

# **Recent and Future Developments for Health Savings Accounts**

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February 1, 2007

# HSA Improvements (P.L. 109-432)

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- HSA Funding from FSAs and HRAs
  - Allows an employee to begin funding of their HSA with unused FSA and HRA dollars through a one-time tax-free transfer
- Transfers from Retirement Accounts to Health Savings Accounts
  - Allows taxpayers to make a one-time distribution from an IRA to an HSA so HSA funds are immediately available to meet family health needs
- Additional Flexibility for Employer Contributions
  - Allows an exception to the comparability rules so employers can fund the accounts of lower-paid workers

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- Increase in HSA Contribution Limits
  - Allows individuals to contribute up to the statutory maximum annual contribution limits (\$2,850 for single coverage and \$5,650 for family coverage for 2007), regardless of the individual's deductible (as long as it is an HSA-qualified plan)
- Expanded Contribution Limit for Part-Year Coverage
  - Allows people who begin their HSA-qualified coverage part way through the year and are subject to the entire calendar-year deductible to make a full annual HSA contribution, rather than pro-rating the contribution for the number of months of HSA-qualified coverage
- Earlier Notification of Cost of Living Adjustment
  - Requires the Secretary of the Treasury to announce inflation adjustments for HSA amounts by June 1st of each year

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- Regulatory Guidance expected soon
- Many provisions self-implementing
- Biggest questions:
  - IRA transfers
    - Process for IRA to HSA transfers
    - Can people convert 401(k) funds to IRA funds to HSA funds
    - Can people transfer funds from Roth IRAs
    - Can people transfer funds from SEP or SIMPLE IRAs
  - FSA/HRA transfers

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- FSA/HRA transfers
  - Technical problems
    - Determining the rollover amount
    - Current FSA coverage
    - Zero balance after rollover requirement
    - September 21, 2006 “lesser of” date
  - Unclear whether Treasury has authority to fix problems through guidance – may need technical corrections
    - Should the September 21, 2006 date be eliminated?

# President Bush's New Proposals

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- New standard deduction for health insurance
  - \$7,500 singles
  - \$15,000 families
  - Amounts indexed annually for inflation (CPI)
  - Must have health insurance coverage that, at minimum, covers catastrophic expenses
    - Does not have to be HSA-qualified insurance
- New standard deduction replaces:
  - Current exclusion from income and payroll taxes for health insurance purchased through an employer
  - “Medical expense” deduction for health care expenses above 7.5% of adjusted gross income
    - Exception -- Medicare beneficiaries

# President Bush's Budget Proposals

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- Implications for Employer-Sponsored Insurance
  - Health insurance provided by employers would be considered taxable income to the employee.
  - But families with health insurance will not pay income or payroll taxes on the first \$15,000 in compensation and singles will not pay income or payroll taxes on the first \$7,500.
  - Approximately 80 percent of people getting health insurance through their employer would not be affected.
  - The 20 percent with more generous policies can choose lower cost policies to avoid paying additional taxes.

# President Bush's Budget Proposals

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- Implications for Individually-Purchased Insurance and Uninsured
  - Families that purchase at least catastrophic coverage can reduce their taxable income by \$15,000 (or \$7,500 if single) – don't have to itemize
  - Levels the playing field for Americans who purchase health insurance individually rather than through their employers, providing a substantial tax benefit for all those who currently have health insurance purchased on the individual market.
  - Lowers taxes for all currently uninsured Americans who decide to purchase
- Changes will complement state health reforms
- Secretary of HHS will work with governors to increase private insurance coverage



# President Bush's Budget Proposals

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- Questions
  - Winners & losers
  - Refundable tax credits for low-income
  - How to avoid waiting until end of year to benefit from standard deduction
  - How coverage is valued
  - What counts as coverage
  - What happens to FSAs, HRAs, and HSAs
  - What happens to employer deductions

# Prospects for 110<sup>th</sup> Congress

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- New Congressional leadership
  - Diminished chances for further legislative enhancements without true bipartisanship or horse trading
  - Could propose “improvements” to HSAs
    - Preventive care
    - Account funding
  - Will hold oversight hearings
    - Insurance policies
    - Account features

# Prospects for 110<sup>th</sup> Congress

- Wild Cards
  - Anyone running for President, especially Senators
  - HSA enrollment growth
  - Organized labor
  - HSA “scandals” (real or imagined)
  - World events

# Contact Info

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