

HSA FACTS

Rollovers from health FSAs and HRAs into HSAs through 2011. Employers can transfer funds from Flexible Spending Arrangements (FSAs) or Health Reimbursement Arrangements (HRAs) to an HSA for employees switching to coverage under an HSA-compatible health plan. The amounts rolled over to HSAs from FSAs or HRAs are over and above the amounts allowed as annual contributions. The maximum contribution is the balance in the FSA or HRA as of September 21, 2006, or if less, the balance as of the date of the transfer. The provision is limited to one distribution with respect to each health FSA or HRA of the individual. If an individual does not remain an eligible individual for the 12 months following the month of the contribution, the transferred amount is included in income and subject to a 10 percent additional tax.

Increase in annual HSA contribution. Previously, the maximum HSA contribution was the lesser of the deductible of the individual's HSA-eligible plan or a statutory maximum. The new rules make the limit the statutory maximum contribution, regardless of the individual's deductible. For 2010, the maximum contribution for an eligible individual with self-only coverage is \$3,050, and the maximum contribution for an eligible individual with family coverage is \$6,150. These limits are indexed for inflation.

Full HSA contribution regardless of month individual becomes eligible. Normally, the HSA contribution is prorated based on the number of months that an individual during the year a person was an eligible individual. The new provisions provide an exception to this rule that will allow individuals who become covered under an HSA-eligible plan in a month other than January to make the maximum HSA contribution for the year based on their coverage in the last month of the year. This eliminates a common barrier to switching to HSA-eligible coverage. If an individual does not stay in the HSA-eligible plan 12 months following the last month of the year of the first year of eligibility, the amount which could not have been contributed except for this provision will be included in income and subject to a 10 percent additional tax.

One-time transfer from IRAs to HSAs. The new rules allow for a one-time contribution to an HSA of amounts distributed from an Individual Retirement Arrangement (IRA). The contribution must be made in a direct trustee-to-trustee transfer. The IRA transfer will not be included in income or subject to the early withdrawal additional tax. The transfer is limited to the maximum HSA contribution for the year, and the amount contributed is not allowed as a deduction. Generally, only one transfer may be made during the lifetime of an individual. If an individual electing the one-time transfer does not remain an eligible individual for the 12 months following the month of the contribution, the transferred amount is included in income and subject to a 10 percent additional tax.

Certain FSA coverage treated as disregarded coverage. Under previous law, if an FSA had a grace period following the end of the plan year allowing participants to incur

additional reimbursable expenses, participants were treated as having disqualifying coverage, reducing their HSA contribution for that year, even though they had switched to HSA-eligible coverage at the first of the year. The new rules treat certain FSA coverage during a grace period as disregarded coverage, eliminating any resulting reduction in the HSA contribution for the year. First, the coverage is disregarded if the balance in the health FSA at the end of the plan year is zero. Second, the coverage is disregarded if the year-end balance is transferred directly to an HSA from the FSA, as noted above.

Allow greater employer contributions for lower-paid employees. Previously, employer contributions under the comparability rules had to be the same amount or percentage of the deductible for all employees with the same category of coverage. Consequently, employers could not contribute higher amounts to lower-paid employees. The new rules provide an exception to the comparability rules allowing employers to contribute more to the HSAs of non-highly compensated individuals. For this purpose, the definition of "highly compensated employee" is based on same definition used for qualified retirement plans.