HUMANA
Guidance when you need it most

Date: February 12, 2008

To: Committee on Health & HealthCare Reform

From: Tod Zacharias, Humana VP

Re: Assembly Bill 47- HSA Tax Exemption

My name is Tod Zacharias, Vice President of Finance Planning and Business Development. Humana supports Assembly Bill 47, which exempts Health Savings Accounts (HSAs) from state taxes.

This legislation before the committee will resolve an inequality in Wisconsin's tax system. As it stands today, HSAs are the only method of paying for healthcare taxed by the state. The latest state budget included income tax deductions for premiums paid by employees, but failed to alleviate the tax penalties on people who use HSAs.

Unlike premiums and Flexible Spending Accounts (FSAs) which are tax exempt, people using HSAs to pay for and save for medical expenses pay state income tax on their contributions, earned interest, and they are taxed on their employer's contribution as well.

Taxing HSAs undermines their lower-cost benefits, which provide a sensible option in today's healthcare marketplace.

HSAs provide many consumers the opportunity to prepare and pay for their medical care.

- Humana's WI claims data shows that HSA funds are most commonly used for medical services, including doctor's visits and outpatient procedures.
- The same data reveals that prescription drugs are the second most common expense paid for with HSA funds.

A tax on HSAs is a tax on medical care. This further shows the need for legislation to fix this unfortunate inequality.

- HSA eligible plans are more affordable than traditional plan premiums, 35% less for single coverage and 29% less for family
- 44% of Humana's Wisconsin associates who choose HSAs make less than $50,000 annually.
- Nationally, almost half of HSA users earn less than $50,000 .

Working families across any of our state borders, and in a total of 47 other states, are be able to save and pay for their medical costs in their HSAs, tax free.

The legislation before us aims to remove the state tax on HSAs, not provide the solution to our state's access or uninsured problems.

- It's true that 19% of Humana's Wisconsin small business groups that offer an HSA eligible plan were previously uninsured.

- Also, 27% of new enrollees in an HSA eligible plan were previously uninsured in the individual market nationally.

In 2006, taxing HSAs cost our average Wisconsin associate over $60 above and beyond real healthcare expenses. I'm sure there are thousands more HSA enrollees that were penalized by the state tax because they chose to have more control over their healthcare dollars through an HSA.

To ensure Wisconsin's small businesses remain competitive, we must do everything in our power to reign in the cost of healthcare. By providing tax equity to HSAs, employers and employees alike will be better able to afford their healthcare.

Let's allow consumers to choose a plan that fits their needs at a price they can afford, without undue taxes.

We appreciate the opportunity to speak before your committee on this important legislation.

Tod Zacharias

Vice President
Humana

Statement by Sherry Pinnerud, 1734 Chateau Drive, Green Bay, WI 54304
Submitted to Assembly Committee on Health and Healthcare Reform
February 12, 2008

My name is Sherry Pinnerud. I work for Humana as a clerical in our claims processing department. Thank you for letting me tell my story today:

I have worked at Humana for nine years, and have taken the HSA eligible plan since it's been available. I chose the HSA over the PPO plan because it was more affordable. The lower premium cost means I have more take-home pay. As a single mom without child support, my two children and I are on a tight budget. With my HSA I am able to put aside money to cover our medical costs and make my paychecks last longer. Our check-ups are covered at no cost to me, even if we haven't met the plan deductible. And our HSA helps us pay for our care before meeting the deductible. Last year I used my HSA to pay for my son's asthma medicine, and cover my outpatient surgery.

Humana puts money in my HSA, which Wisconsin treats as taxable income. This money is not wages- I don't earn it by working overtime, and it can only be used for medical costs. Because this contribution from my employer is taxed as income, I can not get my much needed energy assistance. Before I started working for Humana, I was on welfare. I am proud of myself for working hard to make ends meet, but I feel like I am being punished by the tax on my HSA. This plan makes sense for me and my family. Other people who pay more in premiums don't get taxed for paying their medical bills, but I do.

Wisconsin State AFL-CIO ...the voice for working families.

David Newby, President • Sara J. Rogers, Exec. Vice President • Phillip L. Neuenfeldt, Secretary-Treasurer

Contact: 414.581.0942

Testimony
David Newby, President
Wisconsin State AFL-CIO

Assembly Health and Health Care Reform Committee
February 12, 2008

Health Care Reform: Why Health Savings Accounts Are Not the Answer

Assembly Bill 47 extends preferential tax treatment at the state level to encourage Health Savings Accounts (HSAs). Under federal law these accounts must be paired with a high-deductible health insurance policy with a *minimum* deductible of $1100 for individuals and $2200 for families in order to receive the tax breaks. (Figures are for 2008 and adjusted annually.)

The Wisconsin State AFL-CIO opposes this legislation because Assembly Bill 47 is really about tax policy, not serious health policy. If the bill were law today, the fiscal estimate shows that it would cost the state $39.1 million in lost revenue in the first three years alone—funds that the state would otherwise use for vital public services and education. It is fair to ask whether this expensive initiative offered to address the health care crisis provides the path to affordable, quality, comprehensive health coverage for *all* residents of our state.

The following points explain why Assembly Bill 47 is the wrong path to health care reform and will actually undermine the goal of health coverage that meets the actual *health care needs* of the population.

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- **HSAs shift costs from employers to employees.**
- **HSAs will increase the cost of traditional insurance coverage.**
- **HSAs and high-deductible insurance plans add to the significant health costs that have already been shifted to individuals and working families.**
- **HSAs do not lead to significant reductions in health costs.**
- **HSAs are great for the wealthy and healthy, but not for the rest of us.**

- ***HSAs shift costs from employers to employees.*** According to the 2007 Employer Health Benefits Survey by the Kaiser Family Foundation (KFF) and the Health Research & Educational Trust, the average annual deductible for an employer-based HSA/high-deductible single insurance policy was $1,923 and the average for a family policy was $3,833. Both are considerably higher than the minimum deductible required under federal law. For middle- and lower-income workers, it is almost impossible to accrue sufficient savings to pay for health costs required by such extremely high deductibles. Though employers will save money by offering high-deductible insurance plans, they are not required to use any of the savings to help fund an employee's HSA. According to the Kaiser Foundation 2007 survey, about two-thirds of employers contribute nothing to HSAs paired with single health plans and 47% contribute nothing to HSAs paired with family plans. When they do, the average contribution was only $428 for single coverage and $714 for family coverage, substantially less than the average deductibles found in the survey.

- ***HSAs will increase the cost of traditional insurance coverage.*** A majority of people not eligible for Medicaid or Medicare access health coverage through traditional, comprehensive group health plans offered by their employers. If the HSA/high-deductible insurance option is encouraged in the workplace, younger and healthier employees are likely to take a chance and choose that option with the substantial tax breaks and lower premiums. The loss of these individuals from the broad risk pool will raise the cost of the traditional, comprehensive group health plan in that workplace. This is because many—or most—who remain in the traditional plan are there due to greater medical needs—either related to chronic health problems or the need for quality family coverage—and the premium rates are based on the claims experience for the group. Because group plans in the workplace are the major source of comprehensive, quality health coverage, any public policy that will distort the risk pool and result in even higher premium costs is counterproductive and reckless. Health policy experts have counseled policymakers to avoid the separation of healthier and less-healthy people into separate insurance arrangements because those with health problems can become too costly to insure. The long-term effect of the HSA/high-deductible insurance approach undermines the very basis of risk-pooling that helps provide access to comprehensive health insurance for most working families.

- ***HSAs and high-deductible insurance plans add to the significant health costs that have already been shifted to individuals and working families.*** Proponents of Assembly Bill 47 and the *consumer-driven health insurance* approach argue that people do not have enough "skin in the game", which is a barbaric phrase used to argue that people should feel more financial pain when they access health care so that they don't seek medical treatment unnecessarily. The other justification is that if individuals (rather than insurance companies or HMO's) pay medical bills

directly, they will "shop around" for the least expensive treatment, helping to create a more effective "market" in health care. These are major rationales for HSAs, but the premises are quite inaccurate. A 2007 survey by Towers Perrin, a national benefits consulting firm, shows that out-of-pocket costs have roughly doubled for employees over the past five years. Those costs average $900 for an individual employee and $3,132 for family coverage. Other studies document substantial cost-shifting to workers as well. The 2007 Kaiser Foundation survey states: "In addition to any general plan deductible, over 95% of covered workers face cost sharing when admitted to the hospital or when they have outpatient surgery. Most works face some form of cost sharing when visiting the emergency room, for urgent care, or for an advanced diagnostic test. The majority of workers have co-payments or coinsurance for physician office visits…and prescription drugs." Given that employee wages have stagnated (when adjusted for inflation), higher health care costs already absorb a substantial portion of income and people are feeling significant financial pain *now*. As to the "shopping" argument, are those of us without any medical training really supposed to "shop" for medical care and still get the best and most effective treatment? Can we really get good quality health care at Wal-Mart?

- ***HSAs do not lead to significant reductions in health costs—another major rationale for the "consumer-driven" approach to health care reform.*** The HSA/high deductible insurance approach has limited potential for cost containment. Most health care costs are for expensive procedures or treatments—usually related to catastrophic major illnesses or chronic conditions or end-of-life care—where costs will exceed the deductibles under these policies and be paid by insurance companies. The top 10 percent of health care users account for 70 percent of total health expenditures, so the HSA/high-deductible insurance approach will not control

rising health costs, but will simply discourage many people from getting timely and needed medical attention—and force them to absorb much more of the cost when they get appropriate medical attention.

- ***HSAs are great for the wealthy and healthy but not for the rest of us.*** The generous tax breaks for HSAs are unprecedented in the entire federal tax code. The contributions to the account are tax-free (subject to adjusted yearly limits), the interest earned is tax-free, and the distributions for medical expenses are tax-free. No other savings account offers both tax-deductible contributions and tax-free withdrawals. The account funds may be used to purchase stocks, bonds and other investments, so Wall Street is very enthusiastic about HSAs, along with banks which will benefit from the management fees associated with the accounts. Some insurers have created their own banks so they can profit from both the sale of high-deductible plans and the savings accounts. Aside from the unprecedented triple-tax benefit, the funds can be withdrawn without tax penalty for non-medical purposes beginning at age 65. (Enrollees do pay income taxes on these withdrawals, but they are likely to be in a lower tax bracket at that time.) A federal Government Accounting Office (GAO) study and others confirm that HSAs are being used as lucrative tax shelters by wealthier individuals. Assembly Bill 47 would provide even more tax breaks.

Assembly Bill 47 pretends to address our health care crisis and is really designed to deflect attention from the urgent need to fundamentally reform our health care system. Assembly Bill 47 does not address the basic elements of the crisis we face—rising costs, reduced access, and lack of effective incentives for improved quality. It is time for legislators to focus on how *everyone* in Wisconsin can have affordable, comprehensive, quality health care.

We don't need any more gimmicks. We don't need more patchwork tinkering with our health insurance system. We don't need legislation that simply passes more health care costs on to individuals. And we especially don't need to undermine the comprehensive group health coverage that still remains for a significant number of working families under our employment-based system.

We need fundamental health care reform that effectively addresses our health care crisis in a way that is coordinated, cost-effective and comprehensive. All other wealthy (and even not-so-wealthy) countries have done so. Why can't we?

Sources:

Kaiser Family Foundation/Health Research & Educational Trust *Employee Health Benefits 2007 Annual Survey* (www.kff.org/insurance)

US Treasury (www.ustreas.gov/offices/public-affairs/hsa/)

Center on Budget and Policy Priorities, *"GAO Study Confirms Health Savings Accounts Primarily Benefit High-Income Individuals,"* by Edwin Park and Robert Greenstein, September 20, 2006. *"A Brief Overview of the Major Flaws with Health Savings Accounts,"* April 5, 2006. *"Health Savings Accounts Unlikely to Significantly Reduce Health Care Spending"* by Edwin Park, June 12, 2006. (www.cbpp.org/hsa-overview.htm)

Government Accountability Office, *"Consumer-Directed Health Plans: Early Enrollee Experiences with Health Savings Accounts and Eligible Health Plans,"* GAO-06-798, August 8, 2006. Government Accountability Office, *"Consumer-Directed Health Plans: Small but Growing Enrollment Fueled by Rising Cost of Health Care Coverage,"* GAO-06-514, April 28, 2006.

Wisconsin Companies, Employees Pay More For Health Care Benefits, Associated Press, October 2, 2007, article on Towers Perrin study.

"Saving Accounts for Health Costs Attract Wall Street: Banks and Brokers Court the Medical Equivalent of 401(k) Programs", New York Times, January 27, 2006.

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NFIB
The Voice of Small Business®

Wisconsin

Statement Before the Assembly Committee on Health and Health Care Reform

By

Bill G. Smith
State Director
National Federation of Independent Business
Wisconsin Chapter

Tuesday, February 12, 2008
Assembly Bill 47

Madam Chair and members of the committee, thank you for the opportunity to make some brief comments on behalf of the more than 10,000 member firms of NFIB/Wisconsin.

This important legislation, which would adopt federal law as it relates to the establishment of health savings accounts, has the strong support of our state's small business community. According to a recent NFIB survey study, 87% of our members support extending state tax advantages to Health Savings Accounts.

Health Savings Accounts have done for health care what IRA's and 401K's have done for retirement savings. They are simply a tool that have allowed thousands of individuals to have access to affordable health insurance. HSAs are an option – a choice between having health insurance coverage or having no coverage.

The HSA accounts are an important piece of a health care system that empowers individuals to have independence and greater control over their own health care. And while we are pleased Wisconsin has one of the highest estimated penetration rates of HSAs in the nation when compared with the overall national average, just imagine how many more would utilize an HSA account if there were state tax advantages, just as there are state tax advantages in 47 other states.

Just imagine, Madam Chair and members of the committee, having fewer uninsured in Wisconsin, because as you know, between 30 and 40 percent of all HSA enrollees were previously uninsured. (AHIP 2006 and eHealthInsurance, 2006).

And while some will say HSAs are an option only for the wealthy, Assurant Health reports 29% of the purchasers have family incomes of less than $50,000, and 19 percent have family incomes of less than $40,000 per year.

The popularity of HSA accounts across the country provides testimony to their utility and usefulness. The number of HSA accounts in the United States has tripled between March, 2005 and January, 2006 (AHIP, 2006). HSAs now exceed 10 percent of the private benefit market, but in Wisconsin they are being held back from their potential because HSAs do not enjoy state tax advantages.

Attached to my testimony today is a list of small business owners who are saving money on their health insurance premiums as a result of purchasing their Health Savings Account plans. You will see an Ohio self-employed engineering consultant who saves $8,400 (66%) the first year with an HSA plan. You will also see a Minnesota small business with 15 employees that saved $12,000 with an HSA.

There is also the Iowa small business counseling service with 8 employees who reported saving $14,740 (32%) on health insurance premiums with an HSA. There is an Iowa OB/GYN Clinic with 13 employees that reports saving $40,608 (38%) on health insurance premiums the first year of an HSA plan. And, finally, there is a Wisconsin small business owner, a chiropractor, who reduced health insurance costs by 70% saving $8,400 in the first year with an HSA plan. As a result of these dramatic savings, these employers are able to make significant contributions to the HSAs of their employees.

Also attached to my testimony is a copy of an article that appeared in NFIB's member magazine *MY Business*. This article shows an example of how contributions to an HSA can even result in substantial savings for retirement. The article also quotes a Nashville NFIB member who will save 30-40% each year with an HSA account.

Since 1998, NFIB Member Benefits Corporation reports over $12 million in premiums between MSAs and HSAs. There are thousands of NFIB member employers and employees currently covered through an HSA insurance plan.

In conclusion, Madam Chair:

- HSAs provide the employee with power and control over their own money and encourage physicians to act autonomously without interference from HMOs and insurance companies;
- Offer additional financial security for today's mobile workforce;
- HSA contributions are 100 percent tax-deductible;
- Funds in HSAs grow tax-deferred, medical costs are tax and penalty free, and left over funds from one year are rolled over to the next. In short, you get the triple crown of tax planning with an HSA. The money goes in tax free, it grows tax free, and it comes out tax free. And, hopefully, soon the money will also be free of state taxes.

Thank you, and I urge the Committee to act promptly and favorably on Assembly Bill 47.

Examples of Small Businesses Saving Money Today:

1. **Ohio Small Business with 66 Employees (Ohio Waste Water) Saves $207,566 (or 37%) On Health Insurance Premiums First Year with HSA Plan.** *(American Community Mutual Insurance, Lisa A. Falk, tel: (734) 591-4617)*

2. **Ohio Self Employed Consultant Saves $8,400 (or 66%) on Health Insurance Premiums First Year with HSA Plan.** "A self-employed engineering consultant in Granville, Ohio, also knows how costly traditional health insurance can be. Prior to establishing an HSA with Golden Rule, Griffith says he and his wife Kathy, who works part-time in retail, were spending $1,111 a month for health insurance."

   "[He is] now spending less than a third of what they were previously on their monthly premium alone." *(Golden Rule Insurance Company Press Release, September 29, 2004)*

3. **Pennsylvania Small Business Owning Couple Saves $8,888 (or 77%) on Health Insurance Premiums with HSA Plan.** "The [small business owning couple] switched from traditional insurance to an HSA when their premium skyrocketed to over $900 a month. Today, the [couple has] cut their premium to under $200 a month and they're building savings for future medical expenses, tax deferred."*(Golden Rule Insurance Company Press Release, September 29, 2004)*

4. **Minnesota Small Business with 15 Employees (Mercury Office Supply) Saves $12,000 First Year Offering Health Savings Account (HSA) Plan.** "Daniel Schmidt, chief executive of Mercury Office Supply, writes that his firm has saved $12,000 in the first year it has offered an HSA plan. "'As the CEO of a small business with less than 15 employees, it was difficult to tell my employees year after year that compensation had to remain virtually flat due to the rising costs of health insurance,'" Schmidt said. "'It became imperative that all possible health care options were explored and evaluated.'" *(Editorial, "Minnesota Should Allow Taxpayers To Deduct Contributions To Health Savings Accounts", St. Paul Pioneer Press, September 26, 2004)*

5. **Minnesota Small Business with 18 Employees (Schwarz Williams Cos) Saves $20,000 (or 23 Percent) First Year Offering HSA Plan.** "Schwarz Williams Cos., a Twin Cities firm that advises small businesses on health care options, has a client with 18 employees that saved more than $20,000, or 23 percent, in the first year alone using an HSA plan." *(Editorial, "Minnesota Should Allow Taxpayers To Deduct Contributions To Health Savings Accounts", St.Paul Pioneer Press, September 26, 2004)*

6. **Wisconsin Small Business Owner, Dr. Jeffrey Wilder, Saves $8,400 (or 70 Percent) On His Family Health Insurance Coverage In First Year with HSA Plan.** "Until last month, the Madison Chiropractic clinic owner [Dr. Jeffrey Wilder] was paying $1,000 a month in premiums for his family's health insurance. To beat those costs, Wilder signed up for an insurance plan with a high deductible and then opened a health savings account, a newly introduced way to save on federal taxes while paying deductibles."

   "'Even though it's brand new, the possibility of having more control over my health care costs is very attractive to me,'" said Wilder, who'll receive a more than 70 percent cut in his premiums in exchange for that higher deductible." *(Jason Stein, "Health Savings Account Helps Cover Medical Costs; New Plan Combines Tax Savings with High Deductible," Wisconsin State Journal," August, 17, 2004)*

7. **New Hampshire Self Employed Small Business Owner, Herve Riel, Saves $6,600 (or 66 Percent) On His Individual Health Insurance Coverage In First Year with HSA Plan.** "Herve Riel, a Manchester accountant, found out his health insurance premiums were about to rise some 35 percent, to nearly $1,000 a month."

   "HSAs do seem to be an answer for Riel."
   "Riel may be on the hook to pay as much as $5,000 in out-of-pocket health expenses, but considering his premiums are a third of the $10,000-a-year he would have paid..." *("Are Health Savings Accounts An Answer To Higher Costs?", New Hampshire Business Review, April 16, 2004)*

8. **Iowa Small Business Counseling Service with 8 Employees Saves $14,740 (or 32%) On Health Insurance Premiums First Year with HSA Plan.** *(Associations Marketing Group, Inc., Jesse A Patton (President/CEO) Tel: 515 270-8178)*

9. **Iowa Small Business OBGYN Clinic In Burlington with 13 Employees Saves $40,608 (or 38%) On Health Insurance Premiums First Year with HSA Plan.** *(Associations Marketing Group, Inc., Jesse A Patton (President/CEO) Tel: 515 270-8178)*

10. **Pennsylvania single, self-employed elder home care provider saves $1,700 (34%) her first year by exchanging her lower-deductible plan with a HSA-eligible health insurance plan.** *(eHealthInsurance)*

11. **Michigan Small Business with 16 Employees (Payne and Frey, LLC) Saves $23,500 (or 33%) On Health Insurance Premiums First Year with HSA Plan.** *(American Community Mutual Insurance, Lisa A. Falk, tel: (734) 591-4617)*

12. **Michigan Small Business with 18 Employees Saves $23,500 (or 33%) On Health Insurance Premiums First Year with HSA Plan.** *(American Community Mutual Insurance, Lisa A. Falk, tel: (734) 591-4617)*

13. **Michigan Small Business With 28 Employees (Lenawee Precision Plastic) Saves $68,837 (or 48%) On Health Insurance Premiums First Year With HSA Plan.** *(American Community Mutual Insurance, Lisa A. Falk, tel: (734) 591-4617)*

14. **Washington State Small Non-Profit with 50 Employees (Horizon, Inc.) Saves $140,000 (or 50%) On Healthcare Costs First Year with HSA Plan.** Tom Gaulke heads up non-profit Horizons, Inc. that offers employment training and re-training for welfare recipients, low-income individuals and those with disabilities and employs a staff of around 50. "[U]p until July 2003, he had offered [his employees] continuous health care coverage for the past 10 years. That all stopped last year when health care costs, just for 40 employees, rose to $ 120,000 in annual premiums. Historically, his health care costs had risen 20 percent a year."

    "'Twenty on top of 20 on top of 20 starts to add up in a hurry,' he said."

    "For 2004 he projected his health care budget to be nearly $ 180,000 or 8 percent of his $ 2.5 million budget."

    "'This is a problem every business suffers from,' he said. 'When we were facing this catastrophe, we began researching our options.'"

    "Gaulke finally elected to go with Premera's group high deductible health plan, combined with Cashmere Valley Bank HSAs for his employees."

    He said the high deductible plan by itself cut his health care costs in half. *(Rolf Boone, "HSAs Come To Cashmere Valley Bank: Interest Grows In Tax-Free Health Savings Accounts," Wenatchee Business Journal, August 1, 2004)*

15. **Nebraska Small Business with 13 Employees (Rinder Printing) Saves $34.029 (or 41%) On Health Insurance Premiums First Year with HSA Plan.** *(American Community Mutual Insurance, Lisa A. Falk, tel: (734) 591-4617)*

16. **Indiana Small Business with 20 Employees (Lake City Heat Treating) Saves $110,000 (or 52%) On Health Insurance Premiums First Year with HSA Plan.** *(American Community Mutual Insurance, Lisa A. Falk, tel: (734) 591-4617)*

17. **Indiana Small Business with 46 Employees (Children First Center) Saves $108,121 (or 59%) On Health Insurance Premiums First Year with HSA Plan.** *(American Community Mutual Insurance, Lisa A. Falk, tel: (734) 591-4617)*

18. **Georgia self-employed commercial roofer and single father of three, reduced his monthly health insurance premium costs (72%) from $700 to $200 and saves $6,000 his first year with HSA-eligible health insurance plan.** He is also fully funding his HSA to cover his family's medical expenses before the deductible. *(eHealthInsurance)*

19. **Tennessee couple owns and operates a hair design salon and managed to reduce the family of three's annual health insurance premiums 64%, saving $3,696 their first year.** By re-investing some of their savings in an HSA, they are also lowering the family's tax burden. *(eHealthInsurance)*

20. **Tennessee real estate agent reduces monthly health insurance premiums by 57%, saving the agent over $2,500 her first year with an HSA eligible health insurance plan.** *(eHealthInsurance)*

21. **Illinois Small Business Legal Services Company Saves 24% on Health Insurance Premiums First Year with HSA Plan.** *(Principal Life Insurance Company)*

22. **Illinois Small Business Accounting Services Company Saves 38% on Health Insurance Premiums First Year with HSA Plan.** (*Principal Life Insurance Company*)

23. **Indiana Small Business Legal Services Company Saves 42% on Health Insurance Premiums First Year with HSA Plan.** (*Principal Life Insurance Company*)

24. **Illinois Small Business Drug Store Saves 45% On Health Insurance Premiums First Year with HSA Plan.** (*Principal Life Insurance Company*)

25. **Texas Small Business Painting Company Saves 4% on Health Insurance Premiums First Year with HSA Plan.** (*Principal Life Insurance Company*)

26. **Texas Small Business Research Company Saves 4% on Health Insurance Premiums First Year with HSA Plan.** (*Principal Life Insurance Company*)

27. **Tennessee Small Business Owner (Sherrie Jenkins of The Supply Room) Saves 30-40% on Health Insurance Premiums First Year with HSA Plan.** "'What I save in premiums I contribute to the HSA,' Jenkins said. 'When your money is in the HSA, it is earning tax-deferred interest,' she said. 'That is definitely appealing.'" *(Member Benefits pages, December2004/January 2005 issue of MyBusiness, the small business magazine from the National Federation of Independent Business (NFIB))*

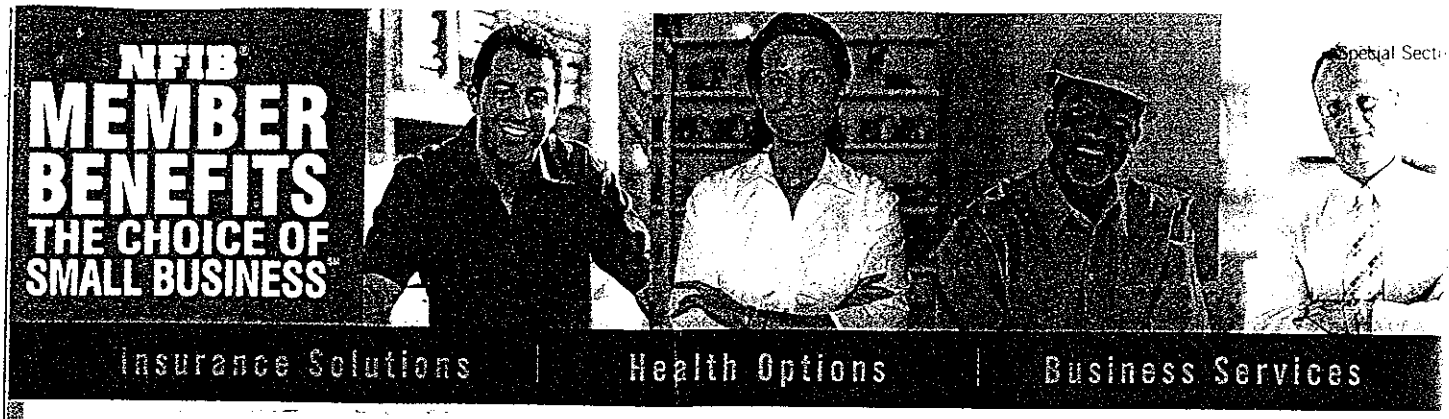
28. **Pennsylvania Small Business Owner (Richard Schaudek of Bella Custom Cabinets) Saves $80 a Month In Premiums By Adopting a HSA Plan in 2004.** "'It's affordable and seems like a practical way to do it,'" Schaudek says. *(Member Benefits pages, October/November 2004 issue of MyBusiness, the small business magazine from the National Federation of Independent Business (NFIB))*

29. **Texas Self Employed Business Owner (Dr. Scott Sims of Northview Chiropractic Center) Saves 33-50% a Month In Premiums By Adopting a HSA Plan in 2004.** "'My new premiums are at least one half to a third of what I used to pay (with a traditional health individual insurance plan),' he says." *(Member Benefits pages, August/September 2004 issue of MyBusiness, the small business magazine from the National Federation of Independent Business (NFIB))*

30. **Michigan Small Business Owner (Betty Breakey) Saves Money By Adopting A HSA Plan In 2004.** "'I'm a healthy person so I couldn't see paying so much for health insurance,' she said. 'I want to put the money away [in a HSA] and use it someday if I need it.'" *(Member Benefits pages, April/May 2004 issue of MyBusiness, the small business magazine from the National Federation of Independent Business (NFIB))*

31. **Pennsylvania Small Business Owner (Donald Carey of Carey Excavating) Is Delighted To Find An Affordable HSA Plan in 2004.** "'I was so relieved to find out about HSAs and NFIB's plan. Now I have an (insurance) plan for $197 a month. I couldn't believe it.'" *(Member Benefits pages, April/May 2004 issue of MyBusiness, the small business magazine from the National Federation of Independent Business (NFIB))*

If you would like to learn more about how to become a member of the Information-rich Health Savings Account (HSA) Project, please contact Vince Haley at (202) 375-2001 or info@healthtransformation.net.



Watch Your Money Grow in an HSA

SHERRIE JENKINS KNOWS that traditional health plans aren't the best use of her money. After years of paying high premiums for lower deductibles, she made the switch to a Health Savings Account (HSA).

Big Savings "I found that I could save 30 to 40 percent each year with a Health Savings Account," says Jenkins, owner of The Supply Room, an office supply company based in Nashville, Tenn.

Jenkins purchased a high-deductible health plan, coupled with a tax-free HSA, to cover herself and her family. Since then, she has watched the savings add up.

"What I save on premiums I contribute to the HSA," she says. "Our deductible is $3,800, but when are you really going to have to meet that?"

Taxpayers who have high-deductible health plans can contribute up to $2,600 a year ($5,150 for families) into these savings accounts, which can be used to meet the deductible and pay for other qualified medical expenses.

You only pay for what you use. That's the advantage of an HSA.

"Why would you pay $1,000 a month for a low deductible if you're not sick? You're paying that on the off-chance you'll have a claim," says Todd Page, national sales manager with the J.L. Barnes Group. "With an HSA, you buy only the insurance you need."

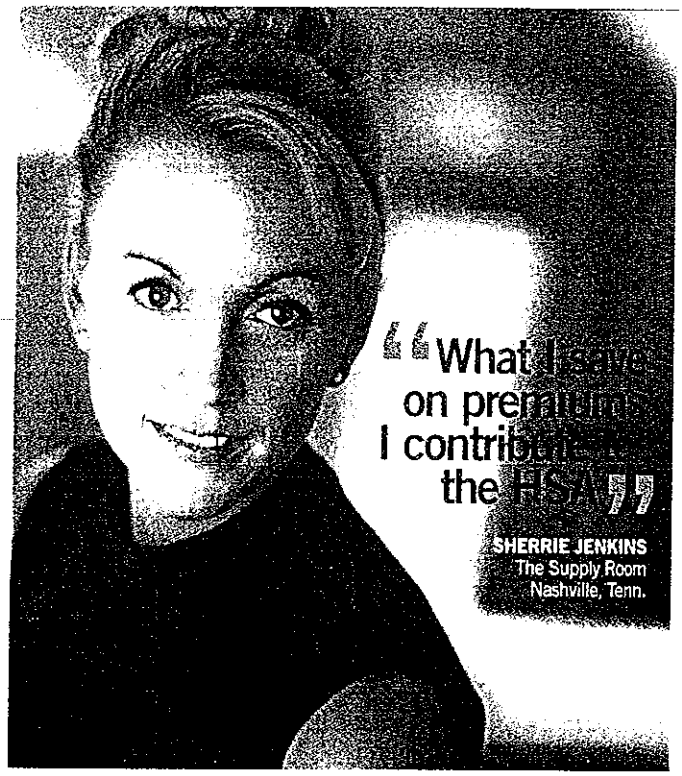
Making Money Money not spent stays in the HSA and earns interest, giving healthy individuals fallback funds for later expenses.

People who are at least 65 years old may withdraw money from their HSAs for any purpose without penalty, though the money withdrawn does become taxable. If you withdraw funds before the age of 65 for non-medical expenses, you will be charged a 10 percent penalty.

"You can use the HSA to pay deductibles now, pay for medical expenses later or if you don't use it for either, consider it an Individual Retirement Account," Page says.

And Jenkins knows the best part of it all. "It works just like a regular savings account. When your money is in there, it is earning tax-deferred interest," she says. "That is definitely appealing."

For more information or for a health insurance quote, call NFIB HealthBenefits at (888) 488-6266, or go online to www.NFIB.com/HealthBenefits.

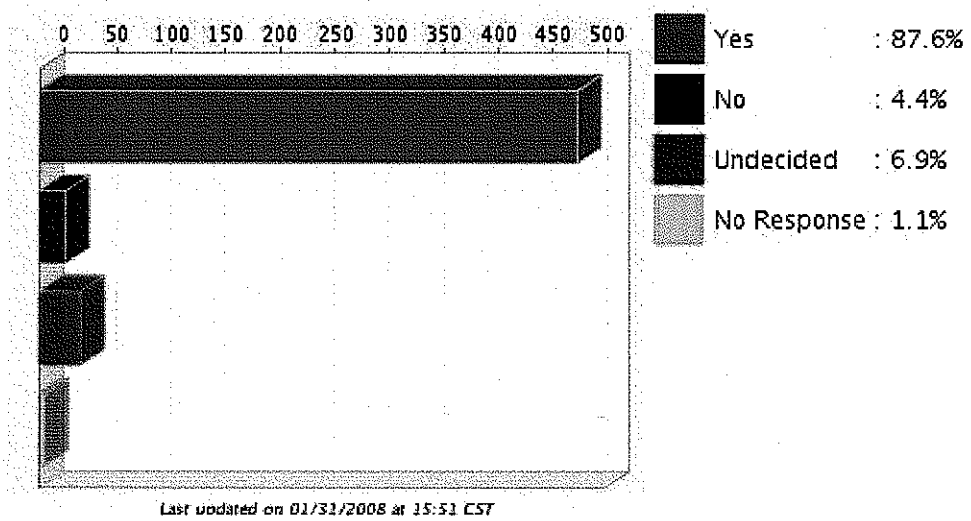


Picture the Savings By making the maximum yearly contribution to your Health Savings Account, you could have substantial savings by the time you retire – even if you use more than half of your HSA funds each year:

	Individual	Family
Yearly contribution	$2,600	$5,150
Withdrawal for medical expenses	$1,600	$3,150
Yearly savings	$1,000	$2,000
Projected annual return	4%	4%
Years until retirement	30	30
Savings at retirement	$58,030	$116,060

NFIB/WISCONSIN
2008 MEMBER BALLOT SURVEY RESULTS

Question 2: Should deposits into health savings accounts receive the same tax treatment at the state level as they receive under federal tax law?



Background: Health Savings Accounts (HSAs) allow employers and employees to contribute pre-tax dollars to personal savings accounts which can be used to pay for medical expenses. Under federal tax law, contributions are made on a pre-tax basis, earnings are tax-free and distributions are tax-free if used to pay for qualified medical expenses. The HSA account must be linked to a qualified high deductible insurance plan. However, the tax advantages associated with HSA accounts do not apply in Wisconsin.

WISCONSIN ASSOCIATION OF
HEALTH UNDERWRITERS

Wisconsin's Benefit Specialists

Assembly Committee on Health & Health Care Reform

Assembly Bill 47

February 12, 2008

The members of the Wisconsin Association of Health Underwriters (WAHU) and National Association of Health Underwriters (NAHU) are comprised of insurance professionals involved in the sale and service of health benefits, long-term care benefits, and other related products, serving the insurance needs of over 100 million Americans. We have almost 18,000 members around the country and over 600 members here in Wisconsin. Our membership is primarily made up of insurance agents that work directly for and with the consumers of health care. Since our number one concern is our customers, we consider ourselves to be consumer advocates and look at how any legislation or issue will affect these customers.

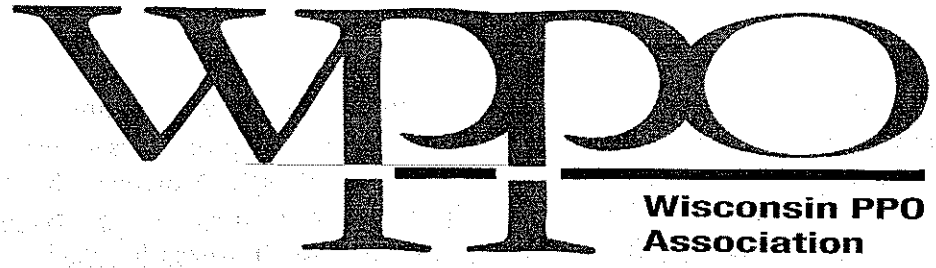
Long before the advent of Health Savings Accounts, WAHU has long supported the concept of consumer driven health care. The dramatic rise of health care costs will continue until normal consumer behavior is applied to the purchase of health care. Such behavior has been prevented through current benefit design and structure, with the use of first dollar coverages and the continued removal of the patient from the financial responsibility of their own health care. Consumer driven plans, like HSA's, provide the opportunity to bring back normal consumer behavior to the health care marketplace. Unlike any other, financial responsibility is the driving force that will provide the right kind of incentive for consumers to competitively shop price and quality in the health care they purchase.

Health Savings Accounts are tax-exempt accounts used to pay for certain medical expenses for employees who are covered under qualified high deductible major medical policies. In essence, an individual or employee would purchase a health plan that has a large deductible. The individual or employee would then set up a savings account to put aside money in order to help pay for medical care under the deductible. If the individual seeks medical care, the money in the account would be used to pay for such care until the deductible is met, at which time, the insurance plan would pay for medical care. Any money left over in the savings account becomes the property of the individual to carry over from year to year. The money to put in the savings account can come from two sources. First, an employer - if the HSA is set up under a group plan. Secondly, the money comes from the savings in premium that is generated by purchasing a large deductible plan in comparison with a small deductible plan.

Everyone could benefit from an HSA, regardless of your health status or financial condition. The concept of this plan is to fund the account through the savings realized by purchasing a large deductible major medical policy. Statistically, only a small percentage of consumers actually have large catastrophic claims. For the small minority of people who will end up using those savings for medical expenses, they are no worse off than if they purchased an expensive health insurance policy that had little or no deductible. However, for the majority of people who incur very little medical expenses during the course of a year, the savings remains their money rather than the insurance companies. This type of consumer driven health care benefits all consumers.

Ironically, Wisconsin consumers continue to purchase health plans with higher deductibles each year. For many, they have already purchased a qualified high deductible plan. All this legislation does is provide tax incentives that allow individuals to put aside money to help pay for medical expenses, with the potential of large savings over traditional plans. Objecting to this legislation is simply hurting the thousands of cost minded Wisconsin citizens who have, and who will purchase these types of plans in an effort to save money. Wisconsin must provide its citizens with the same tax savings provided by the federal government, and by other states, for the purchase of these plans.

We urge you to support Assembly Bill 47



Written Comments on Assembly Bill 47

Assembly Committee on Health & Health Care Reform

February 12, 2008

The Wisconsin PPO Association (WPPO) is an association whose members represent nearly **1.5 million Wisconsin health care consumers**. In 2006, our members contracted for over **$4.5 billion dollars in health care expenditures.** Our members are made up of non-HMO entities that produce Preferred Provider Organization (PPO) type products, including provider networks and insurance carriers.

WPPO supports AB47, as it provides real solutions to Wisconsin's health care cost crisis, and provides the ability for consumers to purchase affordable and comprehensive health care coverage. Health Savings Accounts are a new option for health insurance and they have two parts. The first part is a health insurance policy that covers large hospital bills. The second part of the Health Savings Account is an investment account from which you can withdraw money tax-free for medical care. Otherwise, the money accumulates with tax-free interest until retirement, when you can withdraw for any purpose and pay normal income taxes.

The health care cost crisis we find ourselves in will continue until normal consumer behavior is applied to the purchase of health care. Such behavior has been prevented through current benefit design and structure, with the use of first dollar coverages and the continued removal of the patient from the financial responsibility of their own health care. Consumer driven plans, like HSA's, provide the opportunity to bring back normal consumer behavior to the health care marketplace.

The objections to Health Savings Accounts have consisted of the claim that these plans are only for the wealthy and healthy. This is simply not supported by the facts. The statistics with the insurers selling these plans show that 46% of the HSA consumers have family incomes of less than $50,000 per year. One insurer with nearly 70,000 covered HSA lives finds that average self-reported income during the HSA application process was approximately $32,000 36% have only high school or technical school training. 38% live in homes with a market value of less than $125,000 and 27% have a net worth of less than $25,000. As for the age group buying these plans, some of the statistics by these same insurers found that over 70% of purchasers were over 40 years of age. Furthermore, these same statistics show that HSA's are helping with the uninsured. Over 40% of the HSA applicants did not list any prior coverage and nearly 33% had not had coverage for at least 6 months prior to enrollment. One HSA Administrator I talked with said that nearly 90% of all groups that are purchasing HSA plans are groups under 5 lives in size. These size groups are typically not wealthy individuals. These size groups are typically made up of low wage earners.

The result of HSA's, their effectiveness to control costs and their effect on premiums cannot be denied. With nearly 4 full years of data, the results have proven that this program is a success. Consumer Driven Plans are growing at a rate faster than IRA's or 401(k)'s. Moreover, this data has shown this design is working in holding down costs. **The high deductible insurance plans that accompanies an HSA increased only 2.8% in 2006, compared to all other plan designs (HMOs, PPOs, POS, Indemnity, etc), which increased roughly by 8%.** In addition, **Consumer-driven health care consumers were more value conscious:**

- They were 50% more likely to ask about costs and
- Three times more likely to have chosen a less expensive treatment option
- They also were much more likely to visit an urgent care center than a hospital emergency room
- 30% more likely to get an annual exam
- 25% more likely to engage in healthy behaviors
- 20% more likely to comply with treatment regimens

Wisconsin is only one of 4 states that have not provided their residents with the same tax incentive that the federal government has provided. One HSA Administrator I talked with gets nearly 100 calls a month from Wisconsin residents confused as to why they aren't getting the state tax credit. The only answer they are able to give is that the legislation was vetoed. This doesn't sit well with Wisconsin residents. By not conforming to the Internal Revenue Code, Wisconsin taxpayers are also exposed to higher administration costs from their income tax preparers, as well as through flexible compensation administrators.

WAPN urges you to support AB47.

Thank you for the opportunity to provide our comments.

CITIZEN ACTION OF WISCONSIN

Organizing people to make Wisconsin
a better place to live and work

Testimony of Robert Kraig, Ph.D.
Director of Program, Citizen Action of Wisconsin
AB 47--State Tax Deductibility for Healthy Savings Accounts (HSAs)
Assembly Health & Health Care Reform Committee
February 12, 2008

Thank you Chair Vukmir for holding this important hearing.

Citizen Action of Wisconsin is a grassroots organization with over 90,000 members across the state and 125 affiliated organizations. On behalf of our members, activists, and affiliates, we strongly oppose this legislation, which is at best a non-solution to the health care crisis.

Citizen Action of Wisconsin has been at the forefront of opposition to this misguided policy. Last year we released two reports: "Seven Reason to Fear HSAs" (August 2007) and "Unfair Advantage (September 2007) which detailed many of the shortcomings of High Deductible Health Plans (HDHPs) connected to Health Savings Accounts (HSAs).

Using the latest empirical research, I will highlight some of our major concerns:

1. HSA qualified HDHPs shift unaffordable costs onto working families.

   According to the 2007 Kaiser/Health Research and Education Trust Employer Benefits Survey, the benchmark survey of employer-based health insurance plans, the average deductible for a family HSA qualified HDHP policy is $3,883 for a family policy and $1,923 for a single policy.

   Because of these high deductibles, people with HSHP/HSAs face higher out-of-pocket costs when they need medical care. In the most comprehensive study of such policies conducted by the GAO, a hospital stay cost 87% more for holders of HDHP/HSAs than for people who had traditional health insurance policies.

   Advocates of HDHP/HSAs argue that lower premiums will offset these costs. These advocates often claim 50-60% savings. However the 2007 Kaiser/HRET Survey does not support these contentions. It found that the employee share of health insurance premiums is only 13% less for a family policy, or a meager $59 per month. For a single policy the premium

savings are a mere $23 per month. This is in return for a $3,883 average deductible for a family and a $1923 deductible for an individual. We don't think this trade off is a good deal for consumers.

Advocates of HDHP/HSAs also claim that workers will be able to afford higher deductibles because employers will pay into their HSAs. Again, this is not borne out by the most recent data. The 2007 Kaiser/HRET Survey found that 66% of employers contribute no dollars to HSAs attached to single health plans and 47% contribute no dollar to HSAs associated with family plans.

Nor do the tax benefits granted by AB 47 make health care more affordable for those who need the most help affording health care. In the September 2007 Citizen Action of Wisconsin report, "Unfair Advantage," we showed based on actual IRS tax filings that 50% of the tax benefits from this bill would go to households making over $100,000 per year and that only 20% would go to households making $50,000 or less. In other words, those who need the most help affording health coverage get the least help from this bill.

2. HSAs are a Bad Deal for Those Who Need Care

It is important to understand that those with high medical utilization pay much more under HDHP policies. Using numbers from the 2007 Kaiser/HRET Survey, if you add together the premiums workers pay, the deductibles, and subtract the average employer contribution to employee HSAs, HDHP/HSAs are 32% more expensive than the average PPO plan, and 45% more expensive than an average HMO plan for a chronically ill patient. For this reason those individuals who expect to need medical care will tend to stick with traditional insurance if they can.

Encouraging HSAs undermines the bedrock assumption of health insurance—that a larger number of healthy individuals will pay into the system and spread risk in order to make it possible to provide care to a much smaller number of individuals who need extensive medical care. The landmark GAO study found that HDHP/HSAs tended to attract healthier and wealthier individuals seeking to build up tax free money in their HSAs for retirement. HSAs, unlike IRAs, are pretax money which is also not taxed upon withdrawal as long as the rules our followed. The migration of money out of the traditional insurance system will over time increase the cost of traditional insurance by diluting the risk pool. Studies by Jonathan Gruber of MIT and others have concluded that this effect will increase the number of uninsured by making insurance even more unaffordable for those who need care the most.

3. "Consumer Driven" Cost Reductions are Unproven

   Advocates for HDHP/HSAs claim that such policies will unleash armies of cost conscious consumers to control medical costs. This assertion is based on pure theory, and quite frankly wishful thinking, and not empirical research. The GAO conducted extensive focus groups, and found that employees with HDHP/HSAs were no more likely to research costs before obtaining health care than holders of traditional policies. This is because consumers do not have the specialized knowledge needed to shop for health care the way they would shop for DVDs or cell phones.

   A much more serious way to control cost is not individual consumers attempting to put pressure on large insurance companies, drug companies, and hospital chains, but large buying pools which use the collective buying power of millions of individuals to lower costs. This is the basis for all the serious health care reform plans that are currently on the table at the federal and state level.

4. Individual Market Comparisons are Misleading

   Advocates of HDHP/HSAs often quote savings for non-group insurance. However these numbers are misleading because the vast majority of insured individuals get coverage from employer based group insurance policies, and because non-group insurance is so expensive even wealthier individuals often chose not to buy it. According to a Kaiser Study that came out this week, "How Non-Group Health Coverage Varies with Income," people at 400% of poverty and under take up non-group insurance at rates of 25% or less, and even wealthy individuals have take up rates below 50%. This suggests that attempts to reduce the number of uninsured by giving incentives to purchase non-group policies would have to provide much greater subsidies to have any chance of succeeding. The meager tax incentives offered by this bill ($59 to $139 for a middle class family) would not be nearly enough incentive.

In summary, we believe it is unconscionable to offer up false solutions to the health care crisis at a time when millions of Wisconsinites feel that their access to health care is at risk.

In fact, there is substantial evidence that national conservatives are increasingly seeing the light, and moving away from HDHP/HSAs as their favored solution to the health care crisis. For some time, there have been rumors that the conservative think tanks that propagated the idea earlier this decade are cooling to the concept. This is perhaps reflected in the health care plans of the leading contenders for the Republican presidential nomination. Governor Mitt Romney and Gov. Mike Huckabee propose decoupling HSAs from high deductible health

plans, which suggests a disavowal of the idea that forcing families to pay for their own health care costs is the way to rein in health care hyperinflation. Sen. John McCain goes even further, excluding them altogether from his health care reform plan. We hope that conservatives in the State Legislature will get the message that foisting high deductibles onto already overburdened Wisconsin families is not a viable solution to the health care crisis.

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Jim Doyle
Governor

Roger M. Ervin
Secretary of Revenue

Assembly Health and Healthcare Reform Committee Hearing, February 12, 2008

Assembly Bill 47 – Creating a Nonrefundable Individual Income Tax Credit for Certain Amounts Relating to Health Savings Accounts That May Be Deducted From, or Are Exempt From, Federal Income Taxes (Representative Kaufert)

Description of Current Law and Proposed Change

Under current federal law, individuals are allowed a deduction from federal gross income for amounts contributed during the taxable year to a health savings account (HSA). Earnings on the accounts are also tax-deductible, and account funds may be withdrawn tax-free when used to pay for routine and preventive medical care. Wisconsin has not adopted the federal treatment of HSAs for state tax purposes.

This bill would allow a nonrefundable state income tax credit equal to 6.5% of the allowable amount that individuals claim as a federal tax deduction for a contribution to an HSA, or 6.5% of the federal tax-exempt earnings relating to an HSA, or both.

Fairness/Tax Equity

- Tax benefits of HSAs generally accrue disproportionately to high-income households. In 2005, the average Wisconsin adjusted gross income amount was approximately $44,000. In contrast, the average Wisconsin adjusted gross income for individuals with federal HSA deductions was $107,000.

Administrative Impact/Fiscal Effect

- It is estimated that the revenue loss associated with this bill for fiscal year 2008 is $8.4 million. The estimated loss increases to $13.1 million in fiscal year 2009 and $17.6 million in fiscal year 2010.

- Allowing a credit for an HSA instead of following federal law and allowing a deduction for such accounts adds a great deal of complexity for taxpayers. Under current law treatment, a taxpayer must add the amount of the federal deduction and the HSA earnings to Wisconsin income in order to calculate state tax. A deduction would mean that the taxpayer would need no adjustment for Wisconsin. Allowing the credit instead of a deduction means the taxpayer still must add back the amount of the federal deduction, add the HSA earnings to Wisconsin income, and then use the additions to compute the credit.

- Providing a credit does not address the problem that distributions from an HSA are not allowed as a medical deduction for federal purposes but are allowed for Wisconsin. Similarly a credit does not help taxpayers who want to rollover an amount from a medical savings account (MSA) to an HSA. The rollover amount becomes taxable for Wisconsin.

Contact: Sherrie Gates-Hendrix, (608) 267-1262
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