THE ERISA INDUSTRY COMMITTEE

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Advocating the Benefit and Compensation Interests of America's Major Employers

HEALTH SAVINGS ACCOUNTS WORKABILITY PROJECT
ERIC HSAs WORKABILITY PROJECT STEERING COMMITTEE
Summary Paper
September 7, 2004

I. EXECUTIVE SUMMARY

ERIC's Board of Directors requested the Health Policy Committee, Chaired by Randall L. Johnson, to: 1) identify desired changes to make health saving accounts (HSAs), flexible saving accounts (FSAs), and health reimbursement accounts (HRAs) more relevant and responsive to major employers; 2) identify any additional medical savings accounts desired; and 3) draft any additional requests for guidance to the Department of Treasury regarding health saving account implementation. The HSAs Workability Project Steering Committee, Chaired by Kevin Anderson, conducted numerous conference calls and launched an ERIC member survey to forge a consensus to identify the top needed coordination changes and any desired new medical saving accounts.

As a result of the above mentioned efforts, the Steering Committee: 1) identified three necessary regulatory/legislative changes regarding HSAs, FSAs and HRAs; 2) identified a new retiree medical benefits account (RMBA) desired by major employers; and 3) determined that no additional request for guidance should be submitted to the Treasury Department at this time. The three necessary changes regarding HSAs, FSAs and HRAs identified are: higher limits needed for HSAs to meet retiree health expenses; allow FSAs to rollover by eliminating the "use it or lose it" penalty and allow FSAs or HRAs for 1st dollar spending under a high deductible health plan. The Health Policy Committee will develop an implementation strategy that we will use to pursue the necessary regulatory and legislative changes outlined in this document.

II. ERIC MEMBER SURVEY

Through an ERIC member survey, developed by ERIC's HSAs Workability Steering Committee, we are able to identify the top changes required to make health savings accounts, health reimbursement accounts, and flexible spending accounts more pertinent and responsive to major employers. The survey found that members support health savings accounts and plan to offer them to their workers and retirees in the future assuming some modifications to the plans are made.

While no participants said their company currently offers a HSAs option, 88% of the respondents said they would consider offering them for active workers while 67% would consider the plans for retirees. Most respondents also said that HSAs can be used as an effective retiree medical savings account, whether through its current structure (23%) or with some modifications (63%).

The survey, completed by more than half of ERIC's members, determined that there are four (4) major necessary changes to the current employer choices of consumer directed health plan accounts.

III. RECOMMENDED HSAs, FSAs AND HRAs CHANGES

Higher Limits Needed for Health Savings Accounts to Meet Retiree Health Expenses - When asked what changes were needed in order for employers to utilize HSAs in their plans, 80% of the respondents said that the HSAs structure must allow higher limits for retiree savings and not be limited to the lesser of the statute dollar amount or more particularly the deductible.

Health savings accounts will allow those who elect to purchase high-deductible health insurance to save thousands of dollars annually on a tax-free basis, particularly if none of the saved money is used to pay current expenses for health care services. But because of contribution restrictions, the amount of money that an individual can accumulate in an HSA(s) is limited. An individual who contributes $1,000 each year starting in 2007 and makes catch-up contributions can accumulate $23,000 after 10 years, $47,000 after 20 years, $81,000 after 30 years, and $127,000 after 40 years according to a recent Employee Benefit Research Institute (EBRI) report.

HSAs will have a negligible potential benefit for those already 55 years old or older and would be structurally incapable of producing enough savings to substantially offset retiree health expenses. An individual age 55 in 2004 could save a maximum of $44,000 in an HAS(s) by the time he or she reaches 65. This will not adequately pay for insurance premiums and out-of-pocket expenses in retirement. Specifically, an individual will need $137,000 if he or she lives to age 80 and insurance premiums and maximum out-of-pocket expenses increase 7 percent annually per the same July 2004 EBRI report.

Need FSAs to Rollover by Eliminating the "Use It Or Lose It" Penalty – In regard to FSA rollovers, 89% of the respondents supported the elimination of the "use it or lose it" penalty. It is the belief of the Steering Committee that the elimination of the "use it or lose it" penalty could be corrected by the Treasury Department's administrative authority and will not require new legislation. Senator Grassley (R-IA), Chairman of the Senate Finance Committee wrote a letter to Treasury Secretary John Snow on August 23, 2004 to urge the Treasury Department to change the FSA rules to eliminate the "use it or lose it" rule. Having the flexibility to roll over unused funds in their FSA from one year to the next or by allowing them to take a cash distribution would benefit employees and be supported by a majority of employers.

Allow FSAs or HRAs For 1st Dollar Spending Under a High Deductible Health Plan – There was a clear majority (95%) of the respondents stating they felt that permitting the use of FSAs or HRAs for 1st dollar spending accounts under a high deductible health plan (HDHPs) would benefit their employees more by leaving the HSAs as saving accounts to assist with future medical costs. This option would require a legislative change.

IV. RETIREE MEDICAL BENEFITS ACCOUNTS (RMBA) DESIRED

Seek Legislative Changes to Create a New Retiree Medical Benefits Account Option - Asked whether they believe ERIC should support and seek legislative changes to create the ability for employees to have a new retiree medical benefits account (RMBA) option, 61% of employers responded positively, and 35% displayed interest. Legislative changes will be required to establish the needed framework for RMBAs. ERIC members have requested the option for RMBAs to work well with defined benefit plans as well as defined contribution plans. RMBAs will offer retirees the same tax efficiency that is available for active employees.