

**SB 380**

# HMSA



Blue Cross  
Blue Shield  
of Hawaii

An Independent Licensee of the Blue Cross and Blue Shield Association

February 6, 2009

The Honorable David Ige, Chair  
The Honorable Josh Green M.D., Vice Chair

Senate Committee on Health

**Re: SB 380 – Relating to Taxation**

Dear Chair Ige, Vice Chair Green and Members of the Committee:

The Hawaii Medical Service Association (HMSA) appreciates the opportunity to testify on SB 380 which would establish a Health Savings Account for persons subject to the income tax laws of Hawaii.

Although federal provisions allow HSAs, the type of high deductible health plan that must be associated with an HSA is not permitted under Hawaii's Prepaid Health Care Act (PHCA) and therefore cannot be offered to employer groups. This removes the majority of consumers from being able to benefit from the creation of HSA affiliated plans.

Additionally, HMSA already offers an individual high deductible health plan but has had very few members choose this plan. We believe from experience that Hawaii consumers have grown accustomed to the plan benefit structure under the PHCA and therefore are less likely to be interested in high deductible products.

Thank you for the opportunity to testify today.

Sincerely,

A handwritten signature in black ink that reads "Jennifer Diesman".

Jennifer Diesman  
Assistant Vice President  
Government Relations

# TAXBILLSERVICE

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TAX FOUNDATION OF HAWAII

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INCOME, Health savings accounts

BILL NUMBER: SB 380

INTRODUCED BY: Tsutsui

BRIEF SUMMARY: Amends the HRS section 235-2.4 to make Section 223 (with respect to health savings accounts) of the Internal Revenue Code operative for state income tax purposes.

EFFECTIVE DATE: Tax years beginning after December 31, 2008

STAFF COMMENTS: Section 1201 of the Medicare Prescription Drug, Improvement, and Modernization Act of 2003, P.L. 108-173, added section 223 to the Internal Revenue Code to allow individuals to establish Health Savings Accounts (HSAs) for taxable years beginning after December 31, 2003. HSAs are operable for Hawaii income tax purposes as it is not listed in the inoperable sections of the Code contained in HRS section 235-2.3. It should be noted that HRS section 235-2.4, which this measure proposes to amend, is a listing of those sections of the federal Code that are operable but are imposed with certain limitations for state income tax purposes.

Digested 2/5/09



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LATE

February 6, 2009

To: Senate Committee on Health  
Senator David Y. Ige, Chair  
Senator Josh Green, M.D., Vice Chair

By: Hawaii Medical Association  
April Troutman Donahue, Executive Director  
Richard C. Botti, Government Affairs  
Lauren Zirbel, Government Affairs

Re: 340 RELATING TO MEDICAL SAVINGS ACCOUNTS (MSA)  
380 RELATING TO TAXATION (MSAs)

Chairs & Committee Members:

HMA supports SB 340 and SB 380. MSAs will provide an option that is already available under Federal Law, and can provide the following benefits:

- Can reduce monthly medical premiums;
- Puts the individual in charge of their medical spending;
- Contributions would be tax-deductible at both State & Federal levels;
- Participants pay for medical expenses with pre-tax dollars.
- Interest earned on the account is tax-free.
- Withdrawals for qualified medical expenses are tax-free.
- Unused funds and interest are carried over, without limit, from year to year.
- Participants of the HSA get to take the savings with them when they change plans or retire;
- The plan is administered by a trustee/custodian.
- Can build a reserve that can be used as Long Term Care.

It's a win win for everyone, including government, since without the MSA, government may get stuck with the bills.

We do suggest that anything considered should parallel the federal law for continuity and to reduce confusion.

LINDA LINGLE  
GOVERNOR

JAMES R. AIONA, JR.  
LT. GOVERNOR



KURT KAWAFUCHI  
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**SENATE COMMITTEE ON HEALTH  
TESTIMONY REGARDING SB 380  
RELATING TO TAXATION**

**TESTIFIER: KURT KAWAFUCHI, DIRECTOR OF TAXATION (OR DESIGNEE)**  
**DATE: FEBRUARY 6, 2009**  
**TIME: 9:30AM**  
**ROOM: 016**

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This measure proposes to conform to the Internal Revenue Code by establishing health savings accounts for persons subject to Hawaii income tax law.

The Department of Taxation (Department) **offers the following comments.**

**This legislation is unnecessary** because Hawaii income tax law currently conforms to the provisions in the Internal Revenue Code allowing tax advantaged health savings accounts.

HRS § 235-2.3 provides that all of the Internal Revenue Code, unless expressly exempted or otherwise provided, applies for purposes of the Hawaii income tax law. HRS § 235-2.4, the section amended by this bill, adopts certain portions of the Internal Revenue Code with provisos. Section 223 of the Internal Revenue Code (with respect to health savings accounts) is not on the list in this section because Hawaii law conforms fully to the federal law establishing health savings accounts through the presumption of conformance under HRS § 235-2.3.

Because health savings account law currently conforms in its entirety pursuant to HRS § 235-2.3, this bill is unnecessary.

**From:** mailinglist@capitol.hawaii.gov  
**Sent:** Friday, February 06, 2009 3:24 PM  
**To:** HTHTestimony  
**Cc:** phahn86@gmail.com  
**Subject:** Testimony for SB380 on 2/6/2009 3:00:00 PM

LATE

**Categories:** Green Category, Blue Category

Testimony for HTH 2/6/2009 3:00:00 PM SB380

Conference room: 016  
Testifier position: support  
Testifier will be present: Yes  
Submitted by: Pearl Hahn  
Organization: Individual  
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Submitted on: 2/6/2009

Comments:

I respectfully express strong support for this bill and its intentions. Health Savings Accounts constitute an important step to putting patients back in charge of their health. Price transparency and quality become stronger components of health care through these personal accounts, as consumers decide what services to spend their money on. HSA usage increased from 438,000 people in 2004 to over 6 million in January 2008. The low premiums and tax benefits provide incentive for consumers to have HSAs and a high deductible health plan.

In Hawaii, a state which has more small businesses than several other states, HSAs are business-friendly and encourage employers to employ more workers without fear of having to cut into profits. This economic downturn demonstrates why it is an opportune time to open up HSAs.

Thank you for the opportunity to testify.