



June 2, 2005

Attention: Health LA

United States Senate
Washington, D.C. 20510

Dear Senator:

I am writing on behalf of the American Benefits Council, whose members either sponsor directly or administer retirement and health benefit plans covering more than 100 million Americans, **to urge you to cosponsor legislation (S. 309) that would amend Section 125 of the Internal Revenue Code to permit a limited carry forward of up to \$500 in a Flexible Spending Arrangement (FSA).** The bipartisan bill, which was introduced by Senators Jim DeMint, John Ensign and Ken Salazar, also allows up to \$500 in an FSA to be transferred to a health savings account (HSA).

FSAs are important tools for employees and their families as health care costs rise and employees are increasingly asked to shoulder more financial responsibility for these expenses. Unfortunately, many employees either fail to use the FSA option that permits pre-tax contributions into an account for health expenses or they contribute significantly less than they will need because of the fear of losing their hard-earned money at the end of the year due to the current "use it or lose it" rule. Permitting a limited annual rollover would undoubtedly result in increased participation in the FSA and help families better meet their health care needs.

FSAs are particularly helpful for lower-wage workers not only because it allows them to bear a portion of their out-of-pocket health expenses on a tax-efficient basis, but also because FSAs provide a "loan" of sorts from the employer to the employee for health care expenses. Employees make monthly pre-tax contributions but have access to the entire annual amount they allocate before payroll deductions occur. If, for example, a worker elects to contribute \$1,000 annually to an FSA and has a \$1,000 health care expense in January, the FSA will reimburse the employee for the entire amount even though the employee only contributed 1/12th of the funds by the end of January.

While the recent U.S. Treasury Department announcement that employees may now be given an extra 2 1/2 months to spend funds from their FSAs is a step in the right direction, S. 309 is still very much needed. Unless workers are assured that they can roll-over a portion of unused FSA dollars as permitted under S. 309, many employees will either unnecessarily rush to "use up" their accounts by the end of the year, or contribute significantly less than what they should be saving in their FSA out of concern that they will lose their hard-earned money at the end of the year.

Again, the Council and its members urge you to cosponsor S. 309.

Sincerely,

A handwritten signature in cursive script that reads "James A. Klein".

James A. Klein
President