

Proposed 2007 Session Legislation

Agency Name & No:	Department of Administration - 6101		
Priority Number:	11	Filename:	\6101\21-011
Short Title:	Consumer Health Care Account		
Agency Contact Person/Phone:	Connie Welsh - 444-2553		

1. Purpose:

Note: This legislation proposal is submitted as a concept at this time. A full analysis of this topic will be done by the Division during April-June 2006. (Procurement and contracting for an actuarial and plan consultant is being finalized in April 2006.) A final recommendation and detailed proposal will be drafted following our work with the Division's actuarial and plan consultant.

The concept of consumer driven health care has become more prevalent in discussions of affordability of employer sponsored health care. The major source of tax-advantaged funding for health care is through employer sponsored health plans. However, once the employer no longer pays the premium or sponsors the premium payment through their cafeteria plan as permitted by the IRS, tax-advantages end and the cost of health care is increased by the addition of taxation. In addition, consumer driven health care is often seen as a method for moving the primary risk and cost of the health care plan from the employer to the employees and retirees. This proposal does not involve cost-shifting, but proposes potentially reviewing existing State statute (

Employer contributions might include statutory allowance of transferring accrued hours from annual, sick, comp

In addition to reducing future health care cost obligations, the accounts could become a tool to manage other lia

2. Background:

During the 2001 Legislative session, statute was created under Title 2, Chapter 18, Part 13 creating the Voluntary Employees' Beneficiary Association Act (VEBA). The concept was to create a method to allow public employers to contribute to a plan established under a qualified tax-exempt trust permitting employees to pay for qualified health care expenses, particularly after the employee's working career. The federal tax code pertaining to VEBA trusts is IRC 501(c)(9).

In 2002 the IRS issued a revenue ruling creating a new type of health care account called a Health Reimbursement Arrangement or HRA. The Department of Administration chose to combine the advantages of both the VEBA trust and the HRA in creating the Montana VEBA HRA program.

The Montana VEBA HRA is available to virtually all non-federal public employers and employees in the State of Montana. The major source of funding is from contributions of unused sick leave cash-outs at the time of separation or retirement. Montana statute requires that sick leave for Montana VEBA HRA members must be automatically contributed to their accounts upon separation from employment. Subsequent to the passage of th

The effect of the pension impact in conjunction with the mandatory statute requiring sick leave cash-out for VEB

3. Fiscal Impact by Fund Type:	<i>This impact should be as specific as possible.</i>
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Goal is to be revenue neutral. Some potential for savings of taxes paid by the employer for sick-leave or other leave cash-outs.

	FY08	FY09	FY10	FY11
General Fund	To be Determined.....			
State Special Revenue	To be Determined.....			
Federal Funds	To be Determined.....			
Total Funds	To be Determined.....			

4. Summary Checklist [Check & complete all that apply]--

- Housekeeping Only Federal Requirement Audit Recommendation (Audit No.) Major Legislation
- Anticipated to be Controversial Legislation Bill Draft has been included in Legislation Submittal (if available)
- Supports Submitted EPP Item Number Local Government Fiscal Impact
- Increases FTE, or Decreases FTE by List FTE amount and program
- Increases Existing Revenue Tax Fee Penalty [amount in #3]
- Decreases Existing Revenue Tax Fee Penalty [amount in #3]
- Establishes New Revenue Tax Fee Penalty [amount in #3]
- Leg. has been Submitted in Previous Legislative Sessions (list priority no, LC no, or bill no): SB51 from 2001 Legislature
- Legislation would affect other state agencies (list): All State employees currently have ability to belong to VE
- Special Interest Groups Affected (list): Labor Unions, Montana League of Cities and Towns, MACo, Montan
- Other: