

Compliance Corner: IRS Releases Final HSA Comparability Regulations

*Robyn Howard, Compliance Director
CONEXIS*

The US Department of the Treasury and the Internal Revenue Service recently issued final regulations governing Health Savings Account (HSA) comparability rules. If an employer contributes to an employee's HSA, comparability rules require the employer to make comparable contributions to all applicable employees. Contributions are considered comparable if the contributions are the same amount or the same percentage of the deductible under the high deductible health plan.

The most noteworthy portion of the regulations is the clarification that contributions made through a Section 125 cafeteria plan are not subject to the comparability rules. Contributions are considered made through a cafeteria plan if under the written cafeteria plan employees have the right to elect to receive cash or other taxable benefits in lieu of all or a portion of an HSA contribution, regardless of whether an employee actually elects to contribute any amount to the HSA by salary reduction. *HSA contributions made through a cafeteria plan are subject to non-discrimination testing requirements under the cafeteria plan.*

CONTINUED ON PAGE 2

Bills Focus on Improving Americans' Health

Club Industry

Americans may soon have a financial incentive to join a fitness facility. A bill introduced in Congress proposes the expansion of medical flexible spending accounts to include health club memberships, home exercise equipment, sports league registration costs and healthy lifestyle programs like Weight Watchers. With a \$1,000 limit for tax-deductible exercise expenses, Americans could save 25 to 30 percent on the cost of keeping fit, depending on their income tax bracket.

"This bill treats exercise as preventive medicine, which it should," says Tom Scanlon, the president of the National Coalition for Promoting Physical Activity, which supports the Personal Health Investment Today Act of 2006. "It enables people to pay for their YMCA, JCC or private health club membership out of pre-tax dollars. The bill relieves some of the financial burdens of being physically active."


The PHIT bill focuses on prevention rather than treatment, says Jay Sweeney, a lobbyist

CONTINUED ON PAGE 3

Compliance Corner: IRS Releases Final HSA Comparability Regulations


– CONTINUED FROM PAGE 1

Other highlights include:

- For purposes of comparability testing, there are two categories of coverage - self-only and family coverage. Additionally, the following subcategories of family coverage may be treated as separate categories:
 - o Self + one
 - o Self + two
 - o Self + three or more
- A category providing coverage for the same number of individuals is treated a single category.
- Full-time employees, part-time employees and former employees (excluding those on COBRA) are treated as separate groups for purposes of comparability testing.
- HSA contributions made on behalf of sole-proprietors, self-employed individuals, independent contractors and partners in a partnership are not subject to the comparability rules.
- HSA contributions made by the employer for employees covered by a collective bargaining agreement may be excluded from the comparability rules (if benefits are the subject of good faith bargaining).
- An employer must take “reasonable actions” to locate missing participants for whom comparable contributions are due. “Reasonable actions” includes certified mail, IRS’ Letter Forwarding Program and/or the Social Security Administration’s Letter Forwarding Service. 

A copy of the Regulations may be found using the following link:

http://www.irs.gov/irb/2006-33_IRB/ar08.html



Comment
Newsletter

CONEXIS Comment is a monthly publication of CONEXIS. It is also available in digital form by request at comment@conexis.com or by subscribing at www.conexis.com.

About CONEXIS
For more than 20 years, CONEXIS has delivered a wide range of employee benefit administration solutions to employers, third party administrators (TPAs), business outsourcing partners and health plans across the nation. Specializing in the complex areas of administration and compliance, its expertise includes COBRA and HIPAA Administrative Services; Direct Bill Services for Retirees, Leave of Absence (LOA) and Family Medical Leave Act (FMLA); and Reimbursement Account Administration, including Section 125 Flexible Spending Accounts (FSA), Section 132 Transportation Plans, Section 105 Health Reimbursement Arrangements (HRA), and Health Savings Accounts (HSA). CONEXIS was the nation’s first outsourcing provider to offer benefits administration on a single Web-based, fully integrated system and is the only benefits administrator to offer performance standards and guarantees to all clients, regardless of size. CONEXIS, headquartered in Dallas, Texas, with a customer service center in Orange, California, is a Word and Brown company. For more information, visit the company’s Web site at www.conexis.org.

Official Pushes for More Healthcare Cost Data

Pittsburgh Post-Gazette (KRT)

A federal official encouraged Pittsburgh business and healthcare leaders yesterday to participate in a Bush administration initiative to provide consumers with better information about the cost of services provided by doctors and hospitals.

Earlier this week, President Bush issued an executive order directing government agencies to make publicly available, when possible, any information about the price of medical services received by beneficiaries in Medicare and other federal healthcare programs.

That information could be used by regional groups, such as the Downtown-based Pittsburgh Regional Healthcare Initiative, to drive local efforts to promote quality and contain costs, said Mike Leavitt, secretary of Health and Human Services.

The lack of information about the price of healthcare has been a key stumbling block to, among other things, the adoption of health savings accounts, a relatively new type of health plan that gives consumers incentives to shop for care with an eye toward cost. But Mr. Leavitt didn't even mention HSAs yesterday, saying that transparency in pricing is key to addressing the broader problem of runaway healthcare costs.

"If you're a consumer, you're seeing your paycheck eroded by health insurance," Mr. Leavitt said during a roundtable discussion with local business and healthcare leaders at PPG headquarters,

Downtown. "If you're an employer, your hair is on fire over this."

In addition to cost information, the federal government wants to give consumers information about the quality of hospitals and doctors, as well. Mr. Leavitt summed up the current state of affairs this way: "We live in a society where it's impolite to ask about quality, and nobody knows about the price."

Asked how the government would fund the efforts in healthcare quality, Dr. Mark McClellan, the administrator of the Centers for Medicare and Medicaid Services, said many reforms could work within the current Medicare and Medicaid reimbursement structures. The difference would be that hospitals and doctors would be rewarded for providing better care, as opposed to the government paying for poor care that ultimately generates even more revenue for providers.

"I'm sure there's \$1 billion in spending per year on preventable infections and surgical errors that shouldn't occur," Dr. McClellan said.

The "value-based" system the Bush administration is trying to build, Mr. Leavitt said, would eliminate some of the craziness that consumers encounter as they receive care.

CONTINUED ON PAGE 4

Bills Focus on Improving Americans' Health


– CONTINUED FROM PAGE 1

for the International Health, Racquet and Sportsclub Association.

“With rising healthcare costs, we have to find a way to get people healthy, or we'll bankrupt our healthcare system,” he says.

The Ways and Means Committee is scheduled to look at the HR 5479 bill, which was introduced on May 25 by Rep. Jerry Weller (R-IL), and if approved, the bill will be considered by the House of Representatives.

Another piece of legislation could also have an effect on the fitness industry. The Preventive Medicine for a Healthier America Act of 2006 (HB 5657) has three goals — to increase the number of individuals pursuing careers in preventive medicine, make the public more aware of the importance of preventive medicine and encourage businesses to offer employee wellness programs.

A proposed amendment in the IRS code would give employers a \$200-per-employee credit if the businesses develop and implement their wellness program with the help of a physician, provide at least two preventive health screenings and offer health resources for employees. 

Copyright 2006 by Prism Business Information. All rights reserved. www.prismb2b.com

Official Pushes for More Healthcare Cost Data

– CONTINUED FROM PAGE 3

Before he became HHS secretary, Mr. Leavitt engaged in a seven-month fight with his insurance company to get coverage for a back-up version of a medical device he uses; basically, he wanted one device for use while traveling, and a second for use at home. He wouldn't specify what the devices were or what they were designed to treat. The company balked at providing him with two devices, saying they cost \$985 each.

Mr. Leavitt subsequently learned that an Internet company was selling the same device for just \$385, so he phoned his health plan with the good news: The company could save a little money by shopping online, and still give him two machines.

But the health plan wouldn't work with the alternate supplier.

"This is crazy," he said. 

Copyright (c) 2006, Pittsburgh Post-Gazette Distributed by McClatchy-Tribune Business News

CONEXIS Comment does not render legal, accounting or other professional advice. If you need legal advice, you must seek the opinion of a qualified attorney. No part of this publication may be reprinted without the written permission of CONEXIS.

At Least \$1.5 Billion Held in Health Savings Accounts, ICDC Reports

Atlantic Information Services, Inc.

Financial firms that administer Health Savings Accounts (HSAs) say they have opened more than 1.17 million accounts and manage about \$1.5 billion in assets -- up more than 50% since the beginning of the year, according to data gathered by Inside Consumer-Directed Care (ICDC) newsletter and reported in its Aug. 25 issue. The estimates are based on financial data provided to ICDC by more than 60 financial firms, including JPMorgan Chase, Wells Fargo, U.S. Bank and The Principal Financial Group.

A provision in the Medicare Prescription Drug, Improvement and Modernization Act of 2003 -- signed by President Bush in December 2003 -- gave birth to HSAs on Jan. 1, 2004. The accounts are similar to 401(k) retirement plans in their portability, and can be opened by virtually anyone who has a high-deductible health plan (at least \$1,050 annually for single coverage and \$2,100 for couples and families in 2006).

Collectively, HSA administrators and custodians say they are opening about 50,000 new accounts each month. The average HSA balance grew from \$1,181 in January to \$1,260 now, the ICDC data show. The higher average balance illustrates that account holders are more likely to use HSAs as savings vehicles than as spending accounts, administrators say.

"Over the past four years, just about every major health insurer has launched some type

of account-based consumer-directed health coverage. Over the next couple of years, we'll see every major financial firm add HSAs to their product portfolios," says ICDC Managing Editor Steve Davis. "With \$1.5 billion in assets already -- and 54% growth in just six months -- there's certainly a lot of money up for grabs." Fidelity Investments, Bank of America and LaSalle Bank are among some of the financial powerhouses that will make HSAs available this fall. 🍊

Detailed financial information from 33 HSA administrators can be found at <http://www.aishealth.com/ConsumerDirected/CDData/HSAmidyear.html>.

Inside Consumer-Directed Care is a biweekly subscription newsletter published by Atlantic Information Services, Inc. (AIS) in Washington, D.C. AIS provides specialized business information for health care managers and advisors. Visit <http://www.AISHealth.com>.

CONTACT: Steve Davis of Atlantic Information Services, Inc. at (202) 775-9008, ext. 3047 or sdavis@aispub.com.

Source: Atlantic Information Services, Inc.

