

Reprinted

MAR 10 1995

HOUSE FILE 373

WAYS & MEANS CALENDAR

BY COMMITTEE ON WAYS AND MEANS

(SUCCESSOR TO HSB 190)

Passed House, ^(P. 1605) Date 4-17-95 Passed Senate, Date _____
 Vote: Ayes 84 Nays 13 Vote: Ayes _____ Nays _____
 Approved _____

A BILL FOR

1 An Act relating to establishing family health accounts and a
 2 state pilot project and providing applicability and effective
 3 date provisions.

4 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:

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HF 373

1 Section 1. Section 422.7, Code 1995, is amended by adding
2 the following new subsections:

3 NEW SUBSECTION. 32. Subtract up to one thousand eight
4 hundred dollars contributed by the individual, the
5 individual's employer, or a public agency, in the aggregate to
6 a family health account for the individual, or up to four
7 thousand two hundred dollars contributed by the individual,
8 the individual's employer, or a public agency, in the
9 aggregate to a family health account for the individual and
10 the individual's spouse and dependents. However, the amount
11 to be subtracted shall be reduced, but not below zero, by the
12 amount of health insurance premiums paid by the taxpayer's
13 employer covering the taxpayer or the taxpayer's spouse or
14 dependent which premiums were not subject to state income tax.

15 NEW SUBSECTION. 33. Subtract to the extent included,
16 interest earned in the tax year on a family health account
17 unless the interest is withdrawn and not used for any of the
18 approved purposes described in section 505.22, subsection 1,
19 paragraph "f".

20 NEW SUBSECTION. 34. Add to the extent not included,
21 amounts withdrawn from a family health account which were not
22 used for any of the approved purposes described in section
23 505.22, subsection 1, paragraph "f", and which represent tax
24 benefits previously taken by the individual.

25 Sec. 2. NEW SECTION. 505.22 FAMILY HEALTH ACCOUNT
26 AUTHORIZED.

27 1. A financial instrument known as the family health
28 account is established. A family health account shall have
29 all of the following characteristics:

30 a. The account is kept in the name of the individual, the
31 individual's spouse, or the individual's dependent.

32 b. Deposits of up to one thousand eight hundred dollars
33 for an individual and four thousand two hundred dollars for an
34 individual and the individual's spouse or dependents can be
35 made to the family health account in the year.

1 c. The account earns income or interest.

2 d. In the case of death of an individual with a family
3 health account, the balance may be transferred to the account
4 of the spouse or dependent or an account may be set up for the
5 spouse or dependent. The balance of an individual's family
6 health account that transfers to the spouse or dependent at
7 the time of death is not subject to the state inheritance tax.

8 e. A family health account may be used for any of the
9 following purposes and payments from the account are
10 restricted to the following:

11 (1) To receive subsidies from the state or federal
12 government to assure access to health insurance or health
13 care.

14 (2) To receive contributions from employers and others on
15 a tax-exempt basis to the extent otherwise permitted by state
16 or federal income tax law.

17 (3) To receive deposits of pretax income to provide a
18 savings vehicle for future insurance premium, copayment, and
19 deductible requirements.

20 (4) To accrue interest income on a tax-exempt or tax-
21 deferred basis to the extent otherwise permitted by state or
22 federal income tax law.

23 (5) To purchase a private health plan from an insurer,
24 health maintenance organization, or organized delivery system
25 authorized to do business in Iowa, either directly or through
26 a health insurance purchasing cooperative.

27 (6) To participate in an employer-sponsored health benefit
28 plan.

29 (7) To exercise rights through an employer-sponsored
30 health benefit plan provided under the federal Consolidated
31 Omnibus Budget Reconciliation Act of 1986.

32 (8) To make payments to health care providers necessary to
33 satisfy copayment or deductible requirements under a health
34 plan.

35 (9) To make payments to licensed health care providers.

1 (10) To make payments for necessary and appropriate long-
2 term care services, and long-term care insurance coverage
3 approved by the commissioner.

4 f. Amounts withdrawn for any of the following approved
5 purposes do not result in income to the holder of a family
6 health account:

7 Payment of costs identified under paragraph "e",
8 subparagraphs (5), (6), (7), (8), (9), and (10), for the
9 individual, the individual's spouse, and the individual's
10 dependents to the extent that the expenditures qualify for the
11 deduction for medical care under section 213(a) of the
12 Internal Revenue Code without regard to whether the
13 expenditures exceed seven and one-half percent of the
14 individual's federal adjusted gross income. However, any
15 expenditure for an approved purpose which is paid from the
16 family health account shall not be deducted as a medical
17 expense under section 422.9, subsection 2, or as health
18 insurance costs of self-employed individuals under section
19 162(1) of the Internal Revenue Code.

20 g. A financial institution holding a family health account
21 shall make an annual report to the department of revenue and
22 finance on contributions and withdrawals to the account in the
23 year pursuant to rules of the department.

24 h. A financial institution administering a family health
25 account shall be able to process claims against the account
26 electronically subject to reasonable terms and conditions as
27 determined by the insurance division and consistent with the
28 requirements of the community health management information
29 system.

30 i. If an individual makes a withdrawal from the
31 individual's family health account in the tax year and the
32 withdrawal is not for one of the purposes described in
33 paragraph "f", a civil penalty of ten percent shall be imposed
34 on the amount withdrawn pursuant to rules of the department.

35 2. As a condition of maintaining a family health account

1 the individual or family must secure and maintain a health
2 benefit plan. The plan must provide for copayments,
3 deductibles, or out-of-pocket maximums consistent with the
4 average balance of the family health account.

5 3. As used in this section, unless the context otherwise
6 requires:

7 a. "Account holder" means an individual for whose benefit
8 a family health account is established.

9 b. "Dependent" means the same as defined in section 152 of
10 the Internal Revenue Code.

11 c. "Financial institution" means a private insurer, health
12 maintenance organization, organized delivery system, health
13 insurance purchasing cooperative, or a financial institution
14 approved by the insurance division as an investment mechanism
15 for family health accounts and licensed to do business in this
16 state.

17 d. "Internal Revenue Code" means the same as defined in
18 section 422.3.

19 Sec. 3. FAMILY HEALTH ACCOUNTS -- STATE PILOT PROJECT.

20 1. The department of personnel shall develop and implement
21 a pilot project making the provisions of a family health
22 account, in accordance with section 2 of this Act, available
23 to employees of the state. The family health account shall be
24 available to an employee participating in the pilot project in
25 lieu of state group health insurance available to the employee
26 under chapter 509A.

27 2. In addition to the family health account provisions
28 under section 2 of this Act, the department shall consider and
29 include as part of the pilot project any of the following
30 provisions deemed prudent by the department:

31 a. Providing an opportunity for the employee to buy into a
32 state group insurance plan under chapter 509A from the
33 employee's family health account.

34 b. Providing catastrophic loss coverage.

35 c. Allowing the account to be used for preventive health

1 purchases such as fitness, smoking cessation, and weight loss
2 classes.

3 d. Providing options for those ancillary health purchases
4 available under the state's group health insurance plans,
5 including but not limited to purchases of prescription drugs,
6 vision care, and dental care.

7 3. The department shall implement the pilot project
8 beginning January 1, 1996. The department shall present the
9 pilot project design on or before October 1, 1995, to the
10 fiscal committee of the legislative council.

11 Sec. 4. Sections 1 and 2 of this Act take effect January
12 1, 1996, for tax years beginning on or after that date.

13 EXPLANATION

14 This bill allows a deduction for amounts of contributions
15 to a family health account. In addition, the bill allows a
16 deduction from adjusted gross income for the interest earned
17 on a family health account to the extent not withdrawn or not
18 used for a nonapproved purpose.

19 New section 505.22 is created which establishes family
20 health accounts to provide for the payment of health care
21 costs for certain individuals.

22 The bill also directs the department of personnel to
23 establish a pilot project by January 1996 which would make the
24 provisions of family health accounts available to state
25 employees in lieu of the state group health insurance
26 available to them.

27 Except for the establishment of the state pilot project,
28 the bill is effective January 1, 1996, for tax years beginning
29 on or after that date.

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HOUSE FILE 373

H-3380

- 1 Amend House File 373 as follows:
- 2 1. Page 1, line 3, by striking the figure "32."
- 3 and inserting the following: "32A."
- 4 2. Page 3, line 17, by striking the word "or".
- 5 3. Page 3, line 19, by inserting after the word
- 6 "Code" the following: ", or as costs of health
- 7 benefits coverage or insurance under section 422.7,
- 8 subsection 32, as enacted by 1995 Iowa Acts, Senate
- 9 File 84, section 1".
- 10 4. Page 4, line 20, by striking the word "shall"
- 11 and inserting the following: "may".
- 12 5. Page 5, line 7, by striking the word "The" and
- 13 inserting the following: "If the department decides
- 14 to develop and implement a pilot project, the".
- 15 6. Page 5, line 8, by striking the word ". The"
- 16 and inserting the following: "and the".

By HALVORSON of Clayton

H-3380 FILED MARCH 21, 1995

Adopted 4-17-95
(P 1602)

HOUSE FILE 373

H-3592

- 1 Amend House File 373 as follows:
- 2 1. Page 5, by striking lines 7 through 12 and
- 3 inserting the following:
- 4 "Sec. ____ . This Act is effective upon the
- 5 enactment of a federal individual income tax provision
- 6 authorizing the deduction in computing federal
- 7 adjusted gross income of all or a portion of the
- 8 moneys contributed to a family health account or
- 9 similar account. Section 1 of this Act applies to tax
- 10 years designated in the federal enactment of the
- 11 family health account contribution deduction."

By WEIGEL of Chickasaw

H-3592 FILED MARCH 29, 1995

Lost 4-17-95 (P. 1605)

HOUSE FILE 373

H-3729

- 1 Amend House File 373 as follows:
- 2 1. Page 1, by inserting after line 14 the
- 3 following: "The deduction for contributions to a
- 4 family health account is allowed if the net income is
- 5 sixty thousand dollars or less. In the case of a
- 6 married individual, the combined net income of both
- 7 spouses shall be considered."

By RUNNING of Linn

H-3729 FILED APRIL 4, 1995

Lost 4-17-95 (P. 1603)

HOUSE FILE 373

H-3421

1 Amend House File 373 as follows:

2 1. Page 1, by inserting after line 24 the
3 following:

4 "NEW SUBSECTION. 35. Subtract the amount of
5 premiums paid by the taxpayer for the renewal of a
6 long-term care insurance policy or contract certified
7 by the division of insurance pursuant to chapter 249G
8 which covers the taxpayer, taxpayer's spouse, or
9 dependent children. The taxpayer may elect to take
10 for premiums paid during the tax year the deduction
11 authorized by this subsection or the credit under
12 section 422.11."

13 2. Page 1, by inserting before line 25 the
14 following:

15 "Sec. 100. NEW SECTION. 422.11 LONG-TERM CARE
16 INSURANCE CREDIT.

17 The tax imposed under this division, less the
18 credits allowed under sections 422.11A, 422.11B,
19 422.11C, 422.12, and 422.12B, shall be reduced by a
20 long-term care insurance credit. The amount of the
21 credit is equal to the first one hundred dollars paid
22 in premiums by the taxpayer during the tax year for
23 the renewal of a long-term care insurance policy or
24 contract certified by the division of insurance
25 pursuant to chapter 249G which covers the taxpayer,
26 taxpayer's spouse, or dependent children. Any amounts
27 paid in premiums for long-term coverage that are
28 claimed as a credit shall not be deducted as a medical
29 expense under section 422.9, subsection 2, or as
30 health insurance costs of self-employed individuals
31 under section 162(1) of the Internal Revenue Code. A
32 credit under this section for the premiums paid in the
33 tax year may not be taken if the taxpayer takes a
34 deduction under section 422.7, subsection 35, for
35 those premiums.

36 Any credit in excess of the tax liability for the
37 tax year is refundable. In lieu of claiming a refund,
38 the taxpayer may elect to have the overpayment shown
39 on the taxpayer's final, completed return credited to
40 the tax liability for the following tax year."

41 3. Page 5, line 11, by inserting after the figure
42 "1" the following: ", 100,".

By GREIG of Emmet

H-3421 FILED MARCH 22, 1995

WITHDRAWN

(P.1603)

4-17-95

H-3955

1 Amend House File 373 as follows:

2 1. Page 1, by inserting after line 24 the
3 following:

4 "NEW SUBSECTION. 35. Subtract the amount of
5 premiums paid by the taxpayer for the renewal of a
6 long-term care insurance policy or contract certified
7 by the division of insurance pursuant to chapter 249G
8 which covers the taxpayer, taxpayer's spouse, or
9 dependent children. The taxpayer may elect to take
10 for premiums paid during the tax year the deduction
11 authorized by this subsection or the credit under
12 section 422.11 to the extent the premiums have not
13 been deducted in subsection 32 of this section."

14 2. Page 1, by inserting before line 25 the
15 following:

16 "Sec. 100. NEW SECTION. 422.11 LONG-TERM CARE
17 INSURANCE CREDIT.

18 The tax imposed under this division, less the
19 credits allowed under sections 422.11A, 422.11B,
20 422.11C, 422.12, and 422.12B, shall be reduced by a
21 long-term care insurance credit. The amount of the
22 credit is equal to the first one hundred dollars paid
23 in premiums by the taxpayer during the tax year for
24 the renewal of a long-term care insurance policy or
25 contract certified by the division of insurance
26 pursuant to chapter 249G which covers the taxpayer,
27 taxpayer's spouse, or dependent children. Any amounts
28 paid in premiums for long-term coverage that are
29 claimed as a credit shall not be deducted as a medical
30 expense under section 422.9, subsection 2, or as
31 health insurance costs of self-employed individuals
32 under section 162(1) of the Internal Revenue Code. A
33 credit under this section for the premiums paid in the
34 tax year may not be taken if the taxpayer takes a
35 deduction under section 422.7, subsection 35, for
36 those premiums.

37 Any credit in excess of the tax liability for the
38 tax year is refundable. In lieu of claiming a refund,
39 the taxpayer may elect to have the overpayment shown
40 on the taxpayer's final, completed return credited to
41 the tax liability for the following tax year."

42 3. Page 5, line 11, by inserting after the figure
43 "1" the following: ", 100,".

By GREIG of Emmet

H-3955 FILED APRIL 17, 1995

ADOPTED

(P. 1604)

5-4/18/95 Ways and Means

HOUSE FILE 373
BY COMMITTEE ON WAYS AND MEANS

(SUCCESSOR TO HSB 190)

(As Amended and Passed by the House April 17, 1995)

Passed House, Date _____ Passed Senate, Date _____
Vote: Ayes _____ Nays _____ Vote: Ayes _____ Nays _____
Approved _____

A BILL FOR

1 An Act relating to establishing family health accounts and a
2 state pilot project and providing applicability and effective
3 date provisions.

4 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:

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House Amendments _____
Deleted Language *

1 Section 1. Section 422.7, Code 1995, is amended by adding
2 the following new subsections:

3 NEW SUBSECTION. 32A. Subtract up to one thousand eight
4 hundred dollars contributed by the individual, the
5 individual's employer, or a public agency, in the aggregate to
6 a family health account for the individual, or up to four
7 thousand two hundred dollars contributed by the individual,
8 the individual's employer, or a public agency, in the
9 aggregate to a family health account for the individual and
10 the individual's spouse and dependents. However, the amount
11 to be subtracted shall be reduced, but not below zero, by the
12 amount of health insurance premiums paid by the taxpayer's
13 employer covering the taxpayer or the taxpayer's spouse or
14 dependent which premiums were not subject to state income tax.

15 NEW SUBSECTION. 33. Subtract to the extent included,
16 interest earned in the tax year on a family health account
17 unless the interest is withdrawn and not used for any of the
18 approved purposes described in section 505.22, subsection 1,
19 paragraph "f".

20 NEW SUBSECTION. 34. Add to the extent not included,
21 amounts withdrawn from a family health account which were not
22 used for any of the approved purposes described in section
23 505.22, subsection 1, paragraph "f", and which represent tax
24 benefits previously taken by the individual.

25 NEW SUBSECTION. 35. Subtract the amount of premiums paid
26 by the taxpayer for the renewal of a long-term care insurance
27 policy or contract certified by the division of insurance
28 pursuant to chapter 249G which covers the taxpayer, taxpayer's
29 spouse, or dependent children. The taxpayer may elect to take
30 for premiums paid during the tax year the deduction authorized
31 by this subsection or the credit under section 422.11 to the
32 extent the premiums have not been deducted in subsection 32 of
33 this section.

34 Sec. 2. NEW SECTION. 422.11 LONG-TERM CARE INSURANCE
35 CREDIT.

1 The tax imposed under this division, less the credits
2 allowed under sections 422.11A, 422.11B, 422.11C, 422.12, and
3 422.12B, shall be reduced by a long-term care insurance
4 credit. The amount of the credit is equal to the first one
5 hundred dollars paid in premiums by the taxpayer during the
6 tax year for the renewal of a long-term care insurance policy
7 or contract certified by the division of insurance pursuant to
8 chapter 249G which covers the taxpayer, taxpayer's spouse, or
9 dependent children. Any amounts paid in premiums for long-
10 term coverage that are claimed as a credit shall not be
11 deducted as a medical expense under section 422.9, subsection
12 2, or as health insurance costs of self-employed individuals
13 under section 162(1) of the Internal Revenue Code. A credit
14 under this section for the premiums paid in the tax year may
15 not be taken if the taxpayer takes a deduction under section
16 422.7, subsection 35, for those premiums.

17 Any credit in excess of the tax liability for the tax year
18 is refundable. In lieu of claiming a refund, the taxpayer may
19 elect to have the overpayment shown on the taxpayer's final,
20 completed return credited to the tax liability for the
21 following tax year.

22 Sec. 3. NEW SECTION. 505.22 FAMILY HEALTH ACCOUNT
23 AUTHORIZED.

24 1. A financial instrument known as the family health
25 account is established. A family health account shall have
26 all of the following characteristics:

27 a. The account is kept in the name of the individual, the
28 individual's spouse, or the individual's dependent.

29 b. Deposits of up to one thousand eight hundred dollars
30 for an individual and four thousand two hundred dollars for an
31 individual and the individual's spouse or dependents can be
32 made to the family health account in the year.

33 c. The account earns income or interest.

34 d. In the case of death of an individual with a family
35 health account, the balance may be transferred to the account

1 of the spouse or dependent or an account may be set up for the
2 spouse or dependent. The balance of an individual's family
3 health account that transfers to the spouse or dependent at
4 the time of death is not subject to the state inheritance tax.

5 e. A family health account may be used for any of the
6 following purposes and payments from the account are
7 restricted to the following:

- 8 (1) To receive subsidies from the state or federal
9 government to assure access to health insurance or health
10 care.
- 11 (2) To receive contributions from employers and others on
12 a tax-exempt basis to the extent otherwise permitted by state
13 or federal income tax law.
- 14 (3) To receive deposits of pretax income to provide a
15 savings vehicle for future insurance premium, copayment, and
16 deductible requirements.
- 17 (4) To accrue interest income on a tax-exempt or tax-
18 deferred basis to the extent otherwise permitted by state or
19 federal income tax law.
- 20 (5) To purchase a private health plan from an insurer,
21 health maintenance organization, or organized delivery system
22 authorized to do business in Iowa, either directly or through
23 a health insurance purchasing cooperative.
- 24 (6) To participate in an employer-sponsored health benefit
25 plan.
- 26 (7) To exercise rights through an employer-sponsored
27 health benefit plan provided under the federal Consolidated
28 Omnibus Budget Reconciliation Act of 1986.
- 29 (8) To make payments to health care providers necessary to
30 satisfy copayment or deductible requirements under a health
31 plan.
- 32 (9) To make payments to licensed health care providers.
- 33 (10) To make payments for necessary and appropriate long-
34 term care services, and long-term care insurance coverage
35 approved by the commissioner.

1 f. Amounts withdrawn for any of the following approved
2 purposes do not result in income to the holder of a family
3 health account:

4 Payment of costs identified under paragraph "e",
5 subparagraphs (5), (6), (7), (8), (9), and (10), for the
6 individual, the individual's spouse, and the individual's
7 dependents to the extent that the expenditures qualify for the
8 deduction for medical care under section 213(a) of the
9 Internal Revenue Code without regard to whether the
10 expenditures exceed seven and one-half percent of the
11 individual's federal adjusted gross income. However, any
12 expenditure for an approved purpose which is paid from the
13 family health account shall not be deducted as a medical
*14 expense under section 422.9, subsection 2, as health insurance
15 costs of self-employed individuals under section 162(1) of the
16 Internal Revenue Code, or as costs of health benefits coverage
17 or insurance under section 422.7, subsection 32, as enacted by
18 1995 Iowa Acts, Senate File 84, section 1.

19 g. A financial institution holding a family health account
20 shall make an annual report to the department of revenue and
21 finance on contributions and withdrawals to the account in the
22 year pursuant to rules of the department.

23 h. A financial institution administering a family health
24 account shall be able to process claims against the account
25 electronically subject to reasonable terms and conditions as
26 determined by the insurance division and consistent with the
27 requirements of the community health management information
28 system.

29 i. If an individual makes a withdrawal from the
30 individual's family health account in the tax year and the
31 withdrawal is not for one of the purposes described in
32 paragraph "f", a civil penalty of ten percent shall be imposed
33 on the amount withdrawn pursuant to rules of the department.

34 2. As a condition of maintaining a family health account
35 the individual or family must secure and maintain a health

1 benefit plan. The plan must provide for copayments,
2 deductibles, or out-of-pocket maximums consistent with the
3 average balance of the family health account.

4 3. As used in this section, unless the context otherwise
5 requires:

6 a. "Account holder" means an individual for whose benefit
7 a family health account is established.

8 b. "Dependent" means the same as defined in section 152 of
9 the Internal Revenue Code.

10 c. "Financial institution" means a private insurer, health
11 maintenance organization, organized delivery system, health
12 insurance purchasing cooperative, or a financial institution
13 approved by the insurance division as an investment mechanism
14 for family health accounts and licensed to do business in this
15 state.

16 d. "Internal Revenue Code" means the same as defined in
17 section 422.3.

18 Sec. 4. FAMILY HEALTH ACCOUNTS -- STATE PILOT PROJECT.

19 1. The department of personnel may develop and implement a
20 pilot project making the provisions of a family health
21 account, in accordance with section 3 of this Act, available
22 to employees of the state. The family health account shall be
23 available to an employee participating in the pilot project in
24 lieu of state group health insurance available to the employee
25 under chapter 509A.

26 2. In addition to the family health account provisions
27 under section 3 of this Act, the department shall consider and
28 include as part of the pilot project any of the following
29 provisions deemed prudent by the department:

30 a. Providing an opportunity for the employee to buy into a
31 state group insurance plan under chapter 509A from the
32 employee's family health account.

33 b. Providing catastrophic loss coverage.

34 c. Allowing the account to be used for preventive health
35 purchases such as fitness, smoking cessation, and weight loss

1 classes.

2 d. Providing options for those ancillary health purchases
3 available under the state's group health insurance plans,
4 including but not limited to purchases of prescription drugs,
5 vision care, and dental care.

6 3. If the department decides to develop and implement a
7 pilot project, the department shall implement the pilot
8 project beginning January 1, 1996 and the department shall
9 present the pilot project design on or before October 1, 1995,
10 to the fiscal committee of the legislative council.

11 Sec. 5. Sections 1, 2, and 3 of this Act take effect
12 January 1, 1996, for tax years beginning on or after that
13 date.

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HSB 190

WAYS AND MEANS

Succeeded by

HOUSE FILE _____

BY (PROPOSED COMMITTEE ON
WAYS AND MEANS BILL BY
CHAIRPERSON HALVORSON)

Halvorson, Ch
Derkla
Greg
Bertram
Meyer

Passed House, Date _____

Passed Senate, Date _____

Vote: Ayes _____ Nays _____

Vote: Ayes _____ Nays _____

Approved _____

A BILL FOR

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2 the following new subsections:

3 NEW SUBSECTION. 32. Subtract up to one thousand eight
4 hundred dollars contributed by the individual, the
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10 the individual's spouse and dependents. However, the amount
11 to be subtracted shall be reduced, but not below zero, by the
12 amount of health insurance premiums paid by the taxpayer's
13 employer covering the taxpayer or the taxpayer's spouse or
14 dependent which premiums were not subject to state income tax.
15 The deduction for contributions to a family health account is
16 allowed if the net income is forty thousand dollars or less in
17 the case of a married individual, an unmarried head of
18 household, or a surviving spouse or the net income is thirty
19 thousand dollars or less in the case of all other persons. In
20 the case of a married individual, the combined net income of
21 both spouses shall be considered.

22 NEW SUBSECTION. 33. Subtract to the extent included,
23 interest earned in the tax year on a family health account
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25 savings vehicle for future insurance premium, copayment, and
26 deductible requirements.

27 (4) To accrue interest income on a tax-exempt or tax-
28 deferred basis to the extent otherwise permitted by state and
29 federal income tax law.

30 (5) To purchase a private health plan from an insurer,
31 health maintenance organization, or organized delivery system
32 authorized to do business in Iowa, either directly or through
33 a health insurance purchasing cooperative.

34 (6) To participate in an employer-sponsored health benefit
35 plan.

1 (7) To exercise rights through an employer-sponsored
2 health benefit plan provided under the federal Consolidated
3 Omnibus Budget Reconciliation Act of 1986.

4 (8) To make payments to health care providers necessary to
5 satisfy copayment or deductible requirements under a health
6 plan.

7 (9) To make payments to licensed health care providers.

8 (10) To make payments for necessary and appropriate long-
9 term care services, and long-term care insurance coverage
10 approved by the commissioner.

11 f. Amounts withdrawn for any of the following approved
12 purposes do not result in income to the holder of a family
13 health account:

14 Payment of costs identified under paragraph "e",
15 subparagraphs (5), (6), (7), (8), (9), and (10), for the
16 individual, the individual's spouse, and the individual's
17 dependent to the extent that the expenditures qualify for the
18 deduction for medical care under section 213(a) of the
19 Internal Revenue Code without regard to whether the
20 expenditures exceed seven and one-half percent of the
21 individual's federal adjusted gross income. However, any
22 expenditure for an approved purpose which is paid from the
23 family health account shall not be deducted as a medical
24 expense under section 422.9, subsection 2, or as health
25 insurance costs of self-employed individuals under section
26 162(1) of the Internal Revenue Code.

27 g. A financial institution holding a family health account
28 shall make an annual report to the department of revenue and
29 finance on contributions and withdrawals to the account in the
30 year pursuant to rules of the department.

31 h. A financial institution administering a family health
32 account shall be able to process claims against the account
33 electronically subject to reasonable terms and conditions as
34 determined by the insurance division and consistent with the
35 requirements of the community health management information

1 system.

2 i. If an individual makes a withdrawal from the
3 individual's family health account in the tax year and the
4 withdrawal is not for one of the purposes described in
5 paragraph "f", a civil penalty of ten percent shall be imposed
6 on the amount withdrawn pursuant to rules of the department.

7 2. As a condition of maintaining a family health account
8 the individual or family must secure and maintain a health
9 benefit plan. The plan must provide for copayments,
10 deductibles, or out-of-pocket maximums consistent with the
11 average balance of the family health account.

12 3. As used in this section, unless the context otherwise
13 requires:

14 a. "Account holder" means an individual for whose benefit
15 a family health account is established.

16 b. "Dependent" means the same as defined in section 152 of
17 the Internal Revenue Code.

18 c. "Financial institution" means a private insurer, health
19 maintenance organization, organized delivery system, health
20 insurance purchasing cooperative, or a financial institution
21 approved by the insurance division as an investment mechanism
22 for family health accounts and licensed to do business in this
23 state.

24 d. "Internal Revenue Code" means the same as defined in
25 section 422.3.

26 Sec. 3. This Act takes effect January 1, 1996, for tax
27 years beginning on or after that date.

28 EXPLANATION

29 This bill allows a deduction for amounts of contributions
30 to a family health account. In addition, the bill allows a
31 deduction from adjusted gross income for the interest earned
32 on a family health account to the extent not withdrawn or not
33 used for a nonapproved purpose.

34 New section 505.22 is created which establishes family
35 health accounts to provide for the payment of health care

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1 costs for certain individuals.

2 The bill is effective January 1, 1996, for tax years
3 beginning on or after that date.

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