Likely Consumer Directed Healthcare on the Horizon

By Harrison Stone

Regardless of where you live, health care costs were a prime topic in 2016, and 2017 is proving to be no different. During the first days of the new Congressional session, both the House and Senate passed a budget resolution, effectively setting up a process to dismantle portions of the Affordable Care Act (ACA). And, on his first day in the Oval Office, President Trump signed an Executive Order giving federal agencies broad powers to dismantle regulations created under the ACA.

Obamacare will no doubt be significantly modified by the end of 2017, as will the shape of the health care landscape in the United States. A critical component of health care reform likely to benefit all American workers is the expansion of consumer directed health care (CDH) tax savings accounts—more commonly referred to as Flexible Spending Accounts (FSAs), Health Reimbursement Arrangements (HRAs), and Health Savings Accounts (HSAs). CDH accounts are poised to be a key element of the broader health care reform plan--but what could these changes entail? Here are a few predictions as to what could occur:

1. **Enrollment in High Deductible Health Plans (HDHPs) will continue to increase as HSAs become more attractive. Adoption will grow by double digits.**

   As employers increasingly offer HDHPs, many have paired them with HSAs to create a powerful combination that helps both employers and employees manage the escalating costs of health care. Why? HSAs offer a triple threat in terms of benefit. First, money contributed is tax-free; second, it grows tax-free and can eventually be invested; and third, the money can be spent free of tax as long as used for qualified medical purposes at any point in life.

In 2017, we could see the maximum contributions into HSAs increase from $6,750 for a family plan to match the maximum out-of-pocket expense defined in most HDHPs. Historically these high upfront caps have hindered consumers from even evaluating HDHPs. With an increased threshold and guaranteed rollover, consumers will be more willing to enroll in these plans and invest early knowing their money will not be forgone if not used.

2. **Government funded contributions for all Americans**

   HSAs are often mistakenly perceived as an account only available to the wealthy, and not a realistic option for Americans who cannot afford to set aside funds for health care expenses. While HSAs are used by consumers of all demographics, certain changes to HSA regulations could dramatically expand HSA adoption rates.

   Currently, there is one HSA solution on the market that allows funds to be accelerated into an HSA account to cover medical expenses early in the plan year. However, these types of custom HSA plans must be offered through the employer—they are not available at the individual/consumer level. Some lawmakers have suggested that government contributions to HSAs, either to match participant savings or as a one-time lump sum, could expand the use of HSAs to lower-income demographics.

3. **Rollover of FSA and HRA funding**

   FSA and HRA accounts are advantageous tax-advantaged accounts to cover near-term health care expenses associated with traditional, non-HDHP health care accounts. The deterrent for many workers is these are use-it-or-lose-it account types with limited rollover periods. For example, if the funds set aside in a given tax year are not used to cover health care expenses, they are foregone at the end of the year (exception for FSA Carryover plan option limited to $500) or within the short rollover period.

   The use it or loss it aspects of the FSA and HRA have been a disincentive to employees to enroll in these type plans and has hampered employer adoption. There are currently a number of proposed bills seeking to soften these disfavored limitations, which should have the effect of significant expansion in these account types further benefiting employees.

4. **Broader Eligible Expenses**

   The IRS has very well defined rules as it pertains to eligible expenses. With reform comes an opportunity for the IRS to evaluate the list once again to potentially expand what is covered. Additional coverage areas may include: various over-the-counter medications, pre-paid physician fees, including payments for "concierge" or "direct practice" medicine, and certain preventive medicines.

In conclusion, the only guaranteed prediction is that change is inevitable—and CDH tax-advantage accounts will be a key element in this change. As Speaker Paul Ryan wrote in his policy paper, A Better Way, "improving the flexibility of health savings accounts and other consumer-oriented health care options will further enhance individual choice, without compromising quality of care or driving up the cost of coverage."

CDH tax savings accounts will ultimately empower individuals to have more control of their health care choices and greater flexibility in accessing it. The charge now is for a bipartisan resolution to identify the most beneficial elements all of the various plans and devise a way to develop a comprehensive health care system that is affordable, sustainable, accessible, and beneficial to all Americans.

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