

BenInfo

Benefit Trends and Information Updates



November 2005

Howitt Insurance Services is pleased to provide periodic updates on benefit trends and information. As part of our valuable services, we want to ensure that you are well-informed of the topics within our industry.

NEW GUIDANCE FOR 2006 HEALTH SAVINGS ACCOUNTS (HSA)

The Treasury Department has issued new guidance for 2006 on the maximum contribution levels for Health Savings Accounts (HSAs) as well as minimum deductibles and out-of-pocket spending limits for HSA-Compatible High Deductible Health Plans.

We would like to call your attention to the "New Minimum Deductible Amounts for 2006". For the first two years (2004- 2005) of the Health Savings Account /HSA program, minimum deductible for High Deductible Health Plans/HDHPs was \$1,000 for self-only coverage and \$2,000 for family coverage. For 2006 the Treasury has now raised the HDHP deductible amounts for 2006: the minimum deductible for HDHPs increases to \$1,050 for self-only coverage and \$2,100 for family coverage.

Before your renewal we will ensure to make sure your HDHP meets the new minimum deductible for 2006. If you are considering moving to a high deductible plan so you can set up an HSA, you must be aware of this change because, ultimately, the responsibility of proving you qualify for an HSA is on your shoulders in case of an audit. It may take them some time for some insurance companies to change their minimum HDHP policies because of this ruling, so we will monitor your plans accordingly.

High Deductible Health Plans/HDHP are "grandfathered" until the current contract ends. The new minimum deductible applies to contracts beginning in 2006. So if a HDHP contract starts 12/1/05, the \$1,000 minimum deductible still applies. When the contract renews next year, the new \$1,050 minimum deductible applies.

The new Treasury levels for 2006 are as follows:

New Annual Contribution Levels for HSAs:

- For 2006, the maximum annual HSA contribution for an eligible individual with self-only coverage is \$2,700. (Note: for any individual, the maximum contribution is the lesser of this indexed amount or the deductible of the HDHP.)
- For family coverage the maximum HSA contribution is \$5,450.
- Catch up contribution for individuals who are 55 or older is increased by statute from \$600 in 2005 to \$700 in 2006.
- Both the HSA contribution and catch up contribution must be pro rated based on the number of months of the year a taxpayer has an HSA Qualified High Deductible **Plan**.

New Amounts for Out-of-Pocket Spending on HSA- Compatible HDHPs:

- The maximum annual out-of-pocket amounts for HDHP self-coverage increases to \$5,250 and the maximum annual out-of-pocket amount for HDHP family coverage is twice that, \$10,500.

If you have any questions about HSAs, please contact us at 408-323-1436 or benefits@howittins.com.

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