

# Universal Health Accounts: A Portable Mechanism to Expand Access

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## Background

On November 13, 2006, America's Health Insurance Plans (AHIP) released a consensus plan to provide access to health insurance to all Americans. Among other things, this plan includes a proposal to establish Universal Health Accounts (UHAs) as a broad vehicle for tax-preferred payment of health insurance premiums in the group and non-group markets. If enacted, the UHA would provide a portable mechanism for premium payment that could receive deposits from individuals, employers, and the government.

## Key Features of the Universal Health Account

The proposed Universal Health Account (UHA) would make two key improvements to the existing rules governing health savings accounts (HSAs):

First, UHAs could be used to pay premiums for *any* type of health insurance plan, including HMOs and PPOs. UHA accounts also could be used for qualifying health care expenses (such as physician or hospital charges) if the UHA is accompanied by a qualifying high-deductible health plan (HDHP), such as a plan used in conjunction with a health savings account under current law.

Second, the proposed UHA would establish a matching incentive, or "health saver's credit," for contributions by moderate-income individuals, offering a new mechanism to subsidize coverage for low- and moderate- income workers.

By establishing a tax-preferred vehicle for premium payment, the UHA would provide tax parity for insurance purchased outside of the employer setting. That is, insurance purchased in the individual market with funds from the UHA would result in a tax deduction. Importantly, the account could also be used to pay an employee's share of the premium contributions if the employer lacked a mechanism to shield employee-paid premiums from taxation. The UHA would not change the rules for current HSA plans or HRA plans that qualify for tax-free treatment of direct payments to health care providers.

The matching incentive or "health saver's credit" would enhance the UHA's flexibility by establishing a uniform mechanism to subsidize premiums. Under this proposal, the federal government would provide a 50 percent match for contributions made to the account by individuals or families with income below 300 percent of the federal poverty level (FPL). Similarly, individuals or families with income up to 400 percent of the FPL would receive a 25 percent match. Maximum annual match thresholds of \$2,000/families and \$1,000/individuals would be established, meaning that a family of four with annual income of \$60,000 (300 percent of poverty) could contribute

\$4,000 and receive a match of \$2,000, making \$6,000 in tax-free funds available for the purchase of health insurance.

## Policy Impact

The Universal Health Account would immediately benefit several million Americans who purchase health insurance in the individual market but who are not self-employed and thus are not eligible to deduct their premiums from taxation. Likewise, workers at firms that do not arrange for employee premium contributions to be made on a tax-free basis would benefit, as would early retirees, whose contributions toward their employment-based premiums generally are taxed under current law.

The UHA would establish a uniform and portable mechanism to subsidize coverage from multiple sources, including employers and the government. This flexibility would allow people to plan for future health insurance expenses, and it would allow funding for health coverage to accrue tax-free in one account.

The UHA does *not* predetermine the form of health insurance for which its funds are used -- thus providing maximum flexibility for individuals to purchase the health insurance that is best for their particular needs, while maintaining a level playing field for competitive market alternatives.

By establishing a matching incentive, the UHA proposal would provide a targeted health insurance subsidy for people with moderate incomes. This ensures that a substantial subsidy would be available even to people in low income tax brackets or with limited income tax liability.

Moreover, targeting the matching incentive to individuals with income below 400 percent of the poverty level should also help stabilize employer coverage. The matching subsidies target the demographic groups most at risk for becoming uninsured. Recent evidence from the Census Bureau's Current Population Survey (CPS) demonstrates that the growth in the uninsured population is most rapid among households with incomes of \$25,000-\$75,000.

Finally, the UHA would help address the growing challenge of portability, particularly for near-retirees. Because anyone purchasing health insurance could establish a UHA, an individual could pre-fund premiums for early retirement or for coverage during an anticipated job loss. The Congressional Budget Office (CBO) has indicated that for as many as half of the uninsured, the duration of time without coverage is less than four months. Similarly, an individual planning to start a business could begin saving for health insurance in advance.



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America's Health Insurance Plans  
601 Pennsylvania Ave., NW  
Suite 500  
Washington, DC 20004

202.778.3200  
[www.ahipResearch.org](http://www.ahipResearch.org)  
[Research@ahip.org](mailto:Research@ahip.org)