

JAN 29 1997
WAYS AND MEANS

HOUSE FILE 99
BY BLODGETT

Passed House, Date _____ Passed Senate, Date _____
Vote: Ayes _____ Nays _____ Vote: Ayes _____ Nays _____
Approved _____

A BILL FOR

1 An Act relating to establishing medical savings accounts and
2 associated tax incentives and a state pilot project and
3 including applicability and effective date provisions.
4 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:

5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

HF 99

1 Section 1. Section 422.7, Code 1997, is amended by adding
2 the following new subsections:

3 NEW SUBSECTION. 35. Subtract up to one thousand eight
4 hundred dollars contributed by the individual, the
5 individual's employer, or a public agency, in the aggregate to
6 a medical savings account for the individual, or up to four
7 thousand two hundred dollars contributed by the individual,
8 the individual's employer, or a public agency, in the
9 aggregate to a medical savings account for the individual and
10 the individual's spouse and dependents. However, the amount
11 to be subtracted shall be reduced, but not below zero, by the
12 amount of health insurance premiums paid by the taxpayer's
13 employer covering the taxpayer or the taxpayer's spouse or
14 dependent which premiums were not subject to state income tax.

15 NEW SUBSECTION. 36. Subtract to the extent included,
16 interest earned in the tax year on a medical savings account
17 unless the interest is withdrawn and not used for any of the
18 approved purposes described in section 505.23, subsection 1,
19 paragraph "f".

20 NEW SUBSECTION. 37. Add to the extent not included,
21 amounts withdrawn from a medical savings account which were
22 not used for any of the approved purposes described in section
23 505.23, subsection 1, paragraph "f", and which represent tax
24 benefits previously taken by the individual.

25 NEW SUBSECTION. 38. Subtract the amount of premiums paid
26 by the taxpayer for the renewal of a long-term care insurance
27 policy or contract certified by the insurance division
28 pursuant to chapter 249G which covers the taxpayer, taxpayer's
29 spouse, or dependent children. The taxpayer may elect to take
30 for premiums paid during the tax year the deduction authorized
31 by this subsection or the credit under section 422.11 to the
32 extent the premiums have not been deducted in subsection 32 of
33 this section.

34 Sec. 2. NEW SECTION. 422.11 LONG-TERM CARE INSURANCE
35 CREDIT.

1 The tax imposed under this division, less the credits
2 allowed under sections 422.11A, 422.11B, 422.12, and 422.12B,
3 shall be reduced by a long-term care insurance credit. The
4 amount of the credit is equal to the first one hundred dollars
5 paid in premiums by the taxpayer during the tax year for the
6 renewal of a long-term care insurance policy or contract
7 certified by the insurance division pursuant to chapter 249G
8 which covers the taxpayer, taxpayer's spouse, or dependent
9 children. Any amounts paid in premiums for long-term coverage
10 that are claimed as a credit shall not be deducted as a
11 medical expense under section 422.9, subsection 2, or as
12 health insurance costs of self-employed individuals under
13 section 162(1) of the Internal Revenue Code. A credit under
14 this section for the premiums paid in the tax year may not be
15 taken if the taxpayer takes a deduction under section 422.7,
16 subsection 38, for those premiums.

17 Any credit in excess of the tax liability for the tax year
18 is refundable. In lieu of claiming a refund, the taxpayer may
19 elect to have the overpayment shown on the taxpayer's final,
20 completed return credited to the tax liability for the
21 following tax year.

22 Sec. 3. NEW SECTION. 505.23 MEDICAL SAVINGS ACCOUNT
23 AUTHORIZED.

24 1. A financial instrument known as the medical savings
25 account is established. A medical savings account shall have
26 all of the following characteristics:

27 a. The account is kept in the name of the individual, the
28 individual's spouse, or the individual's dependent.

29 b. Deposits of up to one thousand eight hundred dollars
30 for an individual and four thousand two hundred dollars for an
31 individual and the individual's spouse and dependents can be
32 made to the medical savings account in the year.

33 c. The account earns income or interest.

34 d. In the case of death of an individual with a medical
35 savings account, the balance may be transferred to the account

1 of the spouse or dependent or an account may be set up for the
2 spouse or dependent. The balance of an individual's medical
3 savings account that transfers to the spouse or dependent at
4 the time of death is not subject to the state inheritance tax.

5 e. A medical savings account may be used for any of the
6 following purposes and payments from the account are
7 restricted to the following:

8 (1) To receive subsidies from the state or federal
9 government to assure access to health insurance or health
10 care.

11 (2) To receive contributions from employers and others on
12 a tax-exempt basis to the extent otherwise permitted by state
13 or federal income tax law.

14 (3) To receive deposits of pretax income to provide a
15 savings vehicle for future insurance premium, copayment, and
16 deductible requirements.

17 (4) To accrue interest income on a tax-exempt or tax-
18 deferred basis to the extent otherwise permitted by state or
19 federal income tax law.

20 (5) To purchase a private health plan from an insurer,
21 nonprofit health service corporation, health maintenance
22 organization, or organized delivery system authorized to do
23 business in Iowa, either directly or through a health
24 insurance purchasing cooperative.

25 (6) To participate in an employer-sponsored health benefit
26 plan.

27 (7) To exercise rights through an employer-sponsored
28 health benefit plan provided under the federal Consolidated
29 Omnibus Budget Reconciliation Act of 1986.

30 (8) To make payments to health care providers necessary to
31 satisfy copayment or deductible requirements under a health
32 plan.

33 (9) To make payments to licensed health care providers.

34 (10) To make payments for necessary and appropriate long-
35 term care services, and long-term care insurance coverage

1 approved by the commissioner.

2 f. Amounts withdrawn for any of the following approved
3 purposes do not result in income to the holder of a medical
4 savings account:

5 Payment of costs identified under paragraph "e",
6 subparagraphs (5), (6), (7), (8), (9), and (10), for the
7 individual, the individual's spouse, and the individual's
8 dependents to the extent that the expenditures qualify for the
9 deduction for medical care under section 213(a) of the
10 Internal Revenue Code without regard to whether the
11 expenditures exceed seven and one-half percent of the
12 individual's federal adjusted gross income. However, any
13 expenditure for an approved purpose which is paid from the
14 medical savings account shall not be deducted as a medical
15 expense under section 422.9, subsection 2, as health insurance
16 costs of self-employed individuals under section 162(1) of the
17 Internal Revenue Code, or as costs of health benefits coverage
18 or insurance under section 422.7, subsection 32.

19 g. A financial institution holding a medical savings
20 account shall make an annual report to the department of
21 revenue and finance on contributions and withdrawals to the
22 account in the year pursuant to rules of the department.

23 h. A financial institution administering a medical savings
24 account shall be able to process claims against the account
25 electronically subject to reasonable terms and conditions as
26 determined by the insurance division and consistent with the
27 requirements of the community health management information
28 system.

29 i. If an individual makes a withdrawal from the
30 individual's medical savings account in the tax year and the
31 withdrawal is not for one of the purposes described in
32 paragraph "f", a civil penalty of ten percent shall be imposed
33 on the amount withdrawn pursuant to rules of the department.

34 2. As a condition of maintaining a medical savings account
35 the individual or family must secure and maintain a health

1 benefit plan. The plan must provide for copayments,
2 deductibles, or out-of-pocket maximums consistent with the
3 average balance of the medical savings account.

4 3. As used in this section, unless the context otherwise
5 requires:

6 a. "Account holder" means an individual for whose benefit
7 a medical savings account is established.

8 b. "Dependent" means the same as defined in section 152 of
9 the Internal Revenue Code.

10 c. "Financial institution" means a private insurer,
11 nonprofit health service corporation, health maintenance
12 organization, organized delivery system, health insurance
13 purchasing cooperative, or a financial institution approved by
14 the insurance division as an investment mechanism for medical
15 savings accounts and licensed to do business in this state.

16 d. "Internal Revenue Code" means the same as defined in
17 section 422.3.

18 Sec. 4. MEDICAL SAVINGS ACCOUNTS -- STATE PILOT PROJECT.

19 1. The department of personnel may develop and implement a
20 pilot project making the provisions of a medical savings
21 account, in accordance with section 3 of this Act, available
22 to employees of the state. The medical savings account shall
23 be available to an employee participating in the pilot project
24 in lieu of state group health insurance available to the
25 employee under chapter 509A.

26 2. In addition to the medical savings account provisions
27 under section 3 of this Act, the department shall consider and
28 include as part of the pilot project any of the following
29 provisions deemed prudent by the department:

30 a. Providing an opportunity for the employee to buy into a
31 state group insurance plan under chapter 509A from the
32 employee's medical savings account.

33 b. Providing catastrophic loss coverage.

34 c. Allowing the account to be used for preventive health
35 purchases such as fitness, smoking cessation, and weight loss

1 classes.

2 d. Providing options for those ancillary health purchases
3 available under the state's group health insurance plans,
4 including but not limited to purchases of prescription drugs,
5 vision care, and dental care.

6 3. If the department decides to develop and implement a
7 pilot project, the department shall implement the pilot
8 project beginning January 1, 1998, and the department shall
9 present the pilot project design on or before October 1, 1997,
10 to the fiscal committee of the legislative council.

11 Sec. 5. EFFECTIVE AND APPLICABILITY DATES. Sections 1, 2,
12 and 3 of this Act take effect January 1, 1998, and are
13 applicable to tax years beginning on or after that date.

14 EXPLANATION

15 This bill allows a deduction for amounts of contributions
16 to a medical savings account. In addition, the bill allows a
17 deduction from adjusted gross income for the interest earned
18 on a medical savings account to the extent not withdrawn or
19 not used for a nonapproved purpose.

20 New section 505.23 is created which establishes medical
21 savings accounts to provide for the payment of health care
22 costs for certain individuals.

23 The bill provides a long-term care insurance credit equal
24 to the first \$100 of premiums paid for the renewal of a long-
25 term care insurance policy or contract certified by the
26 insurance division which covers the taxpayer, taxpayer's
27 spouse, or dependent children. The credit is refundable.

28 The bill also directs the department of personnel to
29 establish a pilot project by January 1998 which would make the
30 provisions of medical savings accounts available to state
31 employees in lieu of the state group health insurance
32 available to them.

33 Except for the establishment of the state pilot project,
34 the bill is effective January 1, 1998, for tax years beginning
35 on or after that date.