Issue Summary
Consumer-Directed Health Care

Health Savings Accounts

Health Savings Accounts (HSAs) are tax-advantaged personal savings accounts used in conjunction with a qualified high-deductible health plan to help pay for unreimbursed medical expenses. HSAs were authorized under the Medicare Prescription Drug and Modernization Act of 2003. 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, up to a maximum of $2,650 for an individual or $5250 for a family in 2005. Out-of-pocket maximums are limited to $5,100 for an individual and $10,200 for a family for in-network expenses. Individuals age 55 and over with accounts can make additional contributions of $600 in 2005 and increase the amount by $100 each year until it reaches $1,000 in 2009. 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 and will likely have a significant impact on health insurance markets. Removing previous restrictions on Medical Savings Accounts (MSAs), allowed carriers and states to improve availability in both the individual and small group markets, making HSAs attractive to a wide range of health care purchasers.

- NAHU 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.

- Currently individuals can only participate in Flexible Spending Accounts and Health Reimbursement Arrangements in a very limited way if they are contributing to a Health Savings Account. 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.

- 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.

- Many Medicare beneficiaries do not have health insurance coverage available to supplement basic Medicare, and have only 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. Even Medicare Part A and B premiums can be paid with HSA funds. Medicare supplemental policies are the only type of health insurance policy specifically excluded for allowable use of HSA funds. Although there have been studies that show a higher rate of Medicare utilization by beneficiaries who have this type of coverage, the fact is that many beneficiaries have no other choice and value the security offered through their supplemental coverage, even though they may struggle to pay their premiums. 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. NAHU believes the current restriction on the use of HSA funds for Medigap coverage should be removed.

- The most common type of deductible arrangement today in both individual and employer sponsored plans is one where there is an individual deductible and a maximum deductible for families. To encourage greater adoption of HSAs, it is important to keep some familiarity of benefit structure for employers and employees, even if the deductible levels change. This also makes it easier for carriers to pay claims without changing their whole system, and will make coverage more readily available across the country.

- Current HSA regulations require that for a qualifying high-deductible health plan, if an individual has family coverage, no member of the family may receive benefits before a $2,000 deductible is met. In a plan with a typical deductible structure, this would mean that a qualifying plan would need to have an individual deductible of at least $2,000 and a maximum per family deductible of $5,000. Since most employers offer only one plan choice, this means that the employee buying self-only coverage also gets a $2,000 deductible. Few employers are willing to jump directly to a $2,000 deductible for their employees with self-only coverage if they are now offering an HMO or a PPO plan with no deductible in network and $500 deductible out of network. Employers are much more willing to start with a deductible of $1,000 or $1,500 per individual and $2,000 or $3,000 per family, but this wouldn't currently qualify. NAHU would like to see more flexibility in this area to encourage more employers to offer HSAs.

Flexible Spending Accounts

Flexible Spending Accounts (FSAs), also referred to as Cafeteria or Section 125 plans, allow employees to set aside a portion of their take home pay on a pre-tax basis, to pay for certain out-of-pocket health care or dependent care expenses. Amounts set aside in FSAs are not subject to state or local taxes and employees who anticipate expenses can save up to 28 percent or more by paying those expenses with money set aside in an account. FSA participants are able to be reimbursed for expenses that may not be covered by insurance, such as deductibles and co-payments, prescription drugs and medical supplies, eyeglasses, smoking cessation programs, or psychiatric care and psychologist fees. 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 FSAs are a perverse incentive to spend more on health care rather than encourage appropriate consumer behavior.

- NAHU believes the prohibition should be removed and individuals with FSAs should be allowed to roll-over up to $500 to the following year. 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 believes FSAs can cushion the financial impact to employees that results from increasing health care premiums.