

## IRS Announces Inflation Adjustments That Affect Health Savings Accounts

Several key dollar amounts concerning health savings accounts (HSAs) are tied to cost-of-living indices, and potentially change each year. The IRS recently announced the changes to these dollar amounts that will apply during 2008. The IRS made this inflation-adjustment announcement almost six months earlier this year than it did last year, providing employers with much better ability to incorporate the new dollar amounts into their benefits planning for 2008.

The inflation-indexed dollar amounts include the minimum annual deductible and maximum out-of-pocket limit for a high-deductible health plan (HDHP). (Coverage under an HDHP is one of the conditions that an individual must meet in order to be eligible to make (or have made on the individual's behalf) tax-favored HSA contributions.) The basic HSA contribution limits are also inflation-indexed dollar amounts. The limit on catch-up HSA contributions, for individuals age 55 or older, is not inflation-adjusted but is set by law to increase in \$100 increments until it reaches \$1,000 in 2009.

The chart below sets out the limits that apply currently, and the limits that will apply during 2008.

	Calendar Year 2007		Calendar Year 2008	
	<i>Self-only</i>	<i>Family</i>	<i>Self-only</i>	<i>Family</i>
<b>Annual Contribution Limit</b>	\$2,850	\$5,650	\$2,900	\$5,800
<b>HDHP Minimum Annual Deductible</b>	\$1,100	\$2,200	\$1,100	\$2,200
<b>HDHP Maximum Out-of-Pocket Limit</b>	\$5,500	\$11,000	\$5,600	\$11,200
<b>Catch-up Contribution</b>	\$800		\$900	

It has been a particular sore spot for employers and their advisors that, in previous years, the IRS has not announced the inflation-adjusted amounts until quite late into the year. For example, the dollar amounts for 2007 were not announced until November 2006 (see *Willis Employee Benefits Alert #87, Cost of Living Adjustments for 2007*). The earlier timing of this year's announcement is mandated by HSA legislation that Congress passed at the end of 2006 (see *Willis Employee Benefits Alert #91, Health Savings Account Legislation Makes HSAs More Flexible*). The legislation revised the provisions governing HSAs so that they now require the IRS to publish the annually adjusted amounts no later than June 1 for the following calendar year.

The IRS announcement also reflects another change made by the 2006 legislation – elimination of the annual deductible under the HDHP as a limitation on annual HSA contributions. Under the rule in effect until January 1, 2007, HSA contributions for a year could not exceed the annual deductible under the HDHP or, if less, the statutory maximum annual contribution. The 2006 changes eliminate the tie to the HDHP's annual deductible, so that only the statutory dollar limits (\$2,850/\$5,650 for 2007) apply. Last November, when the IRS announced the inflation-adjusted dollar amounts for 2007, this change had not yet been made. Therefore, the IRS' announcement included the HDHP annual deductible component of the limit on HSA contributions. In its announcement of the 2008 inflation adjustments, the IRS also corrected its announcement of the 2007 adjustments.

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