

## **Background on the Flex HSAs Act Sponsored by Rep. Eric Cantor (R-VA)**

The Flex HSAs Act will help to expand the adoption of HSAs by Americans who work for large employers by making HSAs a more attractive option for health care coverage. It will do so by:

- Permitting the coordination of HSAs with Flexible Spending Accounts (FSAs) and/or Health Reimbursement Arrangements (HRAs) by allowing them to be used in conjunction with HSA/High Deductible Health Plan (HDHP) arrangements, and
- For HSA contribution limits, eliminating the "lesser of the deductible" limitation. In other words, allow individuals and families to contribute an amount equal to the maximum contribution limit regardless of the deductible, and
- Limiting total annual contributions to an HSA, an FSA and/or an HRA so as not to exceed the out-of-pocket maximum for the HDHP.

It is important to understand the differences between the three accounts that will be coordinated in this legislation.

### Health Savings Accounts

- Used in conjunction with a high deductible health plan (HDHP), these accounts allow employers and employees to contribute on a tax free basis to pay for current and future health care expenses. You must have an HDHP and under current law not have any other health insurance coverage, which has been defined by regulation to include FSAs and HRAs.
- Individuals own these accounts and they can take them from job to job and pass them on to their heirs.
- Currently you can contribute up to the amount of your deductible, or the contribution limit established in law, whichever is lower.
- Deductibles - to qualify for 2006, the HDHP must have deductibles of at least:
  - Individual \$1,050
  - Family \$2,100
- Contribution limits - to qualify for 2006, those limits are:
  - Individual \$2,700
  - Family -- \$5,400

### Flexible Spending Accounts

- FSAs let you set aside a predetermined amount of money in an account to cover anticipated out of pocket health care expenses. This money is used to pay for items not covered by your health insurance, such as copays, vision, or orthodontics.
- There is no statutory limit to the amount of money an individual can elect in a year, but due to the "use it or lose it" nature of these accounts there is an incentive for individuals to budget to their anticipated spending for that year.

### Health Reimbursement Arrangements

- Very similar to an FSA except that HRAs are funded strictly by the employer and those "credits" can roll over from year to year.