



Benefits Administration Letter

Number: 06- 208

Date: December 21, 2006

Subject: Tax Relief and Health Care Act of 2006

On December 20, 2006, President Bush signed the Tax Relief and Health Care Act of 2006. The Act provides additional benefits for employees interested in a High Deductible Health Plan (HDHP) with a Health Savings Account (HSA).

Under the new Act:

- HSA contributions are no longer limited to the annual deductible of the High Deductible Health Plan (HDHP); they are limited only by the IRS maximums. The 2007 HSA maximum contribution limit is \$2,850 for single coverage or \$5,650 for family coverage. Individuals who are 55 or older may make an additional catch-up contribution of \$800 for 2007. See: <http://www.ustreas.gov/offices/public-affairs/hsa/07IndexedAmounts.shtml>. The maximum contribution limits under Federal Employees Health Benefits (FEHB) Program will reflect this change in the law. Since the 2007 plan brochures were printed prior to the change in law, the information about maximum contribution limits in the brochures should be updated.
- FEHB enrollees may make or receive a full year's contribution to their HSA for partial year coverage as long as they maintain their HDHP enrollment for 12 months. If enrollment is less than 12 months, the tax reduction is lost and a 10% penalty is imposed. There is an exception for death or disability. Previously, enrollees' contributions were pro-rated based on the number of full months their HDHP was in effect.
- Enrollment in a Health Care Flexible Spending Account (HCFSA) in 2006 may be disregarded for purposes of determining eligibility for an HSA in 2007 if the HCFSA enrollees meet one of the following requirements:
 - Their HCFSA balance for 2006 must be zero on December 31, or
 - They transfer their remaining HCFSA balance to an HSA once they are enrolled in an HDHP. **They must notify SHPS, the FSAFEDS administrator, of their intention to transfer their HCFSA balance by December 31, 2006.**

This is a one time transfer that can be made once the HSA is set-up with the HDHP. There may be a small processing fee for the transfer. FSAFEDS will notify participants regarding any fee.

- FEHB enrollees in HDHP plans with a Health Reimbursement Arrangement (HRA), who are now eligible for an HSA, may make a one-time transfer of the balance in a Health Reimbursement Arrangement (HRA) to an HSA. FEHB insurance carriers will notify affected employees concerning what they need to do to take advantage of this opportunity.
- The new law did not change the prohibition against employees having a general purpose HCFSA and an HSA at the same time. Therefore, employees who now want to enroll in an HDHP with an HSA must either revoke their 2007 election for an HCFSA, if they made one, or convert to a Limited Expense Flexible Spending Account (LEX HCFSA).

In light of the new law, which was not in place during the FEHB Open Season and which will affect HSAs for 2007, FEHB Program enrollees should receive additional time to consider enrollment in an HDHP option. We are providing the following guidance regarding this special enrollment opportunity:

- Agencies should accept belated open season enrollments in an HDHP with an HSA for eligible individuals through December 31, 2006. **Please notify your employees immediately about this opportunity so that they can take the necessary action.**
- For employees eligible to participate in the FSAFEDS Program, SHPS will allow those enrolling in an HDHP plan to do the following:
 - Transfer the amount remaining their HCFSA under the FSAFEDS Program to an HSA. These enrollees are not eligible for an HSA in 2007 if they do not elect to roll-over any unspent FSA funds,
 - Revoke their HCFSA elections for 2007 so that they may enroll in an HDHP with an HSA,
 - Change from an HCFSA to a LEX FSA,
 - Enroll in a LEX FSA.

FSAFEDS enrollees must notify SHPS of their intention to revoke, change or transfer their HCFSA by December 31, 2006. Enrollees should go to the FSAFEDS web site at www.FSAFEDS.com or call SHPS at 1-877-372-3337 for further instructions.

Additional information is available at the FEHB webpage at www.opm.gov/hsa. Thank you for your assistance in making this new information available to your employees.

Sincerely,

Robert F. Danbeck
Associate Director
for Human Resources Products and Services