



DOAA

Georgia Department
of Audits & Accounts

Greg S. Griffin
State Auditor

February 17, 2025

Honorable Derrick McCollum
State Representative
401-D Coverdell Legislative Office Bldg.
Atlanta, Georgia 30334

SUBJECT: Revised Fiscal Note
House Bill (LC 55 0390)

Dear Representative McCollum:

This fiscal note replaces LC 55 0390 dated February 6, 2025. Additional analysis indicated that the bill would reduce state expenditures on payroll taxes which was not reflected in the original fiscal note. The resulting change could offset costs to implement the bill.

The bill would require the state employees' health insurance plan to include high deductible health plans (HDHP) and allow the flexible employee benefit plan to provide for voluntary deductions or salary reductions for health savings accounts (HSA) as authorized under federal law. The bill also authorizes the Department of Administrative Services to request and receive information from other state agencies necessary to implement the bill's provision.

Additional Administrative Costs

The Department of Administrative Services (DOAS) and Department of Community Health (DCH) estimate one-time costs of \$1.4 million and annual costs of \$107,000 would be necessary to add an HSA option to DOAS flexible benefit program offerings (see **Table 1**). It should be noted that State Health Benefit Plan members consist of state employees and local school system employees (school systems administer payroll and flexible benefits for their employees). The estimate includes the cost of offering the HSA program for the 143 payroll locations (primarily state entities) currently participating in the DOAS flexible benefits program. Costs would increase if new entities (e.g., school systems) join the DOAS flexible benefits program in the future.

Table 1. Costs to Administer an HSA Program for 143 Payroll locations		
	One Time Cost	Annual Cost
<u>DOAS</u>		
HSA Vendor ¹	\$1,072,500	
Staffing		\$107,000
Marketing	\$300,000	
<u>DCH</u>		
SHBP Vendor	\$17,500	
Total	\$1,390,000	\$107,000

¹ Cost only considers the 143 existing payroll centers currently participating in the DOAS Flexible Benefits program.

DOAS HSA Vendor, Marketing, and Staffing

- One-time costs of \$1,072,500 would be needed to contract with a vendor to implement and fully administer the HSA program. The HSA vendor would establish an interface with each of the 143 payroll centers (at a cost of \$7,500 per center) that currently participate in the DOAS flexible benefits program. The vendor would handle eligibility, enrollment, and payroll deduction billing services.
- Approximately \$300,000 in one-time costs would be needed to market the program. Deliverables would include videos, an enrollment guide, interface instructions, FAQs, emails, and other communication materials.
- DOAS also indicated it would need one FTE to provide ongoing administrative support for managing the HSA program. The estimated cost of \$107,000 includes annual salary and benefits for the position.

DCH/SHBP Vendor - One-time costs of \$17,500 would be needed for the SHBP vendor to develop the eligibility file (list of HDHP plan members) that DOAS would need to identify state employees eligible for the HSA program.

It should be noted that, according to DOAS and DCH, the current design of the state’s benefit system—health benefits and flexible benefits administered by two separate agencies—presents challenges to implementing the bill’s requirements. For example, SHBP has approximately 800 payroll locations, compared to 143 payroll locations participating in the DOAS flexible benefits program. Currently, there is no mechanism for DOAS to interface with the approximately 650 additional payroll centers for the purpose of administering a pre-tax HSA payroll deduction.

Reduction in State Expenditures

The amount of payroll taxes paid by employers would decrease as a result of the bill, which could offset estimated implementation costs. Employee contributions to an HSA through payroll deduction are not considered wages for purposes of calculating the amount of Social Security and Medicare taxes (FICA) to be paid, thus reducing employers’ FICA tax obligations.¹ It is difficult to estimate the reduction in FICA payments because the amount would vary depending on the number of state employees who opt to participate in the HDHP and HSA program and their contribution levels. Estimates shown in **Table 2** are examples. Contribution scenarios were selected based on legally allowed contribution limits and may not reflect the average contribution of employees who choose to utilize an HSA.

Table 2. Examples of Potential Employer FICA Savings

HSA Contribution Scenarios ¹	Employer FICA Tax Rate (2025)	Employer FICA Tax Savings by # of State Employee and Retiree Members ²		
		1,000	2,500	5,000
\$2,150	7.65%	\$164,475	\$411,188	\$822,375
\$4,300	7.65%	\$328,950	\$822,375	\$1,644,750
\$8,550	7.65%	\$654,075	\$1,635,188	\$3,270,375

¹ HSAs are subject to the following contribution limits for 2025: \$4,300 for individuals and \$8,550 for families. Estimates assume the portion of employee earnings that are contributed to an HSA would have been subject to the Social Security tax.

² For purposes of this analysis, members are assumed to be active employees and retirees who would contribute to the HSA. This excludes spouses and dependents.

¹ FICA is a U.S. federal payroll tax that is automatically deducted from an employee’s paycheck. FICA combines Social Security taxes (6.2% of an employee’s FICA taxable wages) and Medicare taxes (1.45% of FICA taxable wages) for a total tax rate of 15.3%, but the cost is split between employees and employers at 7.65% each. Social Security taxes are subject to a taxable maximum amount of \$176,100 in 2025. Neither employees nor employers pay Social Security on wages and other earned income that exceed that amount.

Additional Considerations:

- SHBP currently administers a HDHP medical plan with approximately 10,000 current members. The HDHP vendor currently offers an HSA to plan members, though it only supports post-tax contributions (not pre-tax payroll deductions). Of the 10,000 HDHP plan members, approximately 600 have opened HSA accounts.
- The bill could also result in lower premium payments for employers if state employees migrate from a higher cost SHBP plan option to the HDHP (which typically feature higher deductibles and lower premiums).

Respectfully,



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Richard Dunn, Director
Office of Planning and Budget

GSG/RD/jb