Legislative Update **2007 02**

HSA Changes for 2007

President Bush signed the Tax Relief and Health Care Act of 2006 on December 20th, 2006. One of the results of the Act was to make Health Savings Accounts (HSAs) more attractive for mid-year implementations and provide new funding opportunities for HSA Participants. An HSA, when combined with a qualified High Deductible Health Plan (HDHP) having an individual deductible of at least $1,100 is gaining popularity as a means to lower health insurance costs. The HSA can accept pre-tax money that accumulates on a tax-deferred basis, and can be rolled forward from one year to the next (unlike medical FSAs) if unused. Deductibles, co-pays and coinsurance costs are paid from the HSA. An obstacle has been the ability of employees to accumulate adequate funds in the HSA. The following is a brief description of each change under the Act and how it helps.

Expanded HSA Funding Options - The IRS now allows a one-time rollover from an IRA to an HSA. They will also allow a future second rollover, if a member changes from single to family coverage. Members should discuss the IRA rollover with their financial institution. Employees are also allowed a one-time FSA or HRA transfer to fund their HSA account. This feature was developed to help an employee start an HSA with a one-time tax-free transfer of funds. The FSA or HRA transfer must be made before January 1, 2012.

Removal of Pro-Rata Contribution Restrictions - The Act now allows full HSA maximum contributions regardless of the month the member becomes eligible for the benefit. An employee hired in September can now, if desired, fund the entire contribution amount in the remaining months of the year.

Removal of Contribution Restrictions Related to Deductibles - Annual maximum HSA contributions are no longer tied to the deductible. Previously, contributions were limited to the lower of the policy deductible or government maximum. For 2007, only the government maximum limits the contribution to $2,850 for single coverage and $5,650 for family.

Altered "Comparability Rules" - Employers can make additional contributions for lower paid workers and are not subject to the "comparability rules." The comparability rules applied to employer contributions not made through a cafeteria plan and required comparable contributions be made to all employees. Employers are now able to increase HSA contribution amounts for lower paid workers.

Advanced Notification of COLA - The Secretary of the Treasury is now required to announce adjustments to the contribution and minimum deductible amounts by June 1st of each year. Currently the adjustment amounts are not announced until November and the earlier notification allows more time for insurance carriers and employers to plan for the following year.

If you have any questions on the above information or would like to discuss Health Savings Accounts and High Deductible Health Plans as an option, please contact Andrew Grace at 610-889-9500, extension 105 or andrew.grace@conestoga.biz.

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