New Legislation Boosts HSAs

by Cora M. Tellez

The growth of health savings accounts (HSAs) should continue to be strong in 2007 with a substantial boost from the White House. President Bush signed a bill on December 20, 2006 to make healthcare more affordable and accessible. HSAs are at the center of the Health Opportunity Patient Empowerment Act of 2006. The law, which is part of the Tax Relief and Healthcare Act of 2006, provides new opportunities for those who participate in HSAs to build funds in their accounts. It also has advantages for employers.

Under the new law, HSA account holders can have funds in their accounts in excess of their health plan deductible. This provides even more opportunity to save for medical services (including dental and vision) or simply build a larger nest egg. The law also provides for more flexibility for employers to help their employees save money in their HSAs. The savings in HSAs creates a de facto retiree medical plan for employees without requiring employers to carry this liability on their books.

There are 3.6 million HSA accounts with $5 billion in assets under management. The new laws should rapidly spur even greater adoption of HSAs as a key tool in managing healthcare costs for individuals and employers. People are becoming more savvy healthcare consumers and are making different choices in how they access care and use their own money to pay for it. These new laws help address a gap in personal savings and healthcare coverage with 77 million Baby Boomers needing a way to pay for medical expenses when they retire.

The new regulations for HSAs include increasing contribution limits, which allows individuals and families to save more tax-free money to pay for qualified healthcare expenses. Individuals can contribute the maximum amount allowed by the IRS (which is indexed each year) regardless of their deductible. For instance, in 2007, a family with a $5,000 deductible could still put in the maximum $5,650 plus a catch-up provision of $800 for those 55 to 64 years of age. Individuals can make a maximum contribution of $2,850 in 2007, regardless of their deductible.

An HSA participant who starts an account during the year can contribute up to the full annual limit. To avoid taxes and penalties, account holders must maintain an HSA compatible plan for a 12 months beginning the month the HSA is established.

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Under the new measures, IRA accounts can be rolled over into HSAs on a one-time (in a lifetime) basis to meet medical needs in the event that HSA funds are insufficient to cover expenses. The rollover cannot exceed the maximum HSA contribution limit for the year and account holders must maintain an HSA compatible plan for a full year or taxes and penalties apply.

In addition, funds from flexible spending accounts (FSAs) and health reimbursement accounts (HRAs) can also be rolled over into HSAs. The rollover is on top of the maximum contribution limits; it is not limited to the maximum contribution allowed for that year.

The new law gives employers greater flexibility in funding employee accounts. Employers can make higher contributions for lower paid employees; contribute for families by tier (self, self plus one and self plus two or more); fund HSA accounts for their employees unilaterally; and exclude collectively bargained groups from the definition of "comparable groups." This last point means that employers can make contributions to collectively bargained employees differently than they do for other employees. Employers can also pay the fees charged by companies to manage employee HSA accounts without triggering ERISA.

Finally, the new law requires the Treasury Dept. to publish adjustments to HSA maximum contributions by June 1 of the preceding year rather than in the last part of the year as they do today. This change should simplify planning decisions for employers and employees as they design their benefit programs for the following calendar year. ❑

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