



Taking HSAs to the Next Level

By Roy Ramthun, "Mr. HSA"

The number of Americans covered by Health Savings Accounts (HSAs) continues to grow (see latest survey from America's Health Insurance Plans at <http://www.ahipresearch.org/pdfs/HSA2011.pdf>), as businesses look for ways to control employee benefit costs. HSAs could grow even faster if Congress passes legislation recently introduced by Sen. Orrin Hatch (R-Utah) and Rep. Eric Paulsen (R-Minnesota). Senator Hatch is the ranking Republican on the Senate Finance Committee, and Rep. Paulsen is a member of the House Ways & Means Committee. Both committees have jurisdiction over tax matters, including HSAs.

The bill (S. 1098 / H.R. 2010, introduced May 25, 2011) would repeal the two most egregious provisions relating to consumer-driven health care plans in the new health reform law. First, the bill would eliminate the need to have a prescription for over-the-counter medicines when seeking reimbursement from health care accounts like HSAs and FSAs. Second, the bill would strike the maximum deductibles of \$2,000 for single coverage and \$4,000 for family coverage for plans offered by employers and insurance carriers. This will help keep premiums affordable for employers and employees.

Changes to HSA Eligibility

The bill makes several improvements to the eligibility requirements for HSAs. For seniors enrolled only in Part A of Medicare, they could remain eligible to contribute to their HSA if they are otherwise eligible to do so and do not enroll in any other part of Medicare. For veterans with a service-connected disability and Native Americans, they could remain eligible to contribute to an HSA even though they have access to medical services provided through the VA or Indian Health Service, respectively. Lastly, for retired military persons that are still covered by free TRICARE benefits but may now be working in the private sector, they could be eligible to contribute to HSAs for the first time.

Great Flexibility in Using HSA Funds

Unlike Americans who have employer-sponsored health coverage, individuals purchasing their own health insurance get little tax relief for their premiums. The bill would provide relief to these persons by allowing them to use their HSA funds tax-free to pay these premiums. The bill would also eliminate a technical issue so that all qualified medical expenses incurred after HSA-qualified coverage begins may be reimbursed tax-free with HSA funds as long as the account is established by April 15 of the following year. Currently, expenses incurred before someone opens their HSA account cannot be reimbursed tax-free. The bill also fixes another technical problem that prevents account holders from using their funds tax-free to pay Medicare premiums unless they are age 65 or older (i.e., can't pay for an older spouse's Medicare premiums if not 65+ yourself).

To help people stay healthy and preserve their HSA funds, the legislation would allow HSA funds to be used for new types of expenses not currently permitted by the IRS, including:

- Exercise and physical fitness programs (up to \$1,000 per year)
- Nutritional and dietary supplements, including meal replacement products (up to \$1,000 per year)

Another type of expense that would be allowed for tax-free reimbursement is an “all-inclusive” flat fee charged by doctors instead of the fees charged every time you visit. Currently, the IRS does not permit HSA funds to be used to pay these fees because there is no direct billing for individual services provided by the physician.

Rollovers and Catch-Up Contributions

The changes made by Congress in 2006, though well-intended, make it very difficult for employees to roll over unused funds in an FSA or an HRA to help fund their HSAs. The new legislation simplifies the process for rollovers in order to ease the transition to HSAs.

HSA-eligible individuals age 55 or older may make additional catch-up contributions of \$1,000 each year. However, the contributions must be deposited into separate HSA accounts even if both spouses are eligible to make catch-up contributions. The bill would allow married couples to put their catch-up contributions into one account.

Expanded Definition of “Preventive” Drugs

HSA-qualified plans (along with all other plans) are now required to cover preventive care services without applying the policy deductible or charging out-of-pocket expenses like copays. Although the IRS allows certain types of prescription drugs to be considered “preventive care,” they generally do not permit plans to include most drugs taken to prevent the worsening of chronic conditions. The legislation would provide additional flexibility to health plans that want to provide coverage for these medications and remove a perceived barrier to HSAs for people with chronic conditions.

What’s Next?

Like all other legislation, it will have to be approved by Congress and signed by the President. The sponsors of the legislation will be looking for opportunities to move the bill forward through the process towards enactment. Please let your elected representatives know about this legislation and ask them to sign on as a co-sponsor today.

About the Author:

Roy Ramthun is President of HSA Consulting Services, a health care consulting practice specializing in Health Savings Accounts and consumer-driven health care issues. Mr. Ramthun led the U.S. Treasury Department’s implementation of the HSA program after its creation in 2003 before becoming the senior health policy advisor to President George W. Bush. Mr. Ramthun is a frequent speaker at conferences and seminars around the country. He and his family have had an HSA since 2005.