

NEW HEALTH SAVINGS ACCOUNT RULES

DECEMBER 2006

Health Savings Accounts (HSA's) have become even more attractive as savings vehicles. Changes have been implemented that will allow for increase in hundreds of dollars in tax-free contributions a year. Health Savings Accounts which we have discussed at length and offer to our clients must be coupled with high deductible health insurance. They allow for tax-free contributions and withdrawals as long as they are used for medical expenses. To recap, HSA's were born out of tax legislation in 2004 in an effort by President Bush to give Americans more control and responsibility for their health costs.

The new rules lift the current requirement that annual contributions to HSA's be no greater than the deductible of the health insurance owned by the individual. The new rules will allow the cap on individuals to be raised to \$2,850 and \$5,650 for families. The new rules also allow for individuals who purchase the accounts mid-year the ability to contribute the full-year amount. The new rules will also allow for a one-time transfer of funds from IRA's to HSA's. This is a significant change for retirees because the funds withdrawn from an IRA are taxable, whereas HSA withdrawals used for medical expenses are not.