

July, 2007

IRS Announces 2008 HSA Maximum Contributions and HDHP Deductible Amounts.

By: Alan M. Levy, Esq.

The IRS has raised the amount of tax-free contributions you can make to an HSA. A person can use a tax free Health Savings Account ("HSA") to pay for deductibles in his/her High Deductible Health Plan ("HDHP"). The maximum possible annual contribution to an HSA and the minimum possible deductible amounts for HDHPs are subject to annual increases based on inflation. Programs which stay within these parameters allow full tax deductions for the taxpayer's payments to the HSA.

The Internal Revenue Service has announced the applicable amounts for payments made in calendar year 2008. Rev. Proc. 2007-36, 2007-22 IRS. Starting January 1, 2008, the maximum annual amount which can be paid into a person's HSA is \$2,900.00 for an individual and \$5,800.00 for family coverage. It is important to note that last year's amendments to IRC § 223(b) allow contributions up to these maxima regardless of the deductible amount in the parallel HDHP. Thus, a person whose HDHP has a \$2,500/\$5,000 deductible can still receive a full income tax deduction for contributions of \$2,900/\$5,800 to his/her HSA.

The HDHP deductibles have also been changed for 2008, IRC § 223(c)(2)(A). Effective January 1, 2008, an HSA must be coordinated with an HDHP which requires its insured to pay at least the first \$1,100.00 for an individual's annual medical expenses and \$2,200 for those of a family (the initial deductible), but cannot require the insured to pay more than \$5,600.00 in deductibles, co-payments, and comparable expenses for an individual, nor more than \$11,200.00 for those of a family.

The HSA/HDHP combination continues to provide an attractive alternative to traditional health insurance formats. The HSA can be used to pay current medical expenses which the HDHP does not cover or which are subject to the HDHP's deductibles and co-payments. Any unused amount in

the HSA can be retained for use in following years, and any unused balance after the year in which the participant dies or attains age 65 can be taken as a taxable lump sum distribution. At the same time, premium costs for the HDHP should be less than those of health insurance which begins its benefit payments after lower deductible payments are made by the participant.

If you have any question about HSAs, HDHPs, or employee benefits, please contact Alan Levy Lindner & Marsack, S.C.

If you have any questions about the issues raised by this e-alert, please feel free to contact Alan M. Levy at (414) 273-3910 or by e-mail at or alevy@lindner-marsack.com.

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