



The Vita Viewpoint Important Information for Decision Makers

IRS Announces 2006 COLAs for Health Savings Accounts

Overview

The Internal Revenue Service has announced the 2006 cost-of-living adjustments applicable to dollar limitations for Health Savings Accounts as well as underlying High Deductible Health Plans.

HDHP Policy Limits

		<u>2005</u>	<u>2006</u>
Minimum Deductible	<i>Individual</i>	\$1,000	\$1,050
	<i>Family</i>	\$2,000	\$2,100
Maximum Out of Pocket Maximum	<i>Individual</i>	\$5,100	\$5,250
	<i>Family</i>	\$10,200	\$10,500

HSA Account Limits

		<u>2005</u>	<u>2006</u>
Maximum HSA Contribution (Lesser of Deductible or Limit)	<i>Individual</i>	\$2,650	\$2,700
	<i>Family</i>	\$5,250	\$5,450
Over Age 55 Catch-up Contribution		\$600	\$700

Both the HSA contribution maximum and the catch-up contribution maximum are pro-rated for the number of months the taxpayer is actually eligible to contribute to the HSA account.

IRS Clarification on HSA Accounts and FSA Grace Period

The IRS has recently clarified the interaction between HSA eligibility and cafeteria plan health flexible spending accounts (FSAs) that have adopted the 2 ½ month grace period. When an FSA plan has been amended to provide a grace period, an individual will *not* be eligible to contribute to an HSA until the first day of the first month following the end of the grace period.

IRS guidance does provide employers with an alternative that would allow health FSA participants to contribute to their HSA plan during the grace period. An employer may amend its cafeteria plan document to allow a grace period and HSA eligibility if the employer converts its health FSA to one of the following options:

- 1) A limited-purpose health FSA (that reimburses expenses only for preventive care and permitted coverage, such as dental and vision care).
- 2) Post-deductible health FSA (that reimburses medical expenses only if they are incurred after the minimum annual deductible for the HDHP is met).
- 3) A combination of both.

The amendment must apply on a mandatory basis and participants cannot choose between HSA-compatible and non-HSA-compatible health FSAs on an individual basis.

For questions or additional information, please contact Vita Benefits Group at (650) 968-8811.