

**House Bills 4878 and 4879**  
**Sponsor: Rep. Terry London**  
**Committee: Insurance**

**Complete to 6-23-93**

**A SUMMARY OF HOUSE BILLS 4878 AND 4879 AS INTRODUCED 6-22-93**

The bills, taken together, would provide for a particular kind of tax-exempt medical care savings account program. House Bill 4878 would create a new act, the Medical Care Savings Account Act, to describe the features of such an account. House Bill 4879 would amend the Income Tax Act (MCL 206.30) to provide for a deduction from taxable income for contributions made to such an account and interest earned on those contributions. The bills are tie-barred to one another. The bills would apply to tax years beginning after 1992.

House Bill 4878 says an employer "may voluntarily offer" either continuation coverage under the employer's existing health coverage or participation in a medical care savings account program. (The bill also says an employer that did not previously provide health coverage could participate in such a program.) Under the bill, a medical care savings account program would be defined to require the inclusion of the following elements.

-- The purchase by an employer of "a qualified higher deductible health plan" for the benefit of an employee and his or her dependents. (This plan would involve a health policy, certificate, or contract that covered benefits exceeding the "higher deductible", which would mean for 1993 a deductible not to exceed \$3,000, with the amount adjusted annually based on changes in the consumer price index.)

-- The payment on behalf of an employee into a medical care savings account by an employer of the premium differential (i.e., savings) realized by the employer by purchasing the higher deductible health plan.

-- The administration of the plan by an account administrator. (The bill lists those eligible to be an administrator, including financial institutions, insurance companies, trust companies, persons registered under the Uniform Securities Act, third party administrators, certified public accountants, licensed attorneys, and self-insured employers.)

The bill specifies that an account administrator could only use the funds in such a medical care savings account to pay the medical expenses of the employee or his or her dependents or to purchase a health coverage policy, if the employee did not otherwise have health coverage. An employee would submit documentation of medical expenses he or she paid in the tax year, and the administrator would reimburse the employee for eligible medical expenses.

An employee could withdraw money from the account on the last business day of the administrator's business year without penalty. The amount would be added to taxable

income for state income tax purposes. Withdrawals at other times of the year would be subject to a 10 percent penalty to be paid to the Department of Treasury and the interest earned on the account during the tax year would be added to taxable income in addition to the amount withdrawn.

House Bill 4879 would amend the Income Tax Act to deduct from taxable income, to the extent included in adjusted gross income, the amount of a contribution made on behalf of the taxpayer to a medical care savings account under the new act. Interest earned on such an account would also be deducted from taxable income. Amounts withdrawn, to the extent not included in adjusted gross income, would be added to taxable income, as would interest earned on an account in the case of an early withdrawal.