

Department of Planning and Budget 2020 Fiscal Impact Statement

1. Bill Number: HB604

House of Origin Introduced Substitute Engrossed
Second House In Committee Substitute Enrolled

2. Patron: Freitas

3. Committee: House Committee on Finance

4. Title: Health Savings Accounts for Virginia National Guard

5. Summary: The proposed bill requires the Department of Military Affairs (DMA) to establish a health savings account (HSA) for any individual who (i) is a member of the Virginia National Guard (VaNG) and has a minimum remaining obligation of two years, (ii) has satisfactorily completed required initial active duty service, (iii) is satisfactorily performing duty in accordance with regulations of the National Guard, (iv) is eligible for such an account pursuant to § 223 of the Internal Revenue Code, and (v) elects to receive a benefit under this section in lieu of a grant under § 23.1-610 (Tuition Assistance Grant). The bill also requires DMA to contribute an amount equal to any contribution made by the member up to the maximum yearly contribution allowable under § 223 of the Internal Revenue Code.

In addition, the bill provides that in the event that a VaNG member ceases to be eligible for a health savings account, by reason of being called to active duty military service or otherwise, DMA must cease making contributions to the account and notify the member of their loss of eligibility. The provisions of the bill permits DMA to establish the HSA with any provider as allowed by law.

6. Budget Amendment Necessary: Yes. Item 473

7. Fiscal Impact Estimates: Preliminary (see Item 8 below)

8. Fiscal Implications: The proposed bill requires the Department of Military Affairs (DMA) to establish health savings accounts for Virginia National Guard (VaNG) members that meet certain eligibility requirements. Health Savings Accounts (HSA) are individual savings accounts used to set money aside on a pre-tax basis to pay for qualified medical expenses.

According to DMA, there are approximately 8,500 members of the Virginia National Guard (Va. Army National Guard and Va. Air National Guard). Of those 8,500 members, over 90 percent (at least 7,650 members) meet the remaining obligation, completion of initial active duty service and satisfactory performance of duty requirements of the bill. However, it cannot be determined how many of these guard members meet the eligibility requirements for a HSA pursuant to § 223 of the Internal Revenue Code.

Currently, there are 500 guard members who participate in the State Tuition Assistance Program, as established under § 23.1-610. Under the provisions of this bill, these guard members would not be eligible for a HSA, unless they discontinued receiving state tuition assistance. In estimating the fiscal impact, it is assumed that the guard members who currently receive tuition assistance will continue to receive those benefits, and thus, be ineligible for a HSA and that all other guard members are HSA eligible. This cost estimate also assumes DMA's need for a dedicated position for this program.

For calendar year 2020, the annual limitation on deductions under Internal Revenue Code § 223(b)(2)(A) for an individual with self-only coverage under a high deductible health plan is \$3,550. For calendar year 2020, the annual limitation on deductions under § 223(b)(2)(B) for an individual with family coverage under a high deductible health plan is \$7,100.

Below are three possible fiscal impact scenarios. The fiscal impacts shown are for the funding needed to make the required HSA contributions required by the bill:

-If all guard members selected family coverage, the fiscal impact could be as much as \$50,765,000 (7,150 eligible guard members x \$7,100);

-If all eligible guard members selected self-only coverage, the estimated fiscal impact could be as much as \$25,382,500 (7,150 eligible guard members x \$3,550).

-If half of the eligible guard members selected self-only coverage and half selected family coverage, the estimated fiscal impact could be as much as \$38,073,750.

In addition to the funding needed for HSA contributions shown above, DMA will need one additional position to manage this new program. The estimated salary and benefit cost for this position is \$94,000.

The total estimated fiscal impact of this bill ranges between \$25,400,090 and \$50,859,000.

9. Specific Agency or Political Subdivisions Affected: Department of Military Affairs and Department of Accounts.

10. Technical Amendment Necessary: No.

11. Other Comments: According to the Department of Accounts ("DOA"), health savings accounts are typically managed by third party administrators due to the required level of expertise to manage the accounts. DOA is not certain as to whether it would be cost-effective for DMA to contract with a third-party administrator.