

CFOCUS



GRIZZAFFI DARBY
BEYOND BENEFITS

LET'S H.O.P.E. FOR HEALTH CARE

While many of us have become increasingly skeptical of the government's ability to make healthcare more affordable, President Bush recently signed the HOPE (Health Opportunity Patient Empowerment) Act of 2006. This law is part of the Tax Relief and Health Care Act of 2006 and includes several provisions designed to increase the adoption and advantages of Health Care Savings Accounts (HSA).



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THERE ARE SEVEN KEY CHANGES THAT SHOULD BE NOTED:

1. FSA and HRA Rollovers

Employees can elect to transfer current balances in Flexible Spending Accounts (FSA) or Health Care Reimbursement Accounts (HRA) into their HSA account if they are newly covered by an HSA-compatible health plan. Some key points:

- a. The amounts rolled over are above and beyond their annual contribution amount.
- b. The maximum contribution is the balance in the FSA or HRA as of 9/21/2006, or if less, the balance as of the date of the transfer.
- c. The provision is limited to one distribution for each FSA or HRA account the individual has.
- d. If the individual does not remain eligible for an HSA plan for 12 months following the contribution, the transferred amount is included in the individual's income and subject to the 10 percent penalty tax.

2. Increase in HSA contribution amounts

Contributions to an individual's HSA account were previously limited to the annual deductible of the qualified medical plan, or the statutory maximum under the law. This new provision does away with the deductible limit, now allowing contributions of \$2,850 for an individual and \$5,650 for a family regardless of the deductible of the health plan. These amounts are to be indexed for future inflation.



3. Elimination of pro-rated HSA contributions

Individuals can now have the entire \$2,850 (\$5,650 for a family) contributed to their HSA accounts even if they are covered by a qualifying health plan for less than 12 months of the calendar year. Previously, if an individual became covered by a qualifying health plan in July, only 6 months (the pro-rated number of months) of the eligible annual contribution could be made. While this provision removes a significant barrier to moving to a HSA plan mid-year, it also makes it more difficult to leave an HSA plan if you have been covered by it for less than 12 months. If an individual changes to a non-qualified health plan in less than 12 months, the pro rated amount of contribution for the remaining months will be included in their gross income with an additional 10 percent penalty tax.

4. IRA to HSA transfer

The new rules allow a one-time distribution from an IRA to a qualified HSA plan. The amount of the transfer cannot exceed the statutory annual contribution amount and is not subject to income or early withdrawal tax. With the rule stated above, if the individual does not remain eligible for 12 months following the transfer, the same penalties described in section 1. d above will apply.

5. FSA “tail” coverage can be disregarded coverage

Under previous rules, an individual that was covered by an FSA plan that allowed a grace period at the end of the plan year (as many now do) had to reduce their HSA contribution in the successive year. This provision eliminates that issue providing that:

- a. There is a zero balance in the FSA at the end of the plan year, or
- b. The individual directly rolls the FSA balance to their HSA account.

6. Cost of Living Adjustments

The date of index determinations is moved back from August 31 to March 31 and requires that adjusted amounts be published by June 1 of the preceding year. This will allow plan administrators and individuals more time to plan for the upcoming year.

7. Greater contribution for lower-paid employees

Employers now have the option of contributing more to the HSA accounts for Non-Highly Compensated Employees (NHCE). The definition of an NHCE is the same that is used for qualified retirement plans. Previously, employer contributions were required to be the same (either in amount or percentage of deductible) for all employees with the same category of coverage.



The provisions of the law seem to address some ongoing issues that many employers, and their covered employees, have had implementing a successful Consumer Directed Health Plan. Repeatedly, we have seen that our clients can develop highly successful programs if time is spent designing the program around the unique needs that they, and their employees have.

Understanding, evaluating and implementing a successful Consumer Directed Health Plan is unlike implementing any other benefit program. The landscape is changing. No longer can we sit and hope that everything will work out. Companies that are proactive in controlling their employee benefit costs are those that take the first step to evaluate how a Consumer Directed Health Care Plan can fit their long-term needs.

We encourage you to contact your Grizzaffi Darby LLC Consultant to schedule a strategy session soon.

