



## **HSA Limits for 2012 & Current HSA Rules** (June 2011)

The US Treasury has announced the new Health Savings Account contribution limits for 2012. They will be \$3,100 for single coverage and \$6,250 for family coverage. Catch up amounts for individuals age 55 and older remain at \$1,000 per year. There is no change to the minimum deductible limits required on high deductible health plans. They remain the same at \$1,200 for single coverage and \$2,400 for family coverage. Flexible Benefit Plan participants can change their HSA trust account contributions monthly without the usual status change requirement. Therefore, HSA plan participants can increase values to the new limits effective January 1, 2012.

Remember, contributions into the HSA trust made with pretax dollars through a flexible benefit plan are prorated. The reason for the pro-ration is as follows. If a participant deposits the full allowable amount into the HSA trust during the plan year but does not own a high deductible health plan for the entire calendar year, then the participant must own a high deductible health plan for the entire next calendar year. If a high deductible health plan is not owned for the entire next calendar year, excess contributions to the HSA trust would apply. This would create a tax liability for the participant. Catch-up contributions are always prorated based on owning a high deductible health plan on the first day of a given month.

Contributions into the HSA trust are allowed for a given month as long as the participant owns a high deductible health plan on the first day of that month. In other words an employee who did not purchase a high deductible health plan until the middle of the month would not be eligible to make a contribution into the plan until the first day of the following month. Also, remember that HSA trust contributions are only allowed until the participant reaches age 65 and enrolls in Medicare.

Once dollars are deposited into the HSA trust they belong to the individual and can be used at any time during the participant's lifetime to pay for health care expenses tax-free for himself/herself, spouse and/or dependents. Participants can take dollars out of the HSA trust for eligible health care expenses even if a family member is not covered on the high deductible health plan. However dollars taken from the trust that are not for a qualifying medical expense are subject to taxation, plus a 20% penalty. The 20% penalty is new for 2011; the penalty value was previously 10%.

Lastly, both the employer and employee HSA trust contributions, when made pretax through A Flexible Benefit Plan are reported on the W-2 at the end of the calendar year as a tax-free employer contribution to the HSA trust. These dollars are not deductible on the individual's tax return as they have already received tax-free status. The advantage to the participant is that he/she did not pay Social Security and Medicare contributions on the salary-reduction HSA trust contributions made through a Flexible Benefit Plan; and also had an immediate savings on federal and state withholding taxes (in most states).

Utilization of these valuable HSA plan options continues to increase. According to the American Health Insurance Plans (AHIP) who continue to research industry trends, there are currently over 20 million people enrolled in consumer driven health plans. While not all of these plans are HSA qualifying insurances they do all include a high deductible component.

Taking a closer look, enrollment in HSAs grew by 14% from 2010 to 2011; enrollment in HSA plans has grown 87% since 2008. Growth in the individual market grew 15% from 2010 to 2011 and the group market including both large and small employers grew by about 14% from 2010 to 2011. There is no doubt that the economic challenges facing our country have impacted this growth. HSA plans represent 13.5% of all new enrollments in the small group market and 26% of new enrollments in the large group market according to AHIP research.

As the Wall Street Journal has previously noted, under health care reform new required minimum medical loss ratio requirements, which do not count medical claims below the deductible because the claims are not paid by the insurance carrier, could make it harder for high deductible health plans to meet this minimum standard in the future. Other provisions in the new law have yet to be defined. For example, the laws essential health benefits package could contain new restrictions on deductibles and cost-sharing that will prevent, at least some current HSA plans, from being offered. Many more individuals could lose their HSA plan depending on how "insurance" is finally defined.

Please note: Sen. Orrin Hatch Republican from Utah and Republican, Eric Paulsen have introduced legislation (S. 1098/H. R. 2010) that would expand HSAs and eliminate many of these barriers to growth. If this is important to you, contact your elected representatives today and ask them to support these bills and HSAs.