FINAL BILL REPORT
HB 1286

C 143 L 05
Synopsis as Enacted

Brief Description: Creating the medical flexible spending account.

Sponsors: By Representatives Cody, Simpson, Morrell and Kenney; by request of Office of Financial Management.

House Committee on Appropriations
Senate Committee on Ways & Means

Background:

Health Care Flexible Spending Accounts (FSAs) are benefit plans established by employers under Section 125 of the federal Internal Revenue Code to reimburse employees for health care expenses such as health care deductibles, co-payments, eligible non-prescription medications, and other items not covered by insurance. The FSAs are usually funded by employees through salary reduction agreements; however, employers are permitted to contribute.

An employee must elect to participate in a FSA at the beginning of each year, and during the plan year the amount of salary deducted for a member's FSA is irrevocable unless the person experiences a change in circumstances that meet certain requirements specified in federal law. An employee's balance builds each month as salary deductions are placed in the account, and is reduced by reimbursements for eligible expenditures. Any unspent balance remaining in an employee's FSA at the end of each year is forfeited.

Employee (or employer) contributions to FSAs are made from an employee's salary prior to reductions for taxes, and reimbursements from FSAs are also tax exempt. As employee contributions to an FSA are made prior to reductions for income tax, Social Security, and Medicare, they offer employees with anticipated uninsured medical expenses the opportunity for significant tax savings. An employee in the 25 percent tax bracket, for example, who decides to deposit $900 in a FSA and spends the entire balance on eligible medical expenses during the year would save about $225 on federal income taxes and $69 in Social Security and Medicare taxes.

In the 1995 bill, 2ESHB 1566, the Legislature authorized the Washington State Health Care Authority (HCA) to administer the benefits contribution plan, and, subject to the approval of the Office of Financial Management, expand the benefits to include a medical flexible spending arrangement.

Summary:

A Medical Flexible Spending Account (MFSA) is created in the custody of the State Treasurer. Revenues from employing agencies associated with the cost of operating the medical FSA program and unclaimed FSA money left at the end of the plan year are deposited into the MFSA. Money may also be transferred from the MFSA to the Public Employees' and Retirees' Insurance Account, and from the Public Employees' and Retirees' Insurance Account to the MFSA to provide for reserves and start-up funding for the operation of the FSA program.

Every division, department, or agency and participating counties, municipalities, school districts, educational service districts, or other political subdivisions must fully cooperate with the HCA and carry out all actions necessary for the operation of the HCA-administered programs. These agencies must also report all data relating to employees eligible to participate in the HCA programs in a format designed by the HCA.

Votes on Final Passage:

House	96	0
Senate	48	0

Effective: July 24, 2005