

SENATE BILL REPORT

HB 2652

As Reported By Senate Committee On:
Ways & Means, March 03, 2008

Title: An act relating to coordination of benefit plans that allow state and public employees to pay on a pretax basis to participate in benefits offered under sections 125 and 129 of the internal revenue code, including transfer of the dependent care assistance program to the health care authority.

Brief Description: Transferring the dependent care assistance program to the health care authority by coordinating benefit plans that allow state and public employees to pay on a pretax basis.

Sponsors: Representatives Morrell, Fromhold, Moeller, McIntire, Simpson and Kenney; by request of Health Care Authority and Department of Retirement Systems.

Brief History: Passed House: 2/13/08, 96-0.

Committee Activity: Ways & Means: 2/29/08, 3/3/08 [DP].

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: Do pass.

Signed by Senators Prentice, Chair; Fraser, Vice Chair, Capital Budget Chair; Pridemore, Vice Chair, Operating Budget; Zarelli, Ranking Minority Member; Brandland, Carrell, Fairley, Hatfield, Honeyford, Keiser, Kohl-Welles, Parlette, Rasmussen, Regala, Roach, Rockefeller and Tom.

Staff: Erik Sund (786-7454)

Background: The Dependent Care Assistance Program (DCAP) allows state employees to set aside a portion of their salary, before taxes, to be used to reimburse dependent care providers. The federal Internal Revenue Service establishes various limitations on the amount of money that can be set aside and how it may be used. One limitation is that any amounts set aside that are not used by the end of the year are forfeited. Forfeitures are currently transferred to the General Fund, as is the interest earned during the year on funds set aside by employees. Employers experience a slight cost savings when employees participate in the plan because the employer does not have to pay social security taxes on any salary dollars set aside under the DCAP.

The DCAP is administered by the Department of Retirement Systems (DRS), and about 1,100 public employees are utilizing the DCAP, with annual deferrals totaling about \$4.3 million.

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.

The Health Care Authority administers health, life, disability and other benefit and insurance programs for employees and retirees of the state government, local governments, and school districts. Among those programs are ones like the Health Care Flexible Spending Account Program (FSA), which is a pre-tax salary set-aside program operated under the same provisions of the federal Internal Revenue Code as the DCAP administered by the Department of Retirement Systems. The FSA program reimburse employees for health care expenses such as health care deductibles, copayments, eligible non-prescription medications, and other items not covered by insurance.

In 2007 the Department of Retirement Systems and the Health Care Authority arranged by interagency agreement that beginning January 1, 2008, the DCAP will be administered by the Health Care Authority's Public Employees Benefits Board (PEBB) program.

Summary of Bill: The administration of the Dependent Care Assistance Program and associated funds are transferred from the Department of Retirement Systems to the Health Care Authority. Changes are made to the definition of "benefits contribution plan" within the Health Care Authority laws, renaming them "premium payment plans" and expanding the definition sufficiently to encompass both the DCAP and the Medical Flexible Spending arrangement, or Health Care Flexible Spending Account program. Department of Retirement Systems laws related to the DCAP are repealed.

Appropriation: None.

Fiscal Note: Available.

Committee/Commission/Task Force Created: No.

Effective Date: The bill takes effect on January 1, 2009.

Staff Summary of Public Testimony: PRO: This bill would establish on a permanent basis what the HCA and DRS have already put into practice through interagency agreement. Doing so will allow the state to realize administrative efficiencies and cost savings for years to come and will improve service for employees that participate in both the DCAP program and the FSA program.

Persons Testifying: PRO: Dennis Martin, Health Care Authority; Jeff Wickman, DRS.