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# Georgia Collaboration Succeeds in Passing HRA/HSA Health Insurance Reforms

by Ronald E. Bachman

An unprecedented collaboration of associations representing hospitals, physicians, insurers and sales agents, convened in late 2007, as the Georgia Uninsured Working Group (WG). The recommendations of the Georgia Uninsured Work Group, which was facilitated by Ron Bachman FSA, MAAA and senior fellow at the Center for Health Care Transformation, combined solutions for the uninsured with the recognition that solving the uninsured problem in Georgia is also an economic development opportunity.

The united effort succeeded. On May 7, 2008, Georgia's Governor Sonny Perdue signed into law health reform legislation that will allow insurers to develop significantly more affordable products for small companies and individuals. The new laws (HB 977 and SB 383) focus on the uninsured working poor. With increased health, prosperity, security and productivity this legislation is estimated to bring an annual increased value of \$1.9 billion to Georgia.

Georgia has 1.7 million or about 18 percent of the state's 9 million citizens uninsured for health care at any point in time. Georgia has the fifth highest rate of uninsured citizens without Medicare, Medicaid, SCHIP, Tri-care or private health insurance. Georgians are uninsured for many reasons.

The WG considered four segments of uninsured. The desire of the WG was to address all uninsured; however, the WG determined that segments 1 and 2 below were the largest

targets with over 1.1 million lives and segments where consensus solutions could potentially reach more than 500,000 uninsured Georgians, or about one-third of the state's uninsured.

Segment 1 can afford insurance, but many find the products available unresponsive to their needs. Developing better products for segment 1 with alternative methods of affordability will also reach many in segment 2.

The WG felt that initial consensus of free-market solutions for these segments would establish a strong basis for ultimately addressing all uninsured. The WG will stay intact to continue the development of free-market solutions that assure access to quality care and affordable insurance for all Georgians.

The new Georgia law is a market-based, individually centered package of reforms that eliminate out-dated insurance laws that unintentionally limit the offering of affordable insurance. To make insurance more affordable, the new law allows financial "dividends" to be placed into Health Savings Accounts (HSAs) for engaging in wellness, prevention and treatment compliance. In addition, Georgia eliminated all state and local sales taxes on HSA eligible plans (technically called premium taxes). As an incentive to offer insurance, companies (with fewer than 50 employees) are granted a \$250 tax credit for each employee enrolled in an HSA eligible plan. For individual insurance buyers there is a special Georgia income tax deduction for the premium associated with the purchase of an HSA eligible plan. Finally, new more flexible plan designs are allowed that will offer choice, convenience and cost savings.

Georgia laws now open the doors to a new generation of health insurance that empowers individuals with choices and options for access to care, prevention, treatments and cures that are not available under existing policies. Already federally tax advantaged, HSA eligible plans are typically 25 to 40 percent lower cost than traditional health

Uninsured Georgians by Segment	Percent	Number
1. Uninsured Not Needing Financial Assistance	30	510,000
2. Uninsured Needing Some Financial Assistance	35	595,000
3. Uninsured Eligible for Government Programs	20	340,000
4. The Uninsurable	15	255,000
	100	1,700,000

insurance. The new Georgia law effective Jan. 1, 2009, will help:

## 1. Employers with Fully Insured Group Plans:

If employers are willing to offer HSA eligible group plans, the new Georgia law helps working uninsureds with:

### a. HSA dividends for wellness, prevention and treatment compliance.

These shared savings were previously illegal under Georgia rebate laws. Under federal law, up to 20 percent of a policy's cost can be returned through rewards and incentives for healthy outcomes. Additionally, unlimited "dividends" can be provided for healthy activities.

### b. Elimination of all state and local "sales taxes" for HSA eligible plans.

Georgia has the third highest insurance taxes in the country. The average state tax is 2.25 percent with added local insurance taxes the added cost burden is as much as 7 percent of premium. These "sales taxes" are all eliminated for HSA eligible plans.

### c. A \$250 "Small Group Tax Credit" per HSA eligible plan enrollee.

The average HSA eligible plan annual premium for a single employee is about \$2500. The tax credit represents a 10 percent offset to the cost of the health insurance.

### d. More flexible HSA eligible plan designs

Previous Georgia law prohibited some plan design options that would offer better coverage at lower premiums. These barriers have been eliminated for HSA eligible plans. The estimated savings are between 1-2 percent.

Overall, the new Georgia law can further lower the cost of HSA eligible group insurance by 20 to 40 percent, or more.

## 2. Employers without Group Plans:

Many small employers do not want the problems of establishing a formal group insurance plan, but are willing to contribute towards employee purchases of health care services and/or individual health insurance policies. For these employers willing to support a healthy work force, employees now have the option of:

### a. Buying insurance with tax advantaged Health Reimbursement Arrangements (HRAs)

Under the new Georgia law, HRAs are allowed that encourage employers to allocate business tax-deductible funds directly to employee accounts. Employees will receive 100 percent of the employer contributions without any state or federal income taxes, and without any payroll taxes (e.g., Medicare, or FICA Social Security taxes).

### b. Using HRAs funds to pay for health and health care expenses.

If an employee does not want to use HRA funds to purchase health insurance, employer HRA allocations can be used by the employee to pay for any medical expenses (e.g., prescription drugs, office visits, tests, lab work, etc.). Unused HRA dollars can be "left on account" to accumulate into future years for times of medical need.

Using pre-tax HRAs to fund health insurance and health care services provides an average income tax savings of 21 to 31 percent and an additional federal payroll tax savings of 15.3 percent. Overall, the new law allowing HRAs increases



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the effective value of employer contributions by 60 to 85 percent versus a pay increase of the same amount.

### 3. Individual Health Plans:

Portable individual health insurance is independent of the employer and not subject to loss of coverage with a change in jobs. Twenty percent of uninsureds are between jobs and cannot afford the continuation of the employer plan with expensive COBRA rates. Under the new Georgia law, individuals can purchase an affordable individual HSA eligible plan with the following advantages:

- a. Special Georgia income tax deduction for the premiums of HSA eligible plans.

This deduction lowers the net cost of HSA eligible plans by 6 percent. (Georgia's marginal income tax rate is 6 percent for singles with income over \$7,000).

- b. HSA "dividends" for wellness, prevention and treatment compliance.

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### d. More flexible HSA eligible plan designs

Previous Georgia law prohibited some plan design options that would offer better coverage at lower premiums. These barriers have been eliminated for HSA eligible plans. The estimated savings are between 1 and 2 percent.

Overall, the new Georgia law can lower the cost of HSA eligible individual health insurance by 15 to 35 percent, or more.

### A New Future:

Georgia passed into law a health reform initiative that eliminates all state government taxation on HSA eligible health insurance, removes state barriers to using employer funding of HRAs to fund individual policies, allows financial rewards and incentives for healthy behaviors, and supports products that better meet the needs of working class uninsureds. This legislation is not a panacea, but it is a model for other states to follow. It prepares Georgia for the next phase of helping all Georgians to find affordable private health insurance.

Under the new Georgia law, next generation HSA eligible plans change the debate around affordability of health insurance. Soon, Georgians will see products at a fraction of their current costs and be able to purchase portable new generation HSA eligible plans that can provide full coverage for those willing to take personal responsibility for their health and well-being. The old complaints that HSA eligible plans were simply high deductible coverage only for the young, healthy and wealthy is fully rebutted with these new changes provided under Georgia law. A new future for improved health and family security is unfolding and Georgia is showing the way. ■

*Nothing written here is to be construed as necessarily reflecting the views of the Center for Health Transformation or as an attempt to aid or hinder the passage of any bill before any state legislature or the U.S. Congress.*

