The Daily Dish

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DOUGLAS HOLTZ-EAKIN | DECEMBER 17, 2014

The final vote on a tax extenders bill ended up being a bipartisan affair. Yesterday, the Senate passed a $41.6 billion package of tax breaks with 78 ‘aye’ votes. The bill includes provisions ranging from an “R&D tax break to breaks for NASCAR, racehorse owners and wind farms”. It further includes the mortgage interest premium deduction, the teacher-purchased school supplies deduction and a host of others.

Congress will be leaving without reauthorizing the Terrorism Risk Insurance Act (TRIA), which will expire December 31. As Douglas Holtz-Eakin has described, “the basic problem is that terrorism risk insurance dried up after 9/11. The data are quite clear that few policies were offered, and fewer still at 'reasonable' rates. Would that happen again in the absence of TRIA?”

Incoming Senate Majority Leader Mitch McConnell announced that a vote on Keystone XL will be the first issue the new Senate will take up. He told reporters, “We'll be starting next year with a job-creating bill that enjoys significant bipartisan support.” AAF research found that *not* building Keystone could lead to 7.4 million additional tons of CO2 to be released and nearly 1 million gallons of crude to be spilled.

Eakinomics: Incentives and Health Care Spending — the Case of HSAs

The recent slowdown in the growth rate of national health care spending has been a bit of good news, with only the danger that the slowdown will be reversed (as has happened in the past). Many have tried to attribute the slowdown to Obamacare's delivery system reforms, a claim nicely dissected by Jim Capretta. More likely, the slowdown in part reflects the diffusion of stronger incentives like copays, deductibles, and — in particular — Health Savings Accounts (HSAs).

As laid out by Brittany La Couture in an AAF primer, HSAs are a form of bank account in which an individual (or employer on behalf of the individual) can deposit money that is deductible from taxes. In this way, HSAs have the same tax advantages as the more-familiar IRAs. However, individuals qualify for the HSA only if they are enrolled in a high-deductible health insurance plan (HDHP). In 2014, high deductible plans were defined as plans with deductibles above $1,250 for an individual, and $2,500 for a family. Individuals and their employers may contribute any amount up to $3,300 ($6,550 for families) per year into an HSA (the out of pocket max may not exceed $6,350 for individuals or $12,700 for families in these plans).

The money in the HSA can be used to pay qualified medical expenses — in particular those expenses before the deductible is exhausted. Unused money, however, rolls over from year to year, is portable from job to job, and accumulates tax-free.

Some critics of HSAs mistakenly think the goal is to expose families to large out-of-pocket costs; far from it. The major incentive in HSAs is to pay for the HDHP costs with the HSA, but to recognize that overpaying for health care cuts the amount of tax-free accumulation. The ownership of the money is the key health spending incentive. HSAs are a sensible incentive that have probably contributed to the slowdown in health care spending. Many felt that Obamacare's regulations would mean the death of the HSA, but many of the so-called bronze plans and an increasing number of the silver plans are HSAs, so the good news will continue.

From the Forum

Health Savings Accounts and the Affordable Care Act by Brittany La Couture, AAF Health Care Policy Analyst