

Summary of the Tax Relief and Health Care Act of 2006

Item	Changes	Implications – purchaser	Implications – member
FSA or HRA rollovers into HSAs <i>(formerly not allowed)</i>	<ul style="list-style-type: none"> • One-time rollover (also referred to as a <i>distribution</i> from the FSA or HRA) • Rollover must occur before 1/1/2012 • Amount allowed for rollover must be the lesser of the balance in the FSA or HRA on 9/21/2006, or the amount to be rolled over at the time of the distribution from the FSA or HRA • The member making the rollover to an HSA must be covered by an HDHP • The member must maintain coverage under a qualified HDHP for 12 months after the rollover (or the distribution will be a taxable event, including the 10% tax penalty if under age 65) • Effective: this applies to all distributions made on or after the date of enactment 	<ul style="list-style-type: none"> • Employers can switch from an HRA to an HSA and have whatever balance is in the HRA rollover into the employees' HSAs (the notional account will become the employees' real money in the process) 	<ul style="list-style-type: none"> • If the employer allows this feature, members can be transitioned to an HSA without losing their existing HRA or FSA balance • Money rolled over from an FSA or HRA will not count toward the member's annual HSA contribution limit
Contributions to an HSA during the FSA grace period <i>(formerly not allowed)</i>	<ul style="list-style-type: none"> • Members can make contributions to an HSA if they are also covered by an FSA grace period if: <ul style="list-style-type: none"> ○ there is no money left in the FSA at the end of the plan year, or ○ the entire remaining FSA balance at the end of the plan year is contributed to an HSA • The member making the rollover to an HSA must be covered by an HDHP • The member must maintain coverage under a qualified HDHP for 12 months after the rollover (or the distribution will be a taxable event, including the 10% tax penalty if under age 65) • Effective: as of the date of enactment 	<ul style="list-style-type: none"> • Tracking this may be complex for employers. There is no way for the health plan to track HSA distributions at this time. 	<ul style="list-style-type: none"> • Members do not have to wait to establish (or contribute to) an HSA if they have a general-use FSA

Item	Changes	Implications – purchaser	Implications – member
IRA rollovers to HSAs <i>(formerly not allowed)</i>	<ul style="list-style-type: none"> • One-time only rollover (i.e., distribution) from an IRA to an HSA • Irrevocable • The amount rolled over is subject to the annual HSA contribution limit (i.e., the statutory limit, now that deductible-based contribution limits are going away) • The member making the rollover to an HSA must be covered by an HDHP • The member must maintain coverage under a qualified HDHP for 12 months after the rollover (or the distribution will be a taxable event, including the 10% tax penalty if under age 65) • Effective: for tax years beginning on or after 12/31/06 	<ul style="list-style-type: none"> • The purchaser is not involved, as the transaction would be between the financial institutions administering the IRA and the HSA. 	<ul style="list-style-type: none"> • Members have a little freedom to move retirement money to a health care account – tax free distribution as long as it is for healthcare (better benefit than an IRA, which is taxed upon distribution). • Members can use IRA dollars to establish the HSA for healthcare expenses.
No deductible limit on HSA contributions <i>(formerly, members could contribute up to the lesser of the annual deductible of the HDHP or the statutory limit set annually)</i>	<ul style="list-style-type: none"> • Members can now contribute up to the statutory limit, regardless of the deductible (based on individual coverage or family coverage) Deductible plan still must meet minimum requirements to qualify as an HDHP. • Effective: applicable to taxable years after 12/31/06 	<ul style="list-style-type: none"> • Employers will need to make payroll deduction changes in 2007 to accommodate the increased contribution limit. 	<ul style="list-style-type: none"> • Members can contribute more than the deductible, up to the statutory max (\$2,850 single, \$5,650 family). • Less financial risk (if the deductible is lower than the statutory limit) with more tax benefits of higher HSA contribution. • Married couples who are both enrolled in HDHPs can now make a combined contribution up to the statutory maximum for family coverage, regardless of the plan deductibles.

Item	Changes	Implications – purchaser	Implications – member
<p>Release of new annual HSA limits <i>(formerly released by the IRS annually around October or November)</i></p>	<ul style="list-style-type: none"> • The cost of living allowance that impacts the annual HSA statutory limits will be based on the average of the CPI for the 12-month period ending on March 31 (rather than the 12-month period ending August 31) • This will allow the IRS to release new limits in June rather than November • The limits included are: <ul style="list-style-type: none"> ○ Out-of-pocket maximums for HDHPs ○ Minimum deductibles for HDHPs ○ Dollar limits for HSA contributions • Effective: for tax years beginning after 2007 	<ul style="list-style-type: none"> • HealthPartners will be able to communicate new annual HSA limits to our members and purchasers earlier than before (June versus November) • More time for planning the following year’s plan features (and less guesswork) • Great for open enrollment materials and communications! 	<ul style="list-style-type: none"> • More time for planning savings strategies
<p>Full contributions allowed for mid-year HSA enrollment <i>(formerly, HSA contribution limits were calculated month-by-month — members could only contribute 1/12 of the annual contribution limit for each month they were enrolled — yet they were still held to a full year’s deductible)</i></p>	<ul style="list-style-type: none"> • Members can make a full-year contribution to their HSA, even if they enroll in the HDHP/HSA mid-year, so long as the member is HSA-eligible during the last month of the tax year. • Members who enroll mid-year and make a full-year contribution to their HSAs must maintain coverage under a qualified HDHP for 12 months after enrollment (or the HSA contributions will be taxable, including the 10% tax penalty if under age 65) • Effective: for tax years beginning after 12/31/06 	<ul style="list-style-type: none"> • More employers may be inclined to start a mid-year plan with this provision (rather than have changes take place on 1/1) 	<ul style="list-style-type: none"> • Members held to a full year’s deductible may now make a full year’s contribution to their HSA (if enrolling mid-year) • Great for mid-year hires! • A concern if an employer does not continue to offer an HDHP for 12 months or if the member changes employers and the new employer does not have an HDHP

Item	Changes	Implications – purchaser	Implications – member
<p>Comparable contributions to HSAs (<i>formerly, employers were required to make comparable contributions to comparable employees if HSA is not under a §125 cafeteria plan</i>)</p>	<ul style="list-style-type: none"> • Employers will not have to make comparable contributions for certain employees (e.g., highly compensated employees as defined by the federal tax code) • A <i>highly compensated employee</i> is any employee who: <ul style="list-style-type: none"> ○ is a five-percent owner at any time during the year or the preceding year, ○ had compensation from the employer in excess of \$100,000 in 2006 (for 2007, indexed annually for inflation), and ○ was in the group consisting of the top 20 percent of employees when ranked based on compensation (if elected by the employer) • Effective: for tax years beginning after 12/31/06 	<ul style="list-style-type: none"> • Employers will be allowed to contribute more into the HSAs of lower-paid employees 	<ul style="list-style-type: none"> • Benefit for lower-paid employees (if employer chooses to differentiate contributions)