

112TH CONGRESS  
1ST SESSION

# S. 1098

To amend the Internal Revenue Code of 1986 to improve access to health care through expanded health savings accounts, and for other purposes.

---

IN THE SENATE OF THE UNITED STATES

MAY 26, 2011

Mr. HATCH (for himself and Mr. RUBIO) introduced the following bill; which was read twice and referred to the Committee on Finance

---

## A BILL

To amend the Internal Revenue Code of 1986 to improve access to health care through expanded health savings accounts, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*  
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE, ETC.**

4 (a) **SHORT TITLE.**—This Act may be cited as the  
5 “Family and Retirement Health Investment Act of 2011”.

6 (b) **AMENDMENT OF 1986 CODE.**—Except as other-  
7 wise expressly provided, whenever in this Act an amend-  
8 ment or repeal is expressed in terms of an amendment  
9 to, or repeal of, a section or other provision, the reference

1 shall be considered to be made to a section or other provi-  
 2 sion of the Internal Revenue Code of 1986.

3 (c) TABLE OF CONTENTS.—The table of contents is  
 4 as follows:

Sec. 1. Short title, etc.

TITLE I—PROVISIONS RELATING TO TAX-PREFERRED HEALTH  
 ACCOUNTS

Sec. 101. Allow both spouses to make catch-up contributions to the same HSA  
 account.

Sec. 102. Provisions relating to Medicare.

Sec. 103. Individuals eligible for veterans benefits for a service-connected dis-  
 ability.

Sec. 104. Individuals eligible for Indian Health Service assistance.

Sec. 105. Individuals eligible for TRICARE coverage.

Sec. 106. Health FSA carryforwards.

Sec. 107. FSA and HRA interaction with HSAs.

Sec. 108. Allowance of distributions for prescription and over-the-counter medi-  
 cines and drugs.

Sec. 109. Purchase of health insurance from HSA account.

Sec. 110. Special rule for certain medical expenses incurred before establish-  
 ment of account.

Sec. 111. Preventive care prescription drug clarification.

Sec. 112. Equivalent bankruptcy protections for health savings accounts as re-  
 tirement funds.

Sec. 113. Administrative error correction before due date of return.

Sec. 114. Reauthorization of medicaid health opportunity accounts.

TITLE II—OTHER PROVISIONS

Sec. 121. Certain exercise equipment and physical fitness programs treated as  
 medical care.

Sec. 122. Certain nutritional and dietary supplements to be treated as medical  
 care.

Sec. 123. Certain provider fees to be treated as medical care.

Sec. 124. Repeal of annual limitations on deductibles for employer-sponsored  
 plans offered in small group market.

1 **TITLE I—PROVISIONS RELATING**  
2 **TO TAX-PREFERRED HEALTH**  
3 **ACCOUNTS**

4 **SEC. 101. ALLOW BOTH SPOUSES TO MAKE CATCH-UP CON-**  
5 **TRIBUTIONS TO THE SAME HSA ACCOUNT.**

6 (a) IN GENERAL.—Paragraph (3) of section 223(b)  
7 is amended by adding at the end the following new sub-  
8 paragraph:

9 “(C) SPECIAL RULE WHERE BOTH  
10 SPOUSES ARE ELIGIBLE INDIVIDUALS WITH 1  
11 ACCOUNT.—If—

12 “(i) an individual and the individual’s  
13 spouse have both attained age 55 before  
14 the close of the taxable year, and

15 “(ii) the spouse is not an account ben-  
16 eficiary of a health savings account as of  
17 the close of such year,

18 the additional contribution amount shall be 200  
19 percent of the amount otherwise determined  
20 under subparagraph (B).”.

21 (b) EFFECTIVE DATE.—The amendment made by  
22 this section shall apply to taxable years beginning after  
23 the date of the enactment of this Act.

1 **SEC. 102. PROVISIONS RELATING TO MEDICARE.**

2 (a) INDIVIDUALS OVER AGE 65 ONLY ENROLLED IN  
 3 MEDICARE PART A.—Paragraph (7) of section 223(b) is  
 4 amended by adding at the end the following: “This para-  
 5 graph shall not apply to any individual during any period  
 6 for which the individual’s only entitlement to such benefits  
 7 is an entitlement to hospital insurance benefits under part  
 8 A of title XVIII of such Act pursuant to an enrollment  
 9 for such hospital insurance benefits under section  
 10 226(a)(1) of such Act.”.

11 (b) MEDICARE BENEFICIARIES PARTICIPATING IN  
 12 MEDICARE ADVANTAGE MSA MAY CONTRIBUTE THEIR  
 13 OWN MONEY TO THEIR MSA.—Subsection (b) of section  
 14 138 is amended by striking paragraph (2) and by redesi-  
 15 gnating paragraphs (3) and (4) as paragraphs (2) and (3),  
 16 respectively.

17 (c) EFFECTIVE DATE.—The amendments made by  
 18 this section shall apply to taxable years beginning after  
 19 the date of the enactment of this Act.

20 **SEC. 103. INDIVIDUALS ELIGIBLE FOR VETERANS BENE-**  
 21 **FITS FOR A SERVICE-CONNECTED DIS-**  
 22 **ABILITY.**

23 (a) IN GENERAL.—Paragraph (1) of section 223(c)  
 24 is amended by adding at the end the following new sub-  
 25 paragraph:

1           “(C) SPECIAL RULE FOR INDIVIDUALS ELI-  
2           GIBLE FOR CERTAIN VETERANS BENEFITS.—  
3           For purposes of subparagraph (A)(ii), an indi-  
4           vidual shall not be treated as covered under a  
5           health plan described in such subparagraph  
6           merely because the individual receives periodic  
7           hospital care or medical services for a service-  
8           connected disability under any law administered  
9           by the Secretary of Veterans Affairs but only if  
10          the individual is not eligible to receive such care  
11          or services for any condition other than a serv-  
12          ice-connected disability.”.

13          (b) EFFECTIVE DATE.—The amendment made by  
14 this section shall apply to taxable years beginning after  
15 the date of the enactment of this Act.

16 **SEC. 104. INDIVIDUALS ELIGIBLE FOR INDIAN HEALTH**  
17 **SERVICE ASSISTANCE.**

18          (a) IN GENERAL.—Paragraph (1) of section 223(e),  
19 as amended by section 103, is amended by adding at the  
20 end the following new subparagraph:

21           “(D) SPECIAL RULE FOR INDIVIDUALS ELI-  
22           GIBLE FOR ASSISTANCE UNDER INDIAN  
23           HEALTH SERVICE PROGRAMS.—For purposes of  
24           subparagraph (A)(ii), an individual shall not be  
25           treated as covered under a health plan de-

1           scribed in such subparagraph merely because  
2           the individual receives hospital care or medical  
3           services under a medical care program of the  
4           Indian Health Service or of a tribal organiza-  
5           tion.”.

6           (b) **EFFECTIVE DATE.**—The amendment made by  
7 this section shall apply to taxable years beginning after  
8 the date of the enactment of this Act.

9 **SEC. 105. INDIVIDUALS ELIGIBLE FOR TRICARE COVERAGE.**

10          (a) **IN GENERAL.**—Paragraph (1) of section 223(c),  
11 as amended by sections 103 and 104, is amended by add-  
12 ing at the end the following new subparagraph:

13                   “(E) **SPECIAL RULE FOR INDIVIDUALS EL-**  
14                   **IGIBLE FOR ASSISTANCE UNDER TRICARE.**—For  
15                   purposes of subparagraph (A)(ii), an individual  
16                   shall not be treated as covered under a health  
17                   plan described in such subparagraph merely be-  
18                   cause the individual is eligible to receive hos-  
19                   pital care, medical services, or prescription  
20                   drugs under **TRICARE Extra** or **TRICARE**  
21                   **Standard** and such individual is not enrolled in  
22                   **TRICARE Prime.**”.

23          (b) **EFFECTIVE DATE.**—The amendment made by  
24 this section shall apply to taxable years beginning after  
25 the date of the enactment of this Act.

1 **SEC. 106. HEALTH FSA CARRYFORWARDS.**

2 (a) IN GENERAL.—Section 125 is amended by redesh-  
3 ignating subsections (i) and (j) as subsections (j) and (k),  
4 respectively, and by inserting after subsection (h) the fol-  
5 lowing new subsection:

6 “(i) SPECIAL RULES APPLICABLE TO HEALTH  
7 FLEXIBLE SPENDING ARRANGEMENTS.—

8 “(1) IN GENERAL.—For purposes of this title,  
9 a plan or other arrangement shall not fail to be  
10 treated as a health flexible spending or similar ar-  
11 rangement solely because under the plan or arrange-  
12 ment a participant is permitted access to any unused  
13 balance in the participant’s accounts under such  
14 plan or arrangement in the manner provided under  
15 paragraph (2).

16 “(2) CARRYFORWARD OF UNUSED BENEFITS IN  
17 HEALTH ARRANGEMENTS.—

18 “(A) IN GENERAL.—A plan or arrange-  
19 ment may permit a participant in a health flexi-  
20 ble spending arrangement to elect to carry for-  
21 ward any aggregate unused balances in the par-  
22 ticipant’s accounts under such arrangement as  
23 of the close of any year to the succeeding year.  
24 Such carryforward shall be treated as having  
25 occurred within 30 days of the close of the year.

1                   “(B)           DOLLAR           LIMIT           ON  
2                   CARRYFORWARDS.—

3                   “(i) IN GENERAL.—The amount which  
4                   a participant may elect to carry forward  
5                   under subparagraph (A) from any year  
6                   shall not exceed \$500. For purposes of this  
7                   paragraph, all plans and arrangements  
8                   maintained by an employer or any related  
9                   person shall be treated as 1 plan.

10                  “(ii) COST-OF-LIVING ADJUSTMENT.—  
11                  In the case of any taxable year beginning  
12                  in a calendar year after 2011, the \$500  
13                  amount under clause (i) shall be increased  
14                  by an amount equal to—

15                               “(I) \$500, multiplied by

16                               “(II) the cost-of-living adjust-  
17                               ment determined under section 1(f)(3)  
18                               for such calendar year, determined by  
19                               substituting ‘2010’ for ‘1992’ in sub-  
20                               paragraph (B) thereof.

21                  If any dollar amount as increased under  
22                  this clause is not a multiple of \$100, such  
23                  amount shall be rounded to the next lowest  
24                  multiple of \$100.



1           “(C) EXCLUSION FROM GROSS INCOME.—  
2           No amount shall be required to be included in  
3           gross income under this chapter by reason of  
4           any carryforward under this paragraph.

5           “(D) COORDINATION WITH LIMITS.—The  
6           maximum amount which may be contributed to  
7           a health flexible spending arrangement for any  
8           year to which an unused amount is carried  
9           under this paragraph shall be reduced by such  
10          amount.

11          “(3) TERMS RELATING TO FLEXIBLE SPENDING  
12          ARRANGEMENTS.—

13                 “(A) FLEXIBLE SPENDING ARRANGE-  
14                 MENTS.—For purposes of this subsection, a  
15                 flexible spending arrangement is a benefit pro-  
16                 gram which provides employees with coverage  
17                 under which specified incurred expenses may be  
18                 reimbursed (subject to reimbursement maxi-  
19                 mums and other reasonable conditions).

20                 “(B) HEALTH ARRANGEMENTS.—The term  
21                 ‘health flexible spending arrangement’ means  
22                 any flexible spending arrangement (or portion  
23                 thereof) which provides payments for expenses  
24                 incurred for medical care (as defined in section  
25                 213(d)).”.

1 (b) CONFORMING AMENDMENTS.—

2 (1) The heading for section 125 of the Internal  
3 Revenue Code of 1986 is amended by inserting  
4 “**AND HEALTH FLEXIBLE SPENDING ARRANGE-**  
5 **MENTS**” after “**PLANS**”.

6 (2) The item relating to section 125 in the table  
7 of sections for part III of subchapter B of chapter  
8 1 of such Code is amended by inserting “and health  
9 flexible spending arrangements” after “plans”.

10 (c) EFFECTIVE DATE.—The amendments made by  
11 this section shall take effect on the date of the enactment  
12 of this Act.

13 **SEC. 107. FSA AND HRA INTERACTION WITH HSAS.**

14 (a) ELIGIBLE INDIVIDUALS INCLUDE FSA AND HRA  
15 PARTICIPANTS.—Subparagraph (B) of section 223(c)(1)  
16 is amended—

17 (1) by striking “and” at the end of clause (ii),

18 (2) by striking the period at the end of clause

19 (iii) and inserting “, and”, and

20 (3) by inserting after clause (iii) the following  
21 new clause:

22 “(iv) coverage under a health flexible  
23 spending arrangement or a health reim-  
24 bursement arrangement in the plan year a  
25 qualified HSA distribution as described in

1 section 106(e) is made on behalf of the in-  
2 dividual if after the qualified HSA dis-  
3 tribution is made and for the remaining  
4 duration of the plan year, the coverage  
5 provided under the health flexible spending  
6 arrangement or health reimbursement ar-  
7 rangement is converted to—

8 “(I) coverage that does not pay  
9 or reimburse any medical expense in-  
10 curred before the minimum annual de-  
11 ductible under paragraph (2)(A)(i)  
12 (prorated for the period occurring  
13 after the qualified HSA distribution is  
14 made) is satisfied,

15 “(II) coverage that, after the  
16 qualified HSA distribution is made,  
17 does not pay or reimburse any med-  
18 ical expense incurred after the quali-  
19 fied HSA distribution is made other  
20 than preventive care as defined in  
21 paragraph (2)(C),

22 “(III) coverage that, after the  
23 qualified HSA distribution is made,  
24 pays or reimburses benefits for cov-  
25 erage described in clause (ii) (but not

1 through insurance or for long-term  
2 care services),

3 “(IV) coverage that, after the  
4 qualified HSA distribution is made,  
5 pays or reimburses benefits for per-  
6 mitted insurance or coverage de-  
7 scribed in clause (ii) (but not for long-  
8 term care services),

9 “(V) coverage that, after the  
10 qualified HSA distribution is made,  
11 pays or reimburses only those medical  
12 expenses incurred after an individual’s  
13 retirement (and no expenses incurred  
14 before retirement), or

15 “(VI) coverage that, after the  
16 qualified HSA distribution is made, is  
17 suspended, pursuant to an election  
18 made on or before the date the indi-  
19 vidual elects a qualified HSA distribu-  
20 tion or, if later, on the date of the in-  
21 dividual enrolls in a high deductible  
22 health plan, that does not pay or re-  
23 imburse, at any time, any medical ex-  
24 pense incurred during the suspension

1 period except as defined in the pre-  
2 ceding subclauses of this clause.”.

3 (b) QUALIFIED HSA DISTRIBUTION SHALL NOT AF-  
4 FECT FLEXIBLE SPENDING ARRANGEMENT.—Paragraph  
5 (1) of section 106(e) is amended to read as follows:

6 “(1) IN GENERAL.—A plan shall not fail to be  
7 treated as a health flexible spending arrangement  
8 under this section, section 105, or section 125, or as  
9 a health reimbursement arrangement under this sec-  
10 tion or section 105, merely because such plan pro-  
11 vides for a qualified HSA distribution.”.

12 (c) FSA BALANCES AT YEAR END SHALL NOT FOR-  
13 FEIT.—Paragraph (2) of section 125(d) is amended by  
14 adding at the end the following new subparagraph:

15 “(E) EXCEPTION FOR QUALIFIED HSA DIS-  
16 TRIBUTIONS.—Subparagraph (A) shall not  
17 apply to the extent that there is an amount re-  
18 maining in a health flexible spending account at  
19 the end of a plan year that an individual elects  
20 to contribute to a health savings account pursu-  
21 ant to a qualified HSA distribution (as defined  
22 in section 106(e)(2)).”.

23 (d) SIMPLIFICATION OF LIMITATIONS ON FSA AND  
24 HRA ROLLOVERS.—Paragraph (2) of section 106(e) is  
25 amended to read as follows:

1 “(2) QUALIFIED HSA DISTRIBUTION.—

2 “(A) IN GENERAL.—The term ‘qualified  
3 HSA distribution’ means a distribution from a  
4 health flexible spending arrangement or health  
5 reimbursement arrangement to the extent that  
6 such distribution does not exceed the lesser  
7 of—

8 “(i) the balance in such arrangement  
9 as of the date of such distribution, or

10 “(ii) the amount determined under  
11 subparagraph (B).

12 Such term shall not include more than 1 dis-  
13 tribution with respect to any arrangement.

14 “(B) DOLLAR LIMITATIONS.—

15 “(i) DISTRIBUTIONS FROM A HEALTH  
16 FLEXIBLE SPENDING ARRANGEMENT.—A  
17 qualified HSA distribution from a health  
18 flexible spending arrangement shall not ex-  
19 ceed the applicable amount.

20 “(ii) DISTRIBUTIONS FROM A HEALTH  
21 REIMBURSEMENT ARRANGEMENT.—A  
22 qualified HSA distribution from a health  
23 reimbursement arrangement shall not ex-  
24 ceed—

1                   “(I) the applicable amount di-  
2                   vided by 12, multiplied by

3                   “(II) the number of months dur-  
4                   ing which the individual is a partici-  
5                   pant in the health reimbursement ar-  
6                   rangement.

7                   “(iii) APPLICABLE AMOUNT.—For  
8                   purposes of this subparagraph, the applica-  
9                   ble amount is—

10                   “(I) \$2,250 in the case of an eli-  
11                   gible individual who has self-only cov-  
12                   erage under a high deductible health  
13                   plan at the time of such distribution,  
14                   and

15                   “(II) \$4,500 in the case of an eli-  
16                   gible individual who has family cov-  
17                   erage under a high deductible health  
18                   plan at the time of such distribu-  
19                   tion.”.

20                   (e) ELIMINATION OF ADDITIONAL TAX FOR FAILURE  
21 TO MAINTAIN HIGH DEDUCTIBLE HEALTH PLAN COV-  
22 ERAGE.—Subsection (e) of section 106 is amended—

23                   (1) by striking paragraph (3) and redesignating  
24                   paragraphs (4) and (5) as paragraphs (3) and (4),  
25                   respectively, and

1           (2) by striking subparagraph (A) of paragraph  
2           (3), as so redesignated, and redesignating subpara-  
3           graphs (B) and (C) of such paragraph as subpara-  
4           graphs (A) and (B) thereof, respectively.

5           (f) LIMITED PURPOSE FSAS AND HRAS.—Sub-  
6           section (e) of section 106, as amended by this section, is  
7           amended by adding at the end the following new para-  
8           graph:

9           “(5) LIMITED PURPOSE FSAS AND HRAS.—A  
10           plan shall not fail to be a health flexible spending  
11           arrangement or health reimbursement arrangement  
12           under this section or section 105 merely because the  
13           plan converts coverage for individuals who enroll in  
14           a high deductible health plan described in section  
15           223(c)(2) to coverage described in section  
16           223(c)(1)(B)(iv). Coverage for such individuals may  
17           be converted as of the date of enrollment in the high  
18           deductible health plan, without regard to the period  
19           of coverage under the health flexible spending ar-  
20           rangement or health reimbursement arrangement,  
21           and without requiring any change in coverage to in-  
22           dividuals who do not enroll in a high deductible  
23           health plan.”.

24           (g) DISTRIBUTION AMOUNTS ADJUSTED FOR COST-  
25           OF-LIVING.—Subsection (e) of section 106, as amended



1 by this section, is amended by adding at the end the fol-  
 2 lowing new paragraph:

3 “(6) COST-OF-LIVING ADJUSTMENT.—

4 “(A) IN GENERAL.—In the case of any  
 5 taxable year beginning after December 31,  
 6 2011, each of the dollar amounts in paragraph  
 7 (2)(B)(iii) shall be increased by an amount  
 8 equal to such dollar amount, multiplied by the  
 9 cost-of-living adjustment determined under sec-  
 10 tion 1(f)(3) for the calendar year in which such  
 11 taxable year begins by substituting ‘calendar  
 12 year 2010’ for ‘calendar year 1992’ in subpara-  
 13 graph (B) thereof.

14 “(B) ROUNDING.—If any increase under  
 15 paragraph (1) is not a multiple of \$50, such in-  
 16 crease shall be rounded to the nearest multiple  
 17 of \$50.”.

18 (h) DISCLAIMER OF DISQUALIFYING COVERAGE.—  
 19 Subparagraph (B) of section 223(c)(1), as amended by  
 20 this section, is amended—

21 (1) by striking “and” at the end of clause (iii),

22 (2) by striking the period at the end of clause  
 23 (iv) and inserting “, and”, and

24 (3) by inserting after clause (iv) the following  
 25 new clause:

1           “(v) any coverage (including prospec-  
2           tive coverage) under a health plan that is  
3           not a high deductible health plan which is  
4           disclaimed in writing, at the time of the  
5           creation or organization of the health sav-  
6           ings account, including by execution of a  
7           trust described in subsection (d)(1)  
8           through a governing instrument that in-  
9           cludes such a disclaimer, or by acceptance  
10          of an amendment to such a trust that in-  
11          cludes such a disclaimer.”.

12          (i) EFFECTIVE DATE.—The amendments made by  
13 this section shall apply to taxable years beginning after  
14 the date of the enactment of this Act.

15 **SEC. 108. ALLOWANCE OF DISTRIBUTIONS FOR PRESCRIP-**  
16 **TION AND OVER-THE-COUNTER MEDICINES**  
17 **AND DRUGS.**

18          (a) REPEAL OF DISTRIBUTIONS FOR MEDICINE  
19 QUALIFIED ONLY IF FOR PRESCRIBED DRUG OR INSU-  
20 LIN.—Section 9003 of the Patient Protection and Afford-  
21 able Care Act (Public Law 111–148) and the amendments  
22 made by such section are repealed and the Internal Rev-  
23 enue Code of 1986 shall be applied as if such section and  
24 amendments had never been enacted.

1 (b) ALLOWANCE OF DISTRIBUTIONS FOR ALL MEDI-  
2 CINES AND DRUGS.—

3 (1) HSAS.—Subparagraph (A) of section  
4 223(d)(2) is amended by adding at the end the fol-  
5 lowing: “Such term shall include an amount paid for  
6 any prescription or over-the-counter medicine or  
7 drug.”.

8 (2) ARCHER MSAS.—Subparagraph (A) of sec-  
9 tion 220(d)(2) is amended by adding at the end the  
10 following: “Such term shall include an amount paid  
11 for any prescription or over-the-counter medicine or  
12 drug.”.

13 (3) HEALTH FLEXIBLE SPENDING ARRANGE-  
14 MENTS AND HEALTH REIMBURSEMENT ARRANGE-  
15 MENTS.—Section 106 is amended by adding at the  
16 end the following new subsection:

17 “(f) REIMBURSEMENTS FOR ALL MEDICINES AND  
18 DRUGS.—For purposes of this section and section 105,  
19 reimbursement for expenses incurred for any prescription  
20 or over-the-counter medicine or drug shall be treated as  
21 a reimbursement for medical expenses.”.

22 (4) EFFECTIVE DATES.—

23 (A) DISTRIBUTIONS FROM SAVINGS AC-  
24 COUNTS.—The amendments made by para-  
25 graphs (1) and (2) shall apply to amounts paid

1 with respect to taxable years beginning after  
2 December 31, 2009.

3 (B) REIMBURSEMENTS.—The amendment  
4 made by paragraph (3) shall apply to expenses  
5 incurred with respect to taxable years beginning  
6 after December 31, 2009.

7 **SEC. 109. PURCHASE OF HEALTH INSURANCE FROM HSA**  
8 **ACCOUNT.**

9 (a) IN GENERAL.—Paragraph (2) of section 223(d)  
10 is amended to read as follows:

11 “(2) QUALIFIED MEDICAL EXPENSES.—

12 “(A) IN GENERAL.—The term ‘qualified  
13 medical expenses’ means, with respect to an ac-  
14 count beneficiary, amounts paid by such bene-  
15 ficiary for medical care (as defined in section  
16 213(d)) for any individual covered by a high de-  
17 ductible health plan of the account beneficiary,  
18 but only to the extent such amounts are not  
19 compensated for by insurance or otherwise.

20 “(B) HEALTH INSURANCE MAY NOT BE  
21 PURCHASED FROM ACCOUNT.—Except as pro-  
22 vided in subparagraph (C), subparagraph (A)  
23 shall not apply to any payment for insurance.

1           “(C) EXCEPTIONS.—Subparagraph (B)  
2 shall not apply to any expense for coverage  
3 under—

4           “(i) a health plan during any period  
5 of continuation coverage required under  
6 any Federal law,

7           “(ii) a qualified long-term care insur-  
8 ance contract (as defined in section  
9 7702B(b)),

10           “(iii) a health plan during any period  
11 in which the individual is receiving unem-  
12 ployment compensation under any Federal  
13 or State law,

14           “(iv) a high deductible health plan, or

15           “(v) any health insurance under title  
16 XVIII of the Social Security Act, other  
17 than a Medicare supplemental policy (as  
18 defined in section 1882 of such Act).”.

19           (b) EFFECTIVE DATE.—The amendment made by  
20 this section shall apply with respect to insurance pur-  
21 chased after the date of the enactment of this Act in tax-  
22 able years beginning after such date.

1 **SEC. 110. SPECIAL RULE FOR CERTAIN MEDICAL EXPENSES**  
2 **INCURRED BEFORE ESTABLISHMENT OF AC-**  
3 **COUNT.**

4 (a) IN GENERAL.—Paragraph (2) of section 223(d),  
5 as amended by section 109, is amended by adding at the  
6 end the following new subparagraph:

7 “(D) CERTAIN MEDICAL EXPENSES IN-  
8 CURRED BEFORE ESTABLISHMENT OF ACCOUNT  
9 TREATED AS QUALIFIED.—An expense shall not  
10 fail to be treated as a qualified medical expense  
11 solely because such expense was incurred before  
12 the establishment of the health savings account  
13 if such expense was incurred—

14 “(i) during either—

15 “(I) the taxable year in which the  
16 health savings account was estab-  
17 lished, or

18 “(II) the preceding taxable year  
19 in the case of a health savings ac-  
20 count established after the taxable  
21 year in which such expense was in-  
22 curred but before the time prescribed  
23 by law for filing the return for such  
24 taxable year (not including extensions  
25 thereof), and

1           “(ii) for medical care of an individual  
2           during a period that such individual was  
3           covered by a high deductible health plan  
4           and met the requirements of subsection  
5           (c)(1)(A)(ii) (after application of sub-  
6           section (c)(1)(B)).”.

7           (b) EFFECTIVE DATE.—The amendment made by  
8           this section shall apply to taxable years beginning after  
9           the date of the enactment of this Act.

10   **SEC. 111. PREVENTIVE CARE PRESCRIPTION DRUG CLARI-**  
11                           **FICATION.**

12           (a) CLARIFY USE OF DRUGS IN PREVENTIVE  
13           CARE.—Subparagraph (C) of section 223(c)(2) is amend-  
14           ed by adding at the end the following: “Preventive care  
15           shall include prescription and over-the-counter drugs and  
16           medicines which have the primary purpose of preventing  
17           the onset of, further deterioration from, or complications  
18           associated with chronic conditions, illnesses, or diseases.”.

19           (b) EFFECTIVE DATE.—The amendment made by  
20           this section shall apply to taxable years beginning after  
21           December 31, 2003.

1 **SEC. 112. EQUIVALENT BANKRUPTCY PROTECTIONS FOR**  
 2 **HEALTH SAVINGS ACCOUNTS AS RETIRE-**  
 3 **MENT FUNDS.**

4 (a) IN GENERAL.—Section 522 of title 11, United  
 5 States Code, is amended by adding at the end the fol-  
 6 lowing new subsection:

7 “(r) TREATMENT OF HEALTH SAVINGS AC-  
 8 COUNTS.—For purposes of this section, any health savings  
 9 account (as described in section 223 of the Internal Rev-  
 10 enue Code of 1986) shall be treated in the same manner  
 11 as an individual retirement account described in section  
 12 408 of such Code.”.

13 (b) EFFECTIVE DATE.—The amendment made by  
 14 this section shall apply to cases commencing under title  
 15 11, United States Code, after the date of the enactment  
 16 of this Act.

17 **SEC. 113. ADMINISTRATIVE ERROR CORRECTION BEFORE**  
 18 **DUE DATE OF RETURN.**

19 (a) IN GENERAL.—Paragraph (4) of section 223(f)  
 20 is amended by adding at the end the following new sub-  
 21 paragraph:

22 “(D) EXCEPTION FOR ADMINISTRATIVE  
 23 ERRORS CORRECTED BEFORE DUE DATE OF RE-  
 24 TURN.—Subparagraph (A) shall not apply if  
 25 any payment or distribution is made to correct



1 an administrative, clerical or payroll contribu-  
 2 tion error and if—

3 “(i) such distribution is received by  
 4 the individual on or before the last day  
 5 prescribed by law (including extensions of  
 6 time) for filing such individual’s return for  
 7 such taxable year, and

8 “(ii) such distribution is accompanied  
 9 by the amount of net income attributable  
 10 to such contribution.

11 Any net income described in clause (ii) shall be  
 12 included in the gross income of the individual  
 13 for the taxable year in which it is received.”.

14 (b) EFFECTIVE DATE.—The amendment made by  
 15 this section shall take effect on the date of the enactment  
 16 of this Act.

17 **SEC. 114. REAUTHORIZATION OF MEDICAID HEALTH OP-**  
 18 **PORTUNITY ACCOUNTS.**

19 (a) IN GENERAL.—Section 1938 of the Social Secu-  
 20 rity Act (42 U.S.C. 1396u–8) is amended—

21 (1) in subsection (a)—

22 (A) by striking paragraph (2) and insert-  
 23 ing the following:

24 “(2) INITIAL DEMONSTRATION.—The dem-  
 25 onstration program under this section shall begin on

1       January 1, 2007. The Secretary shall approve States  
2       to conduct demonstration programs under this sec-  
3       tion for a 5-year period, with each State demonstra-  
4       tion program covering 1 or more geographic areas  
5       specified by the State. With respect to a State, after  
6       the initial 5-year period of any demonstration pro-  
7       gram conducted under this section by the State, un-  
8       less the Secretary finds, taking into account cost-ef-  
9       fectiveness and quality of care, that the State dem-  
10      onstration program has been unsuccessful, the dem-  
11      onstration program may be extended or made per-  
12      manent in the State.”; and

13               (B) in paragraph (3), in the matter pre-  
14      ceding subparagraph (A)—

15                   (i) by striking “not”; and

16                   (ii) by striking “unless” and inserting  
17                   “if”;

18               (2) in subsection (b)—

19                   (A) in paragraph (3), by inserting “clause  
20                   (i) through (vii), (viii) (without regard to the  
21                   amendment made by section 2004(c)(2) of Pub-  
22                   lic Law 111–148), (x), or (xi) of” after “de-  
23                   scribed in”; and

24                   (B) by striking paragraphs (4), (5), and  
25                   (6);

1 (3) in subsection (c)—

2 (A) by striking paragraphs (3) and (4);

3 (B) by redesignating paragraphs (5)  
4 through (8) as paragraphs (3) through (6), re-  
5 spectively; and

6 (C) in paragraph (4) (as redesignated by  
7 subparagraph (B)), by striking “Subject to sub-  
8 paragraphs (D) and (E)” and inserting “Sub-  
9 ject to subparagraph (D)”; and

10 (4) in subsection (d)—

11 (A) in paragraph (2), by striking subpara-  
12 graph (E); and

13 (B) in paragraph (3)—

14 (i) in subparagraph (A)(ii), by strik-  
15 ing “Subject to subparagraph (B)(ii), in”  
16 and inserting “In”; and

17 (ii) by striking subparagraph (B) and  
18 inserting the following:

19 “(B) MAINTENANCE OF HEALTH OPPOR-  
20 TUNITY ACCOUNT AFTER BECOMING INELI-  
21 GIBLE FOR PUBLIC BENEFIT.—Notwithstanding  
22 any other provision of law, if an account holder  
23 of a health opportunity account becomes ineli-  
24 gible for benefits under this title because of an  
25 increase in income or assets—

1                   “(i) no additional contribution shall be  
2                   made into the account under paragraph  
3                   (2)(A)(i); and

4                   “(ii) the account shall remain avail-  
5                   able to the account holder for 3 years after  
6                   the date on which the individual becomes  
7                   ineligible for such benefits for withdrawals  
8                   under the same terms and conditions as if  
9                   the account holder remained eligible for  
10                  such benefits, and such withdrawals shall  
11                  be treated as medical assistance in accord-  
12                  ance with subsection (c)(4).”.

13           (b) CONFORMING AMENDMENT.—Section 613 of  
14 Public Law 111–3 is repealed.

## 15       **TITLE II—OTHER PROVISIONS**

### 16   **SEC. 121. CERTAIN EXERCISE EQUIPMENT AND PHYSICAL** 17                   **FITNESS PROGRAMS TREATED AS MEDICAL** 18                   **CARE.**

19           (a) IN GENERAL.—Subsection (d) of section 213 is  
20 amended by adding at the end the following new para-  
21 graph:

22                   “(12) EXERCISE EQUIPMENT AND PHYSICAL  
23                   FITNESS PROGRAMS.—

24                   “(A) IN GENERAL.—The term ‘medical  
25                   care’ shall include amounts paid—

1 “(i) to purchase or use equipment  
2 used in a program (including a self-di-  
3 rected program) of physical exercise,

4 “(ii) to participate, or receive instruc-  
5 tion, in a program of physical exercise, and

6 “(iii) for membership dues in a fitness  
7 club the primary purpose of which is to  
8 provide access to equipment and facilities  
9 for physical exercise.

10 “(B) LIMITATION.—Amounts treated as  
11 medical care under subparagraph (A) shall not  
12 exceed \$1,000 with respect to any individual for  
13 any taxable year.”.

14 (b) EFFECTIVE DATE.—The amendment made by  
15 this section shall apply to taxable years beginning after  
16 the date of the enactment of this Act.

17 **SEC. 122. CERTAIN NUTRITIONAL AND DIETARY SUPPLE-**  
18 **MENTS TO BE TREATED AS MEDICAL CARE.**

19 (a) IN GENERAL.—Subsection (d) of section 213, as  
20 amended by section 121, is amended by adding at the end  
21 the following new paragraph:

22 “(13) NUTRITIONAL AND DIETARY SUPPLE-  
23 MENTS.—

24 “(A) IN GENERAL.—The term ‘medical  
25 care’ shall include amounts paid to purchase

1 herbs, vitamins, minerals, homeopathic rem-  
2 edies, meal replacement products, and other di-  
3 etary and nutritional supplements.

4 “(B) LIMITATION.—Amounts treated as  
5 medical care under subparagraph (A) shall not  
6 exceed \$1,000 with respect to any individual for  
7 any taxable year.

8 “(C) MEAL REPLACEMENT PRODUCT.—  
9 For purposes of this paragraph, the term ‘meal  
10 replacement product’ means any product that—

11 “(i) is permitted to bear labeling mak-  
12 ing a claim described in section 403(r)(3)  
13 of the Federal Food, Drug, and Cosmetic  
14 Act, and

15 “(ii) is permitted to claim under such  
16 section that such product is low in fat and  
17 is a good source of protein, fiber, and mul-  
18 tiple essential vitamins and minerals.”.

19 (b) EFFECTIVE DATE.—The amendment made by  
20 this section shall apply to taxable years beginning after  
21 the date of the enactment of this Act.

1 **SEC. 123. CERTAIN PROVIDER FEES TO BE TREATED AS**  
2 **MEDICAL CARE.**

3 (a) **IN GENERAL.**—Subsection (d) of section 213, as  
4 amended by sections 121 and 122, is amended by adding  
5 at the end the following new paragraph:

6 “(14) **PERIODIC PROVIDER FEES.**—The term  
7 ‘medical care’ shall include periodic fees paid to a  
8 primary physician, physician assistant, or nurse  
9 practitioner for the right to receive medical services  
10 on an as-needed basis.”.

11 (b) **EFFECTIVE DATE.**—The amendment made by  
12 this section shall apply to taxable years beginning after  
13 the date of the enactment of this Act.

14 **SEC. 124. REPEAL OF ANNUAL LIMITATIONS ON**  
15 **DEDUCTIBLES FOR EMPLOYER-SPONSORED**  
16 **PLANS OFFERED IN SMALL GROUP MARKET.**

17 Section 1302(c)(2) of the Patient Protection and Af-  
18 fordable Care Act (Public Law 111–148) is repealed.

○