

May 15, 2007

IRS Announces 2008 HSA/HDHP Limits

The Internal Revenue Service ("IRS") announced the 2008 annual contribution limits for health savings accounts ("HSAs") and the minimum deductible and maximum out-of-pocket limits for accompanying high deductible health plans ("HDHPs") on May 11-- over two weeks ahead of the new statutory notice deadline of June 1.

Revenue Procedure 2007-36 amends and supersedes Revenue Procedure 2006-53 to establish the following limits for 2008:

Annual HSA Contribution Limit: Self-only: \$2,900 Family: \$5,800

For 2008, the limit on HSA contributions for an individual with self-only coverage under an HDHP is \$2,900, up from \$2,850 in 2007. The 2008 annual contribution limit for an individual with family HDHP coverage is \$5,800, up from \$5,650 in 2007. For 2008, individuals who are age 55 or over may also make an additional \$900 catch-up contribution, up from \$800 in 2007.

**HDHP Limits: Minimum Deductible: Self-only: \$1,100 Family: \$2,200
Maximum Out-of-pocket: Self-only: \$5,600 Family: \$11,200**

For 2008, an HDHP is a health plan with an annual deductible not less than \$1,100 for self-only coverage and \$2,200 for family coverage. These minimum deductibles are the same as the 2007 minimum deductibles.

For 2008, an HDHP's annual out-of-pocket expense limit may not exceed \$5,600 for self-only coverage and \$11,200 for family coverage. The 2007 limits were \$5,500 and \$11,000, respectively.

Discussion

Each year, certain key figures relating to the HDHP limits and the amount that an individual can contribute to an HSA are adjusted for inflation, as required by section 223(g)(1) of the Code. Prior to January 1, 2007, the cost-of-living increase was based upon information from the Bureau of Labor and Statistics (BLS) – specifically, the average consumer price index ("CPI") as of the close of the 12-month period ending on August 31, as described in Code section 1(f)(4). For the past three years, the IRS has announced the new limits in a Revenue Procedure that was generally published in November each year. This was widely viewed as providing an inadequate amount of lead time for insurance companies and other HSA providers who are offering HDHP/HSA products and employers who are distributing open enrollment materials for the following year.

On December 20, 2006, President Bush signed into law the Tax Relief and Health Care Act of 2006 (Pub. L. No. 109-432) (the "Act"). The Act included several significant HSA provisions,

including increases to the HSA contribution limits and administrative simplifications. Section 304 of the Act requires the IRS to calculate the annual cost-of-living adjustments using the twelve-month period ending March 31 instead of August 31 and to publish the adjusted HSA limits no later than June 1 of the preceding calendar year. This provision was intended to help plan sponsors and administrators better prepare for the coming plan year.

For more information on HSAs or on how to incorporate the changes into existing health plans contact Chris Keller, Bill Sweetnam, Brigen Winters or Heather Meade by calling (202) 857-0620.