

1 HB101
2 111704-1
3 By Representatives Canfield, Ball, Drake, Treadaway,
4 Williams (J) and DeMarco
5 RFD: Education Appropriations
6 First Read: 12-JAN-10
7 PFD: 01/06/2010

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8 SYNOPSIS: Existing law recognizes only certain
9 federal exclusions from income and does not provide
10 tax relief for medical savings accounts.

11 This bill would provide for the
12 establishment of a medical savings account.

13 This bill would impose limits on deductible
14 amounts contributed to a medical savings account.

15 This bill would provide that interest earned
16 on the medical savings account would be excluded
17 from gross income.

18 This bill would provide for the use of the
19 funds in the medical savings account, the
20 distribution of funds in account upon death of
21 account holder, and the withdrawals from the
22 medical savings account by the account holder.

23
24 A BILL

25 TO BE ENTITLED

26 AN ACT

1 Relating to medical savings accounts; to provide for
2 the establishment of medical savings accounts; to impose
3 limits on deductible amounts contributed to a medical savings
4 account; to provide that interest earned on the medical
5 savings account would be excluded from gross income; and to
6 provide for the use of the funds in the medical savings
7 account, the distribution of funds in account upon death of
8 account holder, and the withdrawals from the medical savings
9 account by the account holder.

10 BE IT ENACTED BY THE LEGISLATURE OF ALABAMA:

11 Section 1. This act shall be known and may be cited
12 as the "Medical Savings Account Act."

13 Section 2. The following words shall have the
14 following meanings:

15 (1) ACCOUNT ADMINISTRATOR. A state chartered bank,
16 savings and loan association, credit union, or trust company
17 authorized to act as a fiduciary and under the supervision of
18 the State Banking Department or the Savings and Loan Board; a
19 national bank, national lending association, or federal
20 savings and loan association or credit union authorized to act
21 as a fiduciary in this state; an insurer licensed and admitted
22 to do business in this state; a third party administrator
23 licensed by the Alabama Commissioner of Insurance; or an
24 employer, if the employer has a self-insured health plan
25 meeting federal ERISA requirements.

1 (2) ACCOUNT HOLDER. A resident individual or an
2 employee for whose benefit a medical savings account is
3 established.

4 (3) DEPENDENT. The spouse of an account holder or
5 the child of an account holder if the child is:

6 a. Legally entitled to the provision of proper or
7 necessary subsistence, education, medical care, or other care
8 necessary for his or her health, guidance or well-being and
9 not otherwise emancipated, self-supporting, married, or a
10 member of the Armed Forces of the United States.

11 b. Mentally or physically incapacitated to the
12 extent that he or she is not self-sufficient.

13 (4) DOMICILE. A place where an individual has his or
14 her true, fixed, and permanent home and principal
15 establishment, to which, whenever absent, he or she intends to
16 return.

17 (5) ELIGIBLE MEDICAL EXPENSE. An expense paid by a
18 taxpayer for medical care described in Section 213(d) of the
19 Internal Revenue Code.

20 (6) HEALTH SAVINGS ACCOUNT. A trust or custodian
21 established in this state pursuant to Section 233 of the
22 Internal Revenue Code of 1986 and rules or guidance thereunder
23 issued by the U.S. Department of the Treasury or Internal
24 Revenue Service.

25 (7) HIGH DEDUCTIBLE HEALTH PLAN. A health coverage
26 policy, certificate, or contract that provides for payments
27 for covered benefits that exceed the higher deductible.

1 (8) HIGHER DEDUCTIBLE. A deductible of not less than
2 one thousand five hundred dollars (\$1,500) but not more than
3 two thousand two hundred fifty dollars (\$2,250) for individual
4 health coverage, and not less than three thousand dollars
5 (\$3,000) but not more than four thousand five hundred dollars
6 (\$4,500) for health coverage provided to an individual and his
7 or her dependents, in tax year 2010. Beginning after 2014, the
8 deductible limits shall be adjusted annually in fifty dollar
9 (\$50) increments for increases in the cost of living, as
10 measured by the medical costs component of the Consumer Price
11 Index.

12 (9) MEDICAL SAVINGS ACCOUNT. An account established
13 to pay eligible medical expenses of the account holder and his
14 or her dependents and, for purposes of state income tax
15 deductions, includes the term "health savings account" as
16 defined in subdivision (6).

17 (10) MEDICAL SAVINGS ACCOUNT PROGRAM. A program that
18 includes all of the following:

19 a. The purchase by an employer of a qualified higher
20 deductible health plan for the benefit of an employee and his
21 or her dependents or the purchase by a resident individual of
22 a qualified higher deductible health plan for his or her
23 benefit or for the benefit of his or her dependents, or both.

24 b. The payment on behalf of an employee into a
25 medical savings account by his or her employer or payment into
26 a medical savings account by a resident individual on his or
27 her behalf of at least sixty-six and two-thirds percent of the

1 premium reduction realized by the purchase of a qualified
2 higher deductible health plan.

3 c. An account administrator to administer the
4 medical savings account and the reimbursement of eligible
5 medical expenses therefrom.

6 (11) QUALIFIED HIGHER DEDUCTIBLE HEALTH PLAN. An
7 accident and health insurance policy, certificate, or contract
8 that:

9 a. Is purchased by an employer for the benefit of an
10 employee or by a resident individual for his or her benefit.

11 b. Provides for payment of covered expenses that
12 exceed the higher deductible, but shall not exceed the maximum
13 out-of-pocket expenses of three thousand dollars (\$3,000) for
14 individual coverage and five thousand five hundred dollars
15 (\$5,500) for family coverage.

16 (12) RESIDENT INDIVIDUAL. An individual who has a
17 domicile in this state.

18 Section 3. (a) Each employer may offer the following
19 programs:

20 (1) Continued coverage under the employer's existing
21 health coverage policy, certificate, or contract.

22 (2) Participation in a medical savings account
23 program.

24 (b) An employer that previously did not provide an
25 accident and health insurance policy, certificate, or contract
26 for his or her employees may establish a medical savings
27 account program, and the premium reduction referred to in

1 subdivision (10) of Section 2 shall be based on the cost of
2 similar coverage with a five hundred dollar (\$500) deductible.

3 (c) A resident individual may establish a medical
4 savings account for the benefit of himself or herself and his
5 or her dependents. Contributions to a medical savings account
6 established by a resident individual for a tax year shall not
7 exceed the allowable deductible for a qualified higher
8 deductible health plan.

9 (d) Except as otherwise provided by law, the
10 principal contributed and the interest earned on a medical
11 savings account shall be excluded from the taxable gross
12 income of the account holder.

13 Section 4. (a) Except as otherwise provided in
14 Section 5, an account administrator shall use the funds held
15 in a medical savings account solely for the purpose of paying
16 eligible medical expenses of the account holder, or his or her
17 dependent, or to pay for an accident and health insurance
18 policy, certificate, or contract if the account holder would
19 not otherwise have accident and health insurance coverage.

20 (b) The account holder may submit documentation for
21 eligible medical expenses paid by the account holder during a
22 tax year to the account administrator, and the account
23 administrator shall reimburse the account holder for the
24 eligible medical expenses out of the medical savings account.

25 (c) Upon the death of the account holder, the
26 account administrator shall distribute the principal and
27 accumulated interest of the medical savings account to the

1 estate of the account holder, unless the account holder has
2 designated a beneficiary in writing to the account
3 administrator, in which case the account administrator shall
4 make the distribution to the designated beneficiary.

5 Section 5. Unencumbered funds that have accumulated
6 in a medical savings account in excess of the higher
7 deductible may be withdrawn by the account holder for purposes
8 other than paying eligible medical expenses or procuring
9 health coverage. Money withdrawn pursuant to this section
10 shall be considered gross income as provided in Section
11 40-18-14, Code of Alabama 1975.

12 Section 6. This act shall become effective on the
13 first day of the third month following its passage and
14 approval by the Governor, or its otherwise becoming law.