



**BlueCross BlueShield  
Association**

An Association of Independent  
Blue Cross and Blue Shield Plans

**PLAN TAX SERVICES**

# Tax Alert

## Developments in Federal Taxation

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**Subject: PROJECTED 2011 COLAs FOR HEALTH SAVINGS ACCOUNTS**  
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**To:** Plan Tax Professionals, Network Tax Advisors, Chief Actuaries, Senior Actuaries, Large Group Underwriters, Small Group Underwriters, Individual Underwriters

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### **2011 HSA Cost of Living Adjustments (COLA's)**

Although the Treasury will not officially release the 2011 COLA-adjusted HSA minimum deductible, maximum out-of-pocket, and the single and family contribution amounts until June 1<sup>st</sup> it is possible to calculate anticipated amounts now that the March CPI has been released. Listed below is a brief description of the rules for calculating the COLAs followed by some illustrations for calculating the 2011 COLA-adjusted HSA minimum deductible, maximum out-of-pocket, and the single and family contribution amounts.

	Actual 2009	Actual 2010	Expected 2011
Minimum Individual Deductible	\$1,150	\$1,200	\$1,200
Minimum Family Deductible	\$2,300	\$2,400	\$2,400
Maximum Individual OOP	\$5,800	\$5,950	\$5,950
Maximum Family OOP	\$11,600	\$11,900	\$11,900
Maximum Individual Contribution	\$3,000	\$3,050	\$3,050
Maximum Family Contribution	\$5,950	\$6,150	\$6,150

**Brand Protection  
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### **Section 223(g)**

- States that the dollar amounts in subsections 223(b)(2) and (c)(2)(A) are subject to an annual Cost of Living Adjustment (COLA) which is defined in Section 1(f)(3).
  - Subsection 223(b)(2)
    - Maximum Annual Individual Contribution - is the lesser of the annual deductible or \$2,250 multiplied by the COLA and rounded to the nearest \$50.
    - Maximum Annual Family Contribution – is the lesser of the annual deductible or \$4,500 multiplied by the COLA and rounded to the nearest \$50.
  - Subsection 223(c)(2)(A)
    - Minimum Annual Self-Only Deductible - \$1,000 multiplied by the COLA and rounded to the nearest \$50.
      - Family coverage is not indexed directly, but instead set at twice the indexed amount for self-only coverage.
    - Maximum Annual Self-Only Out-of-Pocket - \$5,000 multiplied by the COLA and rounded to the nearest \$50.
      - Family coverage is not indexed directly, but instead set at twice the indexed amount for self-only coverage.
- The rounding rule works as follows: increases are rounded to the nearest multiple of \$50. Therefore, amounts that are \$25 or above and less than \$75 are rounded to \$50.

Please be advised that one of the HSA changes included in the Health Opportunity Patient Empowerment Act of 2006 repealed the limit on annual HSA contributions to the lesser of the benefit deductible or the maximum contribution limit for tax years beginning after December 31, 2006. As a result of this change, the maximum amount of HSA contributions for 2007 and subsequent tax years is only the maximum contribution limit. In 2011 an individual covered under an HDHP will be allowed to contribute up to \$3,050, and those with family coverage will be allowed to contribute up to \$6,150 (exclusive of additional catch-up contributions).

### **Section 1(f)**

- Section 1(f)(4) previously stated that the CPI for any calendar year is the average CPI for the 12 month period ending August 31st. The Opportunity Patient Empowerment Act Of 2006 changed the average CPI calculation period from the 12 months ending August 31st to the 12 month period ending March 31st.
- Section 1(f)(5) states that the CPI is defined as the CPI for all-urban consumers published by the Department of Labor. These figures can be accessed by going to the following web address: <http://data.bls.gov/cgi-bin/surveymost?cu> and choosing “Get Detailed CPI Statistics” and then choosing All Urban Consumers (Current Series). Lastly, data for the box titled “U.S. All items, 1982-84=100 – CUUR0000SA0” should be retrieved.
- The amounts in Subsection 223(b)(2) (maximum individual and family contributions) use 1997 CPI as the base.
- The amounts in Subsection 223(c)(2)(A) (minimum deductible and maximum out-of pocket) use the 2003 CPI as the base.

The 2011 amounts calculated in the attached documents are “unofficial” amounts and they are only intended for your internal use in estimating what the “official” amounts might be. The Treasury will likely release the “official” amounts within the next 30 days, but no later than June 1st.

The scheduled dates and time for the CPI releases are provided on the Bureau of Labor Statistic website. In general, the CPI's are released during the middle of the month.

**Illustration of 2011 COLA adjusted Minimum Deductible, Maximum Out-of-Pocket, and Maximum Contribution Amounts**

Listed below are the CPI figures and an illustration of the step by step process to be used to calculate the 2011 COLA-adjusted HSA minimum deductible, maximum out-of-pocket, and the single and family contribution amounts.

Consumer Price Index - All Urban Consumers

Series Id: CUUR0000SA0															
Not Seasonally Adjusted															
Area: U.S. city average															
Item: All items															
Base Period: 1982-84=100															
Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Annual	HALF1	HALF2
1996	154.4	154.9	155.7	156.3	156.6	156.7	157.0	157.3	157.8	158.3	158.6	158.6	156.9	155.8	157.9
1997	159.1	159.6	160.0	160.2	160.1	160.3	160.5	160.8	161.2	161.6	161.5	161.3	160.5	159.9	161.2
1998	161.6	161.9	162.2	162.5	162.8	163.0	163.2	163.4	163.6	164.0	163.9	163.9	163.0	162.3	163.7
1999	164.3	164.5	165.0	166.2	166.2	166.2	166.7	167.1	167.9	168.2	168.3	168.3	166.6	165.4	167.8
2000	168.8	169.8	171.2	171.3	171.5	172.4	172.8	172.8	173.7	174.0	174.1	174.0	172.2	170.8	173.6
2001	175.1	175.8	176.2	176.9	177.7	178.0	177.5	177.5	178.3	177.7	177.4	177.4	177.1	176.6	177.5
2002	177.1	177.8	178.8	179.8	179.8	179.9	180.1	180.7	181.0	181.3	181.3	180.9	179.9	178.9	180.9
2003	181.7	183.1	184.2	183.8	183.5	183.7	183.9	184.6	185.2	185.0	184.5	184.3	184.0	183.3	184.6
2004	185.2	186.2	187.4	188.0	189.1	189.7	189.4	189.5	189.9	190.9	191.0	190.3	188.9	187.6	190.2
2005	190.7	191.8	193.3	194.6	194.4	194.5	195.4	196.4	198.8	199.2	197.6	196.8	195.3	193.2	197.4
2006	198.3	198.7	199.8	201.5	202.5	202.9	203.5	203.9	202.9	201.8	201.5	201.8	201.6	200.6	202.6
2007	202.416	203.499	205.352	206.686	207.949	208.352	208.299	207.917	208.490	208.936	210.177	210.036	207.342	205.709	208.976
2008	211.080	211.693	213.528	214.823	216.632	218.815	219.964	219.086	218.783	216.573	212.425	210.228	215.303	214.429	216.177
2009	211.143	212.193	212.709	213.240	213.856	215.693	215.351	215.834	215.969	216.177	216.330	215.949	214.537	213.139	215.935
2010	216.687	216.741	217.631												

- **Maximum Individual Contribution (COLA Adjusted)**
  - COLA = 2010 CPI / 1997 CPI (April to March)
  - COLA = (213.240+213.856+...+217.631) / (156.3+156.6+...+160.0) =
  - COLA = 2,589.458 / 1,895.9 = 1.36581992721135
  - 2010 Max. Ind. Contribution (COLA Adjusted) = \$2,250 \* 1.3636581992721135
  - 2010 Max. Ind. Contribution (COLA Adjusted) = \$3073.10
  - 2010 Max. Ind. Contribution (COLA Adjusted) = \$3,050 (rounded)
- **Maximum Family Contribution (COLA Adjusted)**
  - COLA = 2010 CPI / 1997 CPI (April to March)
  - COLA = (213.240+213.856+...+217.631) / (156.3+156.6+...+160.0) =
  - COLA = 2,589.458 / 1,895.9 = 1.36581992721135
  - 2010 Max. Fam. Contribution (COLA Adjusted) = \$4,500 \* 1.3636581992721135
  - 2010 Max. Fam. Contribution (COLA Adjusted) = \$6,146.19
  - 2010 Max. Fam. Contribution (COLA Adjusted) = \$6,150 (rounded)
- **Minimum Self-Only Deductible (COLA Adjusted)**
  - COLA = 2010 CPI / 2003 CPI (April to March)
  - COLA = (213.240+213.856+...+217.631) / (179.8+179.8+...+184.2) =
  - COLA = 2,589.458 / 2,173.8 = 1.19121262305640
  - 2010 Min. Self-Only Ded. (COLA Adjusted) = \$1,000 \* 1.19121262305640
  - 2010 Min. Self-Only Ded. (COLA Adjusted) = \$1,191.21
  - 2010 Min. Self-Only Ded. (COLA Adjusted) = \$1,200 (rounded)
- **Maximum Self-Only Out-of-Pocket (COLA Adjusted)**
  - COLA = 2010 CPI / 2003 CPI (April to March)
  - COLA = (213.240+213.856+...+217.631) / (179.8+179.8+...+184.2) =
  - COLA = 2,589.458 / 2,173.8 = 1.19121262305640
  - 2010 Max. Self-Only OOP (COLA Adjusted) = \$5,000 \* 1.19121262305640

- 2010 Max. Self-Only OOP (COLA Adjusted) = \$5,956.06
- 2010 Max. Self-Only OOP (COLA Adjusted) = \$5,950 (rounded)
- **Minimum Family Deductible (COLA Adjusted)**
  - = 2 \* Min. Self-Only Deductible
  - = 2 \* \$1,200
  - = \$2,400
- **Maximum Family Out-of-Pocket (COLA Adjusted)**
  - = 2 \* Max. Self-Only Out-of-Pocket
  - = 2 \* \$5,950
  - = \$11,900

If you have any questions, comments or need additional information regarding HSAs and HDHPs, please contact us. You can reach me at 312-297-5611 or email at [stephen.sesterhenn@bcbsa.com](mailto:stephen.sesterhenn@bcbsa.com); Clayton Herbert at 312.297.6688, or e-mail at [clayton.herbert@bcbsa.com](mailto:clayton.herbert@bcbsa.com); Karl Madrecki at 312.297.6366 or [karl.madrecki@bcbsa.com](mailto:karl.madrecki@bcbsa.com); and Rob Hastings at 312.297.6571 or [robert.hastings@bcbsa.com](mailto:robert.hastings@bcbsa.com).