



# Consumer-Directed Health Care

## **ACTION NEEDED:**

NAHU urges support for Congressional action on several measures that would increase access to consumer-directed health insurance products. Specifically, we support H.R. 1872 by Representative Sam Johnson (R-TX) and S. 978 by Senator Rick Santorum (R-PA), the Health Coverage for the Uninsured Act, which would expand consumer access to Health Savings Accounts (HSAs) through tax incentives. In addition, we endorse H.R. 4511 by Representative Eric Cantor (R-VA), which would allow for the expanded use of Flexible Spending Accounts (FSAs) and Health Reimbursement Arrangements (HRAs) with HSAs, as well as increase the levels of monthly contributions allowed for HSAs. NAHU also encourages action on S. 309 by Senator Jim DeMint (R-SC) and its companion bill, H.R. 1998, sponsored by Representative Jim McCrery (R-LA), which would allow individuals to roll over up to \$500 of unused FSA funds either to the next year's FSA or to an HSA.

## **BACKGROUND:**

Health Savings Accounts are tax-advantaged personal savings accounts used in conjunction with a qualified high-deductible health plan (HDHPs) to help pay for unreimbursed medical expenses. Contributions to HSAs may be received from employers, individuals or any combination of both. Employer contributions are excludable from income and individual contributions are deductible, regardless of whether or not a taxpayer itemizes deductions. Annual contributions are limited to 100 percent of the deductible and out-of-pocket maximums are limited, but individuals age 55 and over with accounts can make additional contributions. HSAs are portable and funds carry over to subsequent years.

NAHU believes that HSAs are an excellent way for individuals to save for future health expenses, for employers to offer lower-cost coverage to their employees, and to improve access to affordable coverage for the uninsured. Of the 3 million Americans who have enrolled in such plans since they became available in 2004, more than 30 percent were previously uninsured.

## **Improving Access to HSAs through Tax Incentives**

NAHU believes increased deductibility of premiums for high-deductible health plans used in conjunction with HSAs would be another step toward more affordable health insurance and would encourage individuals to be better health care consumers by becoming more aware of their health care costs. As such, NAHU is very supportive of H.R. 1872/S. 978, which would expand consumer access to HSAs through tax incentives. This measure would:

- Make qualified HDHP premium payments tax-deductible on an above-the-line basis, which is particularly important since so many young adults who really benefit from having HSA plans do not itemize their federal tax returns.
- Create a tax credit for small employers that contribute to an employee HSA.
- Establish a personal income tax credit for low-income individuals and families to help pay for individual health insurance coverage, including qualified HDHPs.

## **Making HSAs More Compatible with Other Consumer-Directed Health Insurance Options**

NAHU would like to see individuals and employers participate in FSAs and HRAs in a more extensive way while also contributing to HSAs. NAHU believes that allowing individuals to participate in all three accounts as long as an eligible expense is reimbursed from only one of the accounts will encourage more employers to offer HSAs and encourage more employees to participate in them. Therefore, NAHU endorses H.R. 4511, which would:

- Allow for the expanded use of FSAs and HRAs with HSAs
- Increase the levels of monthly contributions allowed for HSAs.



### **Additional Improvements**

NAHU also believes HSAs would be more effective if:

- Individuals who are actively working were allowed to contribute to HSAs until they retire. As more people work past age 65, the current restrictions on contributions once an individual is eligible for Medicare will be more of a problem for employers.
- Current restrictions on the use of HSA funds for Medigap coverage were removed. Many Medicare beneficiaries do not have health insurance coverage available to supplement basic Medicare, and only have the option of a Medicare supplemental policy to help fund their retirement medical expenses. This is particularly true in rural or urban areas where Medicare Advantage plans may not be available and for people without retiree coverage. It seems unfair to penalize these beneficiaries by not allowing them to use the funds they may have accumulated over their lifetimes to pay for their supplemental coverage.
- There was more flexibility in the area of deductibles to encourage more employers to offer HSAs.

### **Flexible Spending Accounts**

FSA's allow employees to set aside a portion of their take-home pay on a pretax basis to pay for certain out-of-pocket health care or dependent care expenses. FSA participants are able to be reimbursed for expenses that may not be covered by insurance. The Internal Revenue Service currently requires all amounts set aside in an FSA must be used each year for qualified expenses and balances that remain in an FSA at the end of a plan year cannot be returned to individual plan participants.

NAHU believes the current "use it or lose it" rules for FSA's are a perverse incentive to spend more on health care rather than encourage appropriate consumer behavior. Health care needs vary from year to year and it is difficult for an individual to determine whether costs will remain the same from year to year or increase due to a significant health event.

NAHU supports S. 309/H.R. 1998, which would allow individuals with FSA's to roll over up to \$500 per year into either the next year's FSA or into their HSA.