



BOB ZIEGELBAUER

STATE REPRESENTATIVE • TWENTY-FIFTH ASSEMBLY DISTRICT

2011-12 Issue Summary #1
January 27, 2011

Health Savings Accounts (HSA's)

Background Information:

Health Savings Accounts (HSAs) were established in December 2003, when President Bush signed the Medicare Prescription Drug Improvement and Modernization Act of 2003. Funds in HSAs are devoted solely to health expenses and can only be used in conjunction with high deductible health insurance policies. These policies cost less than conventional health insurance plans and the money saved can be put into an HSA. These available funds are then used for medical expenses until the deductible is met. The unused portion remains in the account and accrues interest, which is tax-free. The insurance is then used for medical problems that exceed the deductible of the policy.

Current federal law provides a 100% federal income tax deduction on contributions you make to your HSA up to a limit of \$6,150 for a family and \$3,050 for an individual. HSAs are your property, and move with you when changing jobs or if you leave the workforce, withdrawals are not taxable if used for medical expenses and again, money not used rolls over to the next year, earning tax-free interest.

Proposals:

January 2011 Special Session Senate Bill 2, introduced at the request of Governor Scott Walker, provides a nonrefundable state income tax credit to an individual who makes contributions to a health savings account (HSA). The credit is in the amount of 6.5% of the allowable amount that the individual claims 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. An amendment that passed excludes from a person's income the amount that a person pays into an HSA and also excludes earnings from HSA contributions, and employer contributions, from the person's income for state tax purposes.

On January 20, 2011, SS SB 2 passed the State Senate on a 21-12 vote and passed the State Assembly on a 66-28 vote. Governor Walker signed this bill into law on January 24th as 2011 Wisconsin Act 1. This act first applies to taxable years beginning on January 1, 2011.

Rep. Ziegelbauer's View:

HSAs are an affordable alternative to high cost, low deductible health insurance policies that may be out of the reach of many employees and small employers. At the same time, this type of consumer driven health plan provides a financial incentive for people to monitor, and perhaps reduce, their expenditures on health care while also providing them with more freedom and choices when making health care service decisions.

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Opponents argue that HSAs primarily benefit the wealthy. That is just not true. In the real world, the person who benefits is often an employee of a small or medium sized emerging business, which has implemented an HSA program in order to preserve or extend important health care benefits for its employees.

The lack of federalized treatment of Health Savings Accounts in Wisconsin tax law hurts the “little guy” – the employee who suddenly discovers he has to pay Wisconsin tax on his employer’s contribution to his HSA account, or employees of small and emerging businesses throughout the state struggling to provide important health care benefits for their valuable employees.

HSA based health insurance plans are an important positive development in the effort to contain health care costs. In Manitowoc County, where I am also the County Executive, we have had great success in containing the growing costs of health insurance through the use of HSA’s for our County employees for the past 4 years. I would like to see our employees receive this important State income tax break. As we remove this unnecessary barrier to a consumer based approach to health care, I hope other units of local government in Wisconsin will be encouraged to follow our lead. Both taxpayers and employees stand to share in the benefit.

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