

IRS ANNOUNCES HSA INFLATION ADJUSTMENTS

The IRS has announced inflation adjustments that will affect how much an individual can contribute to a health savings account (HSA) in 2010. This chart summarizes the new limits.

	Calendar Year 2010		Calendar Year 2009	
	<i>Self-only</i>	<i>Family</i>	<i>Self-only</i>	<i>Family</i>
Annual Contribution Limit	\$3,050	\$6,150	\$3,000	\$5,950
HDHP Minimum Annual Deductible	\$1,200	\$2,400	\$1,150	\$2,300
HDHP Maximum Out-of-Pocket Limit	\$5,950	\$11,900	\$5,800	\$11,600
Annual Catch-up Contribution Limit	\$1,000		\$1,000	

The *annual contribution limit* is the maximum amount of tax-favored contributions that can be made to an individual's HSA for a calendar year. Contributions from all sources are aggregated when determining whether the limit is met. An individual may incur excise taxes on excess contributions. The *annual catch-up contribution limit* is the amount by which the annual contribution limit is increased for individuals age 55 or older. The catch-up contributions limit is not inflation-adjusted. When enacted, the limit was set at \$500 for 2004, with \$100 annual increases. For 2010, it remains at \$1,000.

The HDHP *minimum annual deductible* and *maximum out-of-pocket limit* refer to features that a health plan must have in order to qualify as a high-deductible health plan (HDHP). An individual must have coverage under an HDHP to set up and contribute to a tax-favored HSA. The limits on these items are also inflation-indexed and can change each year. Employers that maintain HDHPs need to keep up with these changes.

The IRS announces the adjustments for HSAs much earlier in the year than it announces the adjustments for other types of benefits programs. (Inflation adjustments for most plans usually are announced in October or November. See Willis HRH's *HR Focus, Issue 15, "Cost of Living Adjustments for 2009."*) The early announcement for HSAs is mandated by legislation that Congress passed at the end of 2006 (see Willis HRH's *Employee Benefits Alert, Issue 91, "Health Savings Account Legislation Makes HSAs More Flexible"*). This legislation revised the provisions governing HSAs so that the IRS now must publish the annual adjustments no later than June 1 for the following calendar year.

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