



## **The National Business Group on Health Strongly Supports Regulatory and Legislative Efforts to Promote Consumer-Directed Health Care and Health Accounts**

***Issue: Current Tax Laws and Other Limitations On Flexible Spending Accounts (FSAs) and Health Savings Accounts (HSAs) and Similar Restrictions on Employer-Funded Health Reimbursement Accounts (HRAs) Significantly Limit Their Usefulness.***

- Through FSAs and HSAs, employees may set aside part of their income to pay for qualified medical expenses on a pre-tax basis. Through HRAs and HSAs, employers may also make funds available for employees and their families to spend on routine health care and preventive health care. However, current regulations limit their usefulness.
- Limitations keep people from exercising greater control and responsibility over their own health care spending decisions.
- For example, currently, employees must “use or lose” employee-funded flexible spending account (FSA) balances during the current calendar year and may not use FSA funds to purchase insurance.
- Other limitations include the inability to accumulate FSA funds and invest FSA and HRA monies to pre-fund future health care costs, including retiree medical expenses; to take FSA and HRA accounts from job to job or into retirement; to contribute greater amounts to HSAs; to clearly explain when people can use FSAs and HRAs in coordination with HSA funds to pay for out-of-pocket expenses; or to merge FSAs, HRAs and HSAs into a single account funded through both employer and employee contributions.

***Recommendations: The Business Group Recommends that the Administration and Congress:***

- Permit the merging of employer and employee funds in a combined account, eliminating the need for a separate employee-funded FSA and an employer-funded HRA; and a jointly-funded HSA.
- At the very least, permit the merging of FSAs and HSAs.
- Amend Section 125 to repeal the “use-it-or-lose-it” rule for FSAs without negative tax consequences for individuals. Employees should be able to carry over amounts into subsequent years and into retirement without penalty.
- Clarify that the exclusion from taxable income under Section 105 of the Code still applies even for amounts in HRAs and HSAs used to reimburse health insurance premiums.

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- Establish portability of FSAs and HRAs so that employees can take them with them when changing employers.
- Permit the purchase of insurance through FSAs and expand the ability to use HSAs to pay for insurance premiums.

***Rationale: Expanding the Use and Application of Health Accounts Will Give Patients More Choices and Flexibility over Their Health Care Decisions. It Will Also Increase the Value of These Health Benefits to Employees and Their Families.***

- It enables individuals to directly participate in the cost and benefit decisions each time they seek health care services, not just when choosing a health plan.
- Accumulated and invested funds could pay for higher or unexpected future health care expenses.
- Accounts could pre-fund retiree health, COBRA, individual insurance, and even long-term care.
- In today's mobile work force, people could take funds with them when changing employers.
- This approach would also encourage more opportunities for Medicare-beneficiary-directed health care.