



IMPORTANT UPDATE TO THE 2007 PLANNER FOR HEALTH & WELFARE PLANS

The following information occurred before the close of the 2006 calendar year, but after the printing of the **Conrad Siegel Actuaries 2007 Planner for Health & Welfare Plans**.

On December 20, 2006, President Bush signed the Health Opportunity Patient Empowerment Act of 2006. This law is part of the Tax Relief and Health Care Act of 2006 and provides several important technical improvements to Health Savings Accounts (HSAs), effective January 1, 2007:

1. Allows employees to fund HSAs with a one-time, tax-free rollover of funds from a Flexible Spending Arrangement (FSA) or Health Reimbursement Arrangement (HRA)

Prior to enactment of H.R. 6111, excess funds in Flexible Spending Accounts (FSAs) were forfeited at the end of each year. Balances in Health Reimbursements Accounts (HRAs) were employer-only amounts to which employees could not contribute. The provision allows participants in either FSAs or HRAs to make a one-time, tax-free rollover of funds to their HSA prior to January 2012.

2. Simplifies the Annual Contribution Limit to HSAs

Prior to enactment of H.R. 6111, individuals were only allowed an HSA contribution equal to the lesser of: the amount of the deductible for the high deductible coverage they are enrolled in, or the annual maximum contribution limit. The new law repeals the "lesser of" limitation and permits contributions up to the annual statutory HSA contribution limit, which is indexed annually for inflation. The contribution limit for 2007 is \$2,850 for single coverage and \$5,650 for family coverage.

3. Modifies HSA Contribution Rules for Mid-Year Enrollees

Previously, if an individual had enrolled in a high deductible health plan (HDHP) with an HSA after the start of the year, the amount they could contribute to their HSA was pro-rated by the number of months remaining in the year. However, in this instance the deductible for their health plan was not similarly adjusted. Because of this, mid-year enrollment in HDHPs and HSAs has often been unattractive. This bill will allow mid-year enrollees to make a full contribution to their HSAs and remove the previous disincentive to elect these plans.

4. Allows Employers to Make Higher Contributions to Lower-Wage Workers

Prior to the *Tax Relief and Health Care Act of 2006*, employers who contributed to their employees' HSAs were required to make "comparable contributions" to each account. With the passage of this new legislation, employers may contribute more money into the accounts of non-highly compensated employees, benefiting many lower-wage individuals and giving employers needed flexibility.



5. Allows Tax-Free Transfers from IRAs to HSAs

Currently, individuals with IRAs are not permitted to make tax-free withdrawals from their IRAs before age 59 ½ without paying a 10 percent penalty. Additionally, individuals currently then have to claim the withdrawn amount as income on their income tax returns. Under the new law, individuals will be allowed a onetime tax-free transfer of funds from an IRA to an HSA up to the annual contribution limit for the HSA so that these funds can be immediately available when health care is needed.

6. Requires Treasury to Publish HSA Index Amounts Earlier in the Year

This requires the Secretary of Treasury to publish the annual indexed adjustments to HSAs by June 1st of each year. This will allow employers and health plans to make appropriate changes to these plans in time for their annual enrollment seasons. Before this change to HSA law, Treasury could wait until as late as November 1st to issue indexed amounts. Due to enrollment periods, this late deadline often prohibited employers from incorporating the new amounts into plan design for the upcoming year.

7. Allows Individuals who Participate in FSAs with a "Grace Period" to Contribute to HSAs at the Start of the Year

Prior to H.R. 6111, individuals could not begin contributing to an HSA until late March if they were previously participating in a Flexible Spending Arrangement (FSA) with an end-of-year "grace period." (This grace period would give individuals an additional 2 ½ months to use FSA funds for health care needs.) This new provision allows individuals to contribute to their HSAs at the start of the year, even if they were enrolled for the previous year in an FSA with a 2 ½ month grace period provided the FSA balance is zero before the start of the grace period or any remaining FSA funds are transferred to the new HSA.

Because many of these changes will require the Department of Treasury and the IRS to issue guidance, we anticipate that updates will be made available in the future.