eligible plan. Finally, new more flexible plan designs are allowed that will offer choice, convenience, and cost savings.

Georgia laws now open the doors to a new generation of health insurance that empowers individuals with choices and options for access to care, prevention, treatments, and cures that are not available under existing policies. Already federally tax advantaged, HSA eligible plans are typically 25-40%

lower cost than traditional health insurance. The new Georgia law effective January 1, 2009 will help:

1. **Employers with Fully Insured Group Plans:** If employers are willing to offer HSA eligible group plans, the new Georgia law helps working uninsureds with:

a. HSA “dividends” for wellness, prevention, and treatment compliance.

These shared savings were previously illegal under Georgia rebate laws. Under federal law, up to 20% of a policy’s cost can be returned through rewards and incentives for healthy outcomes. Additionally, unlimited “dividends” can be provided for healthy activities.

b. Elimination of all state and local “sales taxes” for HSA eligible plans.

Georgia has the third highest insurance taxes in the country. The average state tax is 2.25% with added local insurance taxes the added cost burden is as much as 7% of premium. These “sales taxes” are all eliminated for HSA eligible plans.

c. A \$250 “Small Group Tax Credit” per HSA eligible plan enrollee

The average HSA eligible plan annual premium for a single employee is about \$2500. The tax credit represents a 10% offset to the cost of the health insurance.

d. More flexible HSA eligible plan designs

Previous Georgia law prohibited some plan design options that would offer better coverage at lower premiums. These barriers have been eliminated for HSA eligible plans. The estimated savings are between 1-2%.

Overall, the new Georgia law can further lower the cost of HSA eligible group insurance by 20 to 40%, or more.

2. Employers without Group Plans: Many small employers do not want the problems of establishing a formal group insurance plan, but are willing to contribute towards employee purchases of healthcare services and/or individual health insurance policies. For these employers willing to support a healthy work force, employees now have the option of:

a. **Buying Insurance with tax advantaged Health Reimbursement Arrangements (HRAs)**

Under the new Georgia law, HRAs are allowed that encourage employers to allocate business tax-deductible funds directly to employee accounts. Employees will receive tax-free a 100% of the employer contributions without any state or federal income taxes, and without any payroll taxes (e.g. Medicare, or FICA Social Security taxes).

b. **Using HRAs funds to pay for health and healthcare expenses.**

If an employee does not want to use HRA funds to purchase health insurance, employer HRA allocations can be used by the employee to pay for and any medical expenses (e.g. prescription drugs, office visits, tests, lab work etc.). Unused HRA dollars can be “left on account” to accumulate into future years for times of medical need.

Using pre-tax HRAs to fund health insurance and healthcare services provides an average income tax savings of 21-31% and an additional federal payroll tax savings of 15.3%. Overall, the new law allowing HRAs increases the effective value of employer contributions by 60-85% versus a pay increase of the same amount.

3. Individual Health Plans: Portable individual health insurance is independent of the employer and not subject to loss of coverage with a change in jobs. Twenty percent (20%) of uninsureds are between jobs and can not afford the continuation of the employer plan with expensive COBRA rates. Under the new Georgia law, individuals can purchase an affordable individual HSA eligible plan with the following advantages:

- a. Special Georgia income tax deduction for the premiums of HSA eligible plans.

This deduction lowers the net cost of HSA eligible plans by 6%. (Georgia's marginal income tax rate is 6% for singles with income over \$7,000).

- b. HSA "dividends" for wellness, prevention, and treatment compliance.

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- c. Elimination of all state and local "sales taxes" for HSA eligible plans.

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d. More flexible HSA eligible plan designs

Previous Georgia law prohibited some plan design options that would offer better coverage at lower premiums. These barriers have been eliminated for HSA eligible plans. The estimated savings are between 1-2%.

Overall, the new Georgia law can lower the cost of HSA eligible individual health insurance by 15 to 35%, or more.

A New Future: Georgia passed into law a health reform initiative that eliminates all state government taxation on HSA eligible health insurance, removes state barriers to using employer funding of HRAs to fund individual policies, allows financial rewards and incentives for healthy behaviors, and supports products that better meet the needs of working class uninsured. This legislation is not a panacea, but it is a model for other states to follow and prepares Georgia for the next phase of helping all Georgians to find affordable private health insurance.

Under the new Georgia law, next generation HSA eligible plans change the debate around affordability of health insurance. Soon, Georgians will see products at a fraction of their current costs and be able to purchase portable new generation HSA eligible plans that can provide full coverage for those willing to take personal responsibility for their health and well-being. The old complaints that HSA eligible plans were simply high deductible coverage only for the young,

healthy, and wealthy is fully rebutted with these new changes provided under Georgia law. A new future for improved health and family security is unfolding and Georgia is showing the way.

Ronald E. Bachman FSA, MAAA is a Senior Fellow at the Center for Health Transformation, an organization founded by former U.S. House Speaker Newt Gingrich. Nothing written here is to be construed as necessarily reflecting the views of the Center for Health Transformation or as an attempt to aid or hinder the passage of any bill before any state legislature or the U.S. Congress.

