Helping America Age Well
Expanding the Use of Health Savings Accounts to Invest in Americans’ Long-Term Care

Allowing more tax-deductible dollars to go toward long-term care coverage can improve Americans’ security and financial stability.

Today, contributions that employees make to a health savings account (HSA) can be saved up to help them pay for health coverage and care needs they will have in the future. Those needs may include premiums for qualified long-term care insurance (QLTCI), or costs for long-term care (LTC) they receive.

However, the current HSA contribution limits are often too restrictive to allow for QLTCI purchases.

More than half of all Americans turning age 65 today will need LTC at some point in their lives. Many will need help with activities of daily living, such as bathing and eating, or they may need help due to cognitive impairment.

Many will pay the costs for that care on their own. The Department of Health and Human Services estimates that individuals and their families pay for 52 percent of their LTC costs out of their own pockets. Medicaid pays about 34 percent, and other public programs (such as benefits for veterans) cover about 10 percent. QLTCI covers less than 3 percent of expenditures.

As the baby boom generation ages, the societal burden of LTC costs will increase dramatically. The Congressional Budget Office estimates that spending by the federal government, states, and individuals on LTC for those aged 65 and older will increase from 1.3 percent of Gross Domestic Product (GDP) in 2010 to 3 percent of GDP in 2050. While no single solution will be able to address these impending unmet financial needs, HSA rule changes to help Americans prepare for LTC costs should be a part of any solution.

How HSAs Can Help

Under current law, individuals who have a high deductible health plan can choose to make tax deductible contributions to an HSA. In addition to helping to pay for their out-of-pocket costs immediately, these tax-deductible dollars can be used to pay premiums for QLTCI.

The tax-preferred treatment of HSAs, combined with higher deductibles, provide a strong incentive for people to make more thoughtful and informed approaches to their care, and help to ensure the greatest value for every dollar spent on care.
We can gain the same benefit in QLTCI by adding flexibility for consumers.

**We support changes to the contribution limits for HSAs that would allow individuals to make additional contributions to their HSAs equal what they would pay in premiums for QLTCI.** In addition, individuals should be allowed to contribute to their spouse’s HSA if the spouse is covered by QLTCI.

Under current law, if an individual has an HSA but no longer has high deductible health plan coverage, he or she cannot contribute additional amounts to the HSA. However, under this proposal, if the individual has QLTCI coverage during a taxable year, he or she would be allowed to make additional contributions in that year pursuant to this special rule equal to their QLTCI premiums as long as they already have an HSA.

This approach provides more flexibility and choice, allowing employees to save more pre-tax dollars to buy LTC coverage for themselves or their spouse. While this approach may result in some revenue losses in the short term**, encouraging people to invest now to cover future health care expenses will likely save more taxpayer dollars long-term.

*NOTE: The increase in the contribution limit would equal the premiums the individual pays during the taxable year for QLTCI, to the extent such amount does not exceed the eligible LTC premium limitation of Internal Revenue Code (Code) section 213(d)(10).

** Conceptual Analysis of Potential Revenue Effects of Three Proposals to Encourage the Purchase of Long-Term Care Insurance; Mary M. Schmitt, Optimal Benefit Strategies, LLC; August 2018

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