
MEMORANDUM

TO: C.E.O.'S AND HEALTH PLAN ADMINISTRATORS
FROM: CHRIS WEHDE, VICE-PRESIDENT
RE: CHANGES IN HEALTH SAVINGS ACCOUNTS REGULATIONS
DATE: 3/5/2007

President Bush signed legislation December 21, 2006 that makes several significant changes to the current health saving account rules. These changes are EFFECTIVE JANUARY 1, 2007 and include the following:

ANNUAL CONTRIBUTION LIMIT

Current Law: Currently, the law limits a participant's contribution to the lesser of the individual's deductible or the maximum allowed under the law.

New Law: The new legislation no longer applies the deductible limit but allows the individual to contribute up to the maximum allowed under the law regardless of what the individual's deductible is under the high-deductible health plan ("HDHP"). For 2007, the law allows an individual with single HDHP coverage to contribute up to \$2,850 and allows an individual with family HDHP coverage to contribute up to \$5,650.

MID-YEAR ENROLLMENT IN AN HIGH DEDUCTIBLE HEALTH PLAN(HDHP)

Current Law: Currently, individuals who sign up for HDHP coverage mid-year must pro-rate the maximum annual contribution by the number of months the individual had HDHP coverage.

New Law: Effective January 1, 2007 an individual who enrolls mid-year may contribute the entire maximum annual contribution even if he/she did not have HDHP coverage for the entire year. If, however, the individual does not keep HDHP coverage during the following calendar year, the HSA contributions attributed to months the individual did not have HDHP coverage will be taxed and subject to a 10% penalty. An exception to this requirement applies to individuals who no longer maintain HDHP coverage due to death or disability.

Rollovers from Health Flexible Saving Accounts(FSA) and Health Reimbursement Accounts(HRA)

Current Law: At present, rollovers and transfers from a health FSA or HRA are not prohibited.

New Law: The new rules allow distributions from a health FSA or HRA, provided, (i) only one rollover is made between January 1, 2007 and December 31, 2011, (ii) the rollover amount does not exceed the lesser of the individual's health FSA or HRA balance as of September 21, 2006 or the balance on the distribution date, and (iii) the individual has HDHP coverage during the month the rollover occurs and for the 12 month period following the rollover (unless due to death or disability). If the individual does not retain HDHP coverage during the 12 month period following the rollover, the rollover is subject to income taxes and a 10% penalty. Rollovers made available by employers in this manner must be made to all employees with HDHP coverage.

Non-Highly Compensated Employees

Current Law: Currently, employer contributions to employee HSA's may not vary (except with respect to full-time/part-time employees).

New Law: This legislation permits employers to make larger HSA contributions to non-highly compensated employees than for highly compensated employees. In 2007 an employee is considered a non-highly compensated employee if he or she earns less than \$100,000 in 2006. Comparable contributions, however, must be made for all non-highly compensated employees.

HEALTH FLEXIBLE SAVINGS ACCOUNT(FSA) GRACE PERIOD

Current Law: If an employer's health FSA allows an individual to use health FSA funds for qualified expenses incurred between January 1 and March 15 ("grace period") of the following calendar year, the individual will be ineligible for an HSA until April 1 even though he or she had HDHP coverage or had a zero balance in his or her health FSA during the grace period.

New Law: Effective January 1, 2007, the individual will be eligible for HSA coverage if the individual has a zero balance at the end of the plan year or transfers the balance remaining in the health FSA at the end of the plan year to an HSA.

COST-OF-LIVING ADJUSTMENTS

Current Law: Currently cost-of-living adjustments to the maximum annual limit on HSA contributions are determined by August 31 of the preceding calendar year.

New Law: Effective January 1, 2007, cost-of-living adjustments will be made on March 31 of the preceding calendar year.

With these new rules specific questions have arisen. The IRS has indicated they intend to issue guidance on these issues soon. We realize that the education curve with HDHP and a HSA is high so we would like to take this opportunity to remind everyone that there are **TWO** separate components to this type of plan. The first component is the high deductible health plan (HDHP). The second component is the HSA account and the HSA is an individual account. IBIS, as fiduciary administrator of IBBP, is responsible for the administration of the HDHP. Our staff that works with IBBP can assist IBBP covered individuals with their claims adjudication questions. It is the responsibility of the individual and the individual's HSA account administrator or accountant to answer specific questions regarding the individual's HSA account. Our goal is to provide overall reference information on the HSA accounts.

Thank you and if you have questions, please contact our office at 1-800-258-1415.