

CALIFORNIA ADVOCATES, INC.



April 15, 2015

The Honorable Travis Allen
Member, California State Assembly
State Capitol, Room 4015
Sacramento, California 95814

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**SUBJECT: AB 1425 (ALLEN)--SMALL EMPLOYER HEALTH COVERAGE
OPTIONS: EXPANSION - SUPPORT
ASSEMBLY HEALTH COMMITTEE
SET FOR HEARING: APRIL 21, 2015**

Dear Assembly Member Allen:

CAHU is pleased to SUPPORT your **AB 1425**, as introduced, to permit California small employers to assemble a Health Reimbursement Account (HRA) and Flexible Spending Account (FSA) to accompany a high deductible health plans to create affordable health care coverage for their employees.

Today, small employers (those defined as having 2-50 employees) and agents are prohibited by insurers and health plans from putting federally approved HRAs, FSAs together with a carrier's high deductible health plans to create affordable health care coverage for their employees. This is commonly referred to a "wrapping." Here in California, plans and insurers not only penalize the small employers that chose to set up such an arrangement, but also terminate the contract of their insurance agent. **AB 1425** will address this small business coverage barrier by ending the carrier prohibition against wrapping and retaliating against both employers and their insurance advisor.

This long-time carrier prohibition was recently re-affirmed by several health plans and insurers in California who continue to require small employers – and their insurance agents – to sign a "Statement of Understanding" which prohibits the employer from using that carrier's HDHP with an integrated HRA or FSA. This practice is still occurring even though recent regulations released at the federal level government appear to resolve this issue. Other states continue to permit small employers and their agents to use the wrapping process, leaving small business in California to continue to struggle to find a way to afford coverage for their employees.

CAHU supports **AB 1425** as it proposes to erase this unnecessary barrier and gives small and mid-sized businesses a better tool to control their health care costs and health insurance premiums. We believe this is important to do because "partial self-funding" is no longer an alternative in this state. This leaves many small businesses who wish to find a way to provide health care coverage plan unable to build an affordable coverage plan.

As you know, an HRA is an account offered by employers to employees where the employee can use the employer provided dollars to pay for deductible and co-insurance amounts, or covered medical expenses. Like an HSA, leftover dollars generally can be used from year-to-year, as long as the employee continues as a member of the plan. The money is contributed by the employer and does not count as income; saving the employee money. FSA also help to reduce the employee's annual federal tax liability. HRAs are authorized and permitted under federal tax law.

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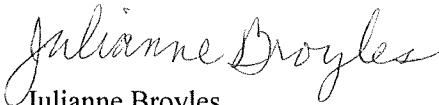
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Along with the HRA, a FSA is also offered in the assembled coverage plans as an additional way to help employees make their health care dollars go farther. FSA permits employees to set aside dollars from their paycheck on a pre-tax basis to cover medical expenses such as deductibles and co-pays. Employers may also pay into these plans. These plans are also approved by the Internal Revenue Service. A high-deductible health plan (HDHP) is a health insurance plan with lower premiums and higher deductibles than a traditional health plan.

CAHU believes the policy of the policy of the state should be to provide as many affordable options to employers as possible, not to limit them further.

CAHU looks forward to working with you and your staff in **SUPPORT** of **AB 1425**.

Sincerely,



Julianne Broyles
On Behalf of California Association of Health Underwriters

cc: Office of Governor Brown
Members, Assembly Health Committee
Roger Dunstan, Sr. Health Committee Consultant
Peter Anderson and Bill Lewis, Assembly Republican Caucus