THE Pension Digest

September 2004
Published Since 1984

ALSO IN THIS ISSUE –

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"The Pension Specialists"

IRA Statistics

For the first time, the IRS has issued a report analyzing the information reported on the 2000 5498 and 1099-R forms with respect to traditional IRAs, Roth IRAs, SEP-IRAs, SIMPLE-IRAs, and Education IRAs (now known as CESAs). The IRS matched an individual's Form 5498 and Form 1099-R. The IRS came up with estimates as based on samples. The IRS issued this report in August of 2004. The IRS has analyzed the information for the 2000 reporting year. It certainly would be preferred to be discussing more current information, but some information is better than no information. What is most interesting is that the IRS reports various IRA transactions according to "gross income ranges." CWF has previously analyzed the tax information disclosed on the 1040 filing forms. This information primarily dealt with traditional IRAs, because it dealt with "deduction" issues. Thus, there has been little information coming from the IRS regarding Roth IRAs, and the contributions which employers made to SEP-IRAs and SIMPLE-IRAs. This IRS report contained information about Roth IRAs, SEP-IRAS, and SIMPLE-IRAs, in addition to traditional IRAs. The following ten (10) charts summarize the IRA information as of the end of the year 2000.

There were 179.6 million taxpayers in 2000. They filed 125 million returns. This difference in numbers occurred because many of the returns were "married, filing jointly." The IRS adopted the approach for those returns filed jointly that they would place both individuals into the adjusted gross income columns as determined by the total amount on the jointly filed return.

Chart #1 — Types of IRAs

	Number of Taxpayers End of 2000	Percentage of Total	Fair Market Value (in 000's)	Percentage of Total	Average Balance
Traditional IRA	38,076,500	82.3%	$2,407,022,354	91.5%	$63,215
Roth IRA	9,485,189	20.5%	$77,579,420	3.0%	$8,179
SEP IRA	3,313,204	7.2%	$134,047,902	5.1%	$40,459
SIMPLE IRA	1,568,426	3.4%	$10,351,751	.4%	$6,600
Total	46,270,141	113.4% *	$2,629,309,067	100.0%	$56,825

* The percentage is more than 100% since a taxpayer is allowed to have more than one type of IRA. For example, an individual could have a traditional IRA, Roth IRA and a SEP IRA.

CWF Observations

1. 46.3 million taxpayers have an IRA of some type.
   A. 38.1 million taxpayers have funds within a traditional IRA.
   B. 9.5 million taxpayers have funds within a Roth IRA
   C. 3.3 million taxpayers have funds within a SEP-IRA
2. The fair market value (FMV) of all IRAs is $2.63 trillion.
   A. The FMV of all traditional IRAs is $2.4 trillion. This is 91.5% of all IRAs.
   B. The FMV of all Roth IRAs is $77 million.
   C. The FMV of all SEP-IRAs is $134 million.
3. The average value in a traditional IRA is $63,215.
4. Many with traditional IRAs should be considering converting some or all of their IRA to a Roth IRA.
5. Remember that in 2000, SIMPLE-IRAs were quite new (first available for the 1997 tax year).

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Chart #2 — Those Eligible to Make Contributions to a Traditional and/or Roth IRA for 2000

Adjusted Gross Income	Number of Taxpayers	Number With Pension Coverage	Eligible for IRA Contr	Number of IRA Contr	Eligible for Roth IRA
No adj. income	1,576,506	97,782	751,855	83,453	Yes
$1 under $5,000	13,391,225	718,950	11,148,572	328,597	Yes
$5M under $10M	14,059,120	1,402,059	12,265,971	330,413	Yes
$10M under $15M	14,073,065	2,302,950	11, 771,667	385,283	Yes
$15M under $20M	14,254,822	3,403,330	11,991,051	511,514	Yes
$20M under $25M	12,580,910	4,156,753	10,981,928	662,593	Yes
$25M under $30M	10,813,390	4,123,042	9,762,643	706,623	Yes
$30M under $40M	18,594,395	8,090,658	16,806,657	1,494,442	Yes
$40M under $50M	15,784,423	7,647,268	14,588,129	1,451,418	Yes
$50M under $75M	28,795,259	15,587,022	26,755,989	2,995,003	Yes
$75M under 100M	15,651,163	9,351,934	14,690,037	2,233,524	Partial
$100M under $200M	14,947,731	8,788,364	13,900,677	2,952,183	Partial
$200M under $500M	3,950,399	1,847,193	3,514,695	787,858	No
$500M under$1,000M	730,474	296,080	639,415	135,197	No
$1,000,000/over	438,867	169,801	379,490	66,568	No
TOTAL	179,649,749	67,983,185	159,948,774	15,124,668	

CWF Observations

1. 160 million individuals were eligible for an IRA contribution of some type, but only 15 million IRA contributions were reported. Many individuals who are eligible to make IRA contributions are not contributing.
2. 20 million individuals were ineligible to make any type of IRA contribution.
3. Only 15 million out of a possible 160 million eligible individuals made a contribution for 2000. This is only 9.4%.
4. Only 68 million of 179.6 million are covered by a pension plan at work. The belief that the majority of people are not making IRA contributions because they are making 401(k) contributions is incorrect.
5. It appears that approximately 166 million individuals are eligible to contribute to a Roth IRA. Remember, participation in a pension plan is not relevant for purposes of being eligible to make a Roth IRA contribution. Income is an eligibility requirement for a Roth IRA.

Chart #3 — Types of Contributions for/in 2000

	Total Annual Contribution Amount	Percentage	Contributions Deductible By Employer Or Non-deduct.	Contributions Deductible On IRS Form 1040
Traditional IRA	$10,041,136,000	27.5%	$2,564,062,000	$7,477,074,000
Roth IRA	11,558,033,000	31.7%	N/A	N/A
SEP IRA	10,110,943,000	27.7%	$5,912,243,000	$4,198,700,000
SIMPLE IRA	4,695,404,000	12.9%	$4,070,861,000	$624,543,000
Education IRAs	79,093,000	.2%	N/A	N/A
TOTAL	$36,484,610,000	100.%	12,547,166,000	$12,300,317,000

CWF Observations

1. Annual IRA contributions totalling $36.5 billion were made for the 2000 tax year.
2. Most contributions were Roth contributions.
   31.7% were Roth contributions
   27.7% were SEP contributions
   27.5% were traditional IRA contributions
   12.9 were SIMPLE-IRA contributions
3. Many banks do not offer SEP and SIMPLE services. SEP and SIMPLE contributions account for 41% of all IRA contributions.
4. Many banks are passive in seeking Roth IRA contributions.
5. 25.5% of the traditional IRA contributions were non-deductible.

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6. Since an employer (who is not a sole proprietor) makes the SEP-IRA and SIMPLE-IRA contribution for its employees, these contributions are not claimed as a tax deduction on the Form 1040.

7. Substantial SEP contributions ($4.2 billion) were made by self-employed individuals in 2000. See Chart #8.

Chart #4 — Contribution and Withdrawal Activity in Traditional IRAs for 2000

	Amount	Number of Taxpayers	Average
Beginning FMV	$2,422,819,105,000	36,619,402	$66,162
Contributions	$10,041,136,000	5,716,919	$1,756
Rollovers	$225,636,922,000	4,079,197	$55,316
Roth Conversions	-$3,181,178,000	282,387	$11,280
Withdrawals	-$101,558,295,000	8,616,407	$11,787
Investment Returns	-$146,735,336,000	N/A	N/A
Ending FMV	$2,407,022,354,000	38,076,500	$63,216

CWF Observations

1. At the beginning of 2000 there were 36.6 million traditional IRAs with a beginning balance of $2.4 trillion. The average balance of each traditional IRA was $66,162.

2. At the end of 2000 there were 38.1 million traditional IRAs with an ending balance of $2.4 trillion. The average balance of each traditional IRA at the end of the year was $63,216.

3. There was a net gain of 1.5 million traditional IRAs for 2000 (a 4% gain).

4. 5,716,919 individuals made contributions totaling $10,041,136,000. The average contribution was $1,756. Remember, the contribution limit for 2000 was $2,000. As will be discussed later, individuals who are eligible to make deductible contributions are not doing so.

5. Traditional IRAs suffered an investment loss of $146.7 billion. Based on the ending balance, this loss was approximately 6.1%.

6. 8.6 million individuals received a distribution. The average distribution was $11,787. Approximately 23.5% (based on the beginning of the year) of all accountholders took a distribution.

Chart #5 — Rollover Contributions into Traditional IRAs by Income for 2000

Adjusted Gross Income	Number of Taxpayers	Rollover Amount	Average
No adj. income	17,300	$830,255,000	$47,992
$1 under $5,000	39,225	$1,768,855,000	$45,095
$5M under $10M	51,230	$2,306,469,000	$45,022
$10M under $15M	101,107	$2,083,368,000	$20,606
$15M under $20M	160,733	$4,402,049,000	$27,387
$20M under $25M	161,633	$3,220,508,000	$19,925
$25M under $30M	184,555	$5,100,630,000	$27,637
$30M under $40M	377,554	$11,085,441,000	$29,361
$40M under $50M	387,108	$12,901,661,000	$33,328
$50M under $75M	849,961	$36,102,772,000	$42,476
$75M under 100M	639,395	$29,741,269,000	$46,515
$100M un. $200M	783,699	$62,821,911,000	80,161
$200M un. $500M	255,340	$38,157,995,000	$149,440
$500M un$1,000M	43,758	$ 8,025,954,000	$183,417
$1,000,000/over	26,569	$ 7,087,823,000	$266,770
TOTAL	4,079,197	$225,636,922,000	$55,314

CWF Observations

1. There were 4,079,197 individuals who made a rollover contribution into an IRA. There is no information showing whether the funds had been distributed from a 401(k) plan or other pension plan. The amount rolled over was $225.6 billion. The average rollover amount was $55,314.

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2. As expected, the largest averages belong to those in the highest income ranges.

3. The amount rolled over into traditional IRAs was $225.6 billion versus $10.0 billion of annual contributions. One would think more banks would communicate to their clients their wish to help with such rollover or direct rollovers than they do. The brokerage firms appear to do a much better job of advertising they will help with direct rollovers.

Chart #6 — Withdrawals from Traditional IRAs by AGI for 2000

Adjusted Gross Income	Number of Taxpayers	Withdrawal Amount	Average
No adj. income	59,133	$942,738,000	$15,943
$1 under $5,000	157,423	$954,016,000	$6,060
$5M under $10M	395,113	$1,789,480,000	$4,529
$10M under $15M	651,257	$2,995,743,000	$4,600
$15M under $20M	880,649	$4,628,633,000	$5,256
$20M under $25M	717,683	$3,762,243,000	$5,242
$25M under $30M	516,692	$3,501,287,000	$6,776
$30M under $40M	1,088,624	$7,203,102,000	$6,617
$40M under $50M	807,155	$6,749,283,000	$8,362
$50M under $75M	1,714,404	$17,479,127,000	$10,195
$75M under 100M	1,014,167	$13,688,831,000	$13,498
$100M un. $200M	1,051,452	$24,426,382,000	$23,231
$200M un. $500M	300,004	$12,464,318,000	$41,547
$500M un$1,000M	46,902	$3,454,442,000	$73,652
$1,000,000/over	23,716	$2,256,718,000	$95,156
TOTAL	9,424,374	$106,294,344,000	$11,279

CWF Observations

1. In the note explaining this chart, the IRS states the withdrawals do not include withdrawals for the purpose of rollovers to other IRA accounts or Roth conversions.

2. We surmise that many of these distributions are required distributions, but it is not until the 2002 Form 5498 that the IRS started collecting data showing those IRAs subject to the required distribution rules. It would be very interesting to know how many of the 9,424,374 distributions were discretionary and how many were required/mandatory.

3. The withdrawal amount was $106 billion. This is only 4% of the beginning balance of $2.65 trillion.

4. As you would expect, the "average" distributions keep increasing as the amount of adjusted gross income increases.

5. $71 billion of the $106 billion belongs to those individuals with an AGI of $50,000 or greater. This $71 billion comes from 4.15 million taxpayers ($16,867 per taxpayer).

Chart #7 — Contribution and Withdrawal Activity in Roth IRAs for 2000

	Amount	Number of Taxpayers	Average
Beginning FMV	$76,242,001,000	7,031,194	$10,843
Contributions	$11,558,033,000	6,812,129	$1,697
Rollovers	N/A	N/A	N/A
Roth Conversions	$3,181,178,000	282,387	$11,265
Withdrawals	-$881,015,000	263,283	$3,346
Investment Returns	-$12,520,778,000	N/A	N/A
Ending FMV	$77,579,420,000	9,485,189	$8,179

Roth IRAs

1. At the beginning of 2000, there were 7 million Roth IRAs with a beginning balance of $76.2 billion. The average balance of each Roth IRA was $10,843.

2 At the end of 2000, there were 9.5 million Roth IRAs with an ending balance of $77.6 billion. The average balance of each Roth IRA at the end of the year was $8,179.

3. There was a net gain of 2.5 million Roth IRAs for 2000 (a 35% increase).

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4. 6.8 million individuals made contributions totaling $11.6 billion. The average contribution was $1,697. The maximum contribution in 2000 was $2,000.

5. We expect that more individuals would be making Roth IRA contributions. We estimate that 145 million of the 160 million who are eligible for some type of IRA contribution are eligible for a Roth IRA contribution. This means that only 5% of those eligible to make a Roth IRA contribution are doing so. It may be that people do not understand that a person may make contributions to both a 401(k) plan and also to a Roth IRA.

6. 2000 was a poor year for investors, and Roth IRAs suffered a loss of $12.5 billion. Based on the ending balance, this loss was approximately 15.8%.

7. 282,387 individuals converted some or all of their traditional IRAs to a Roth IRA. The total amount converted was $3.2 billion, or an average of $11,265.

Chart #8 — Withdrawals from Traditional IRAs for Conversion to Roth IRAs by AGI for 2000

Adjusted Gross Income	Number of Taxpayers	Conversion Amount	Average	
No adj. income	1,987	$80,829,000	$40,679	*
$1 under $5,000	4,705	$29,039,000	$6,172	
$5M under $10M	3,997	$30,447,000	$7,617	
$10M under $15M	14,091	$100,167,000	$7,109	
$15M under $20M	6,101	$35,306,000	$5,787	
$20M under $25M	10,766	$100,293,000	$9,316	
$25M under $30M	18,666	$ 69,186,000	$3,707	
$30M under $40M	35,260	$333,554,000	$9,460	
$40M under $50M	32,775	$ 88,957,000	$2,714	
$50M under $75M	67,401	$547,079,000	$8,117	
$75M under 100M	40,400	$397,817,000	$9,847	
$100M un. $200M	42,526	$1,106,164,000	$26,011	
$200M un. $500M	3,275	$122,270,000	$37,344	*
$500M un$1,000M	223	$ 9,159,000	$41,072	*
$1,000,000/over	215	$130,911,000	$618,889	*
TOTAL	282,387	$3,181,178,000	$11,265	

CWF Observations

1. Refer to Chart #2. Approximately 160 million out of the 180 million taxpayers were eligible to do a conversion, since their AGI was less than $100,000.

2. The asterisk (*) indicates that the IRS knows there are individuals who were ineligible to make a conversion. Most such conversions will be disallowed.

3. Less than <u>two tenths of one percent</u> of those who were eligible made a conversion in 2000.

4. The conversion amount was $3.2 billion. CWF estimates the taxes paid with respect to the permissible conversion amount was $500 million.

5. The average amount converted was generally less than $10,000.

Chart #9 — Contribution and Withdrawal Activity in SEP-IRAs for 2000

	Amount	Number of Returns	Average
Beginning FMV	$142,873,671,000	3,146,153	$45,412
Contributions—Total	$10,110,943,000	1,735,666	$5,825
Contributions—Deductible on 1040	$4,198,700,000	683,861	$6,140
Rollovers	N/A	N/A	N/A
Withdrawals	-$3,150,391,000	348,935	$9,029
Investment Returns	-$15,786,322,000	N/A	N/A
Ending FMV	$134,047,902,000	3,313,204	$40,459

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CWF Observations

1. SEP contributions are either made by an employer or by the individual if he or she is self-employed or a partner. These are reported in box 7 of the Form 5498.

2. At the beginning of 2000, there were 3.15 million SEP-IRAs with a beginning balance of $142.9 million. The average balance of each SEP- IRA was $45,412.

3. At the end of 2000, there were 3.3 million SEP-IRAs with an ending balance of $134 million. The average balance of each SEP-IRA was $40,459.

4. There was a net gain of .15 million SEP-IRAs for 2000 (an increase of 5.3%). This number seems very small. It may be that small employers were more enamored with SIMPLE and 401(k) plans.

5. 1,735,666 contributions were made totaling $10,110,943,000. The average contribution was $5,825. $10 billion was contributed to both SEP-IRAs and all the traditional IRAs. The number of taxpayers showing a SEP contribution (1.7 million) were approximately 1/3 of those taxpayers showing a traditional IRA contribution (5.7 million).

6. SEP-IRAs suffered an investment loss of $15.8 billion dollars. Based on the ending balance, this loss was approximately 11%. It appears that SEP-IRA funds are invested in investments with less risk than Roth IRAs but with more risk than traditional IRAs.

7. The following chart shows the source of the SEP-IRA contributions:

Chart #9A — Source of SEP-IRA Contributions

Type of Contributor	Number Amount	Contribution	Average Contribution
Sponsoring Employer	5,033,058	$5,842,436,000	$1,168
Self-employed	683,861	$4,198,700,000	$6,140
TOTAL	5,716,919	$10,041,136,000	$1,756

Employers contributed almost $6 billion in 2000 on behalf of eligible employees.

There is a substantial difference between the contribution amount for self-employed individuals than for the general employees. At least in 2000, the SEP (6 billion) was the clear favorite for self-employed individuals over the SIMPLE plan (600 million). This is a 10:1 ratio. We expect this ratio to narrow as employers will find SIMPLE-IRA plans more attractive in many small business situations.

Chart #10 — Change in SIMPLE-IRAs for 2000

	Amount	Number of Returns	Average
Beginning FMV	$9,126,960,000	1,177,084	$7,754
Contributions—Total	$4,695,404,000	1,489,333	$3,153
Contributions— Deductible on 1040	$624,543,000	130,475	$4,787
Rollovers	N/A	N/A	N/A
Withdrawals	-$681,968,000	173,653	$3,927
Investment Returns	-$2,788,645,000	N/A	N/A
Ending FMV	$10,351,751,000	1,568,426	$6,600

CWF Observations

1. SIMPLE contributions are either made by an employer or by the individual if he or she is self-employed or a partner. These are reported in box 8 of the Form 5498.

2. At the beginning of 2000, there were 1.18 million SIMPLE-IRAs with a beginning balance of $9.1 billion. The average balance of each SIMPLE-IRA was $7,754.

3. At the end of 2000, there were 1.57 million SIMPLE-IRAs with an ending balance of $10.4 billion. The average balance of each SIMPLE-IRA was $6,600.

4. There was a net gain of 391,342 SIMPLE-IRAs for 2000. There was a 33% increase. It appears small employers, in 2000, finally caught on to the advantages of SIMPLE-IRAs.

5. 1,489,333 contributions were made totaling $4,695,404,000. The average contribution was $3,153

The number of contributions of 1.5 million is very close to the 1.7 being made into SEP-IRAs. CWF would not be surprised if SIMPLE-IRA contributions surpassed SEP-IRA contributions in 2001 and later years.

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As with SEP IRAS many banks do not offer SIMPLE-IRAs. They are not much more difficult that traditional IRAs if limited to one person plans.

6. SIMPLE-IRAs suffered an investment loss of $2.8 billion. Based on the ending balance, this loss was approximately 27%. It appears that SIMPLE-IRA funds are invested even more aggressively than Roth IRA funds.

7. The following chart shows the source of the SIMPLE-IRA contributions.

Chart 10A — Source of SIMPLE-IRA Contributions

Type of Contributor	Number Amount	Contribution	Average
Sponsoring Employer	1,358,858	$4,078,861,000	$3,002
Self-employed	130,475	$624,543,000	$4,787
Total	1,489,333	$4,695,404,000	$3,153

CWF Observations

Employers contributed $4 billion in 2000 on behalf of eligible employees. Note there is not as much difference between the contribution amount for self-employed individuals than for the general employees. We would have expected the self-employed to have substantially larger contributions. We would also expect that the amount of SIMPLE-IRA contributions will have increased substantially in 2001-2003, since more small employers are starting to use these plans rather than the 401(k) plans and SEP plans.

Summary

The IRS compiled information from the 2000 Form 5498s and 1099-Rs, and, by using "sampling" techniques, has estimated what contributions, distributions, rollovers and conversions took place in 2000. These numbers show quite clearly that the large majority of the American public is not taking advantage of the traditional IRA, Roth IRA, SEP-IRA or SIMPLE IRA as a way to save for retirement.

There were 15 million IRA contributions, but 160 million individuals were eligible to make an IRA contribution. The total amount contributed was $36.5 billion. In addition to "annual" contributions, individuals rolled over from their 401(k) plans and other retirement plans, $225.6 billion. Somewhat surprisingly, SEP-IRA and SIMPLE-IRA contributions amounted to $14.8 billion, or approximately 41% of the total IRA contributions. It will be interesting to see how these statistics will change for the 2002-2004 years, since the contribution limits were increased substantially for these accounts. We expect the IRS will be working on another report to show the statistics for 2002, 2003 and 2004. We intend to summarize the IRS statistics as soon as they are released.

Continuation of Notice 2004-50 (HSAs)

The entire August newsletter was devoted to our summary of HSAs as set forth in Notice 2004-50. There were two topics which were not covered because of space limitations. These were cafeteria plans and the comparability/nondiscrimination topics. CWF's summary of these topics is set forth here.

Topic #17 — Additional Guidance on Cafeteria Plan & HSAs

A cafeteria plan is also known as a section 125 plan. An employer may provide for negative elections for HSAs under a cafeteria plan.

Currently many employers have adopted a cafeteria plan. Since HSAs are so new, it goes without saying that many such plans do not include HSAs as a benefit under such plan. The IRS has stated that an employer may amend its cafeteria plan and may permit employees to elect an HSA midyear, since it is offered as a new benefit under the cafeteria plan. However, the employee may have other coverage under the cafeteria plan that cannot be changed, (e.g. coverage under a health FSA) which might prevent the employee from being an eligible employee.

The change in status rules for section 125 plans do apply to elections of HSA contributions under a cafeteria plan. Because the eligibility and contribution requirements are determined for an HSA on a monthly basis rather than annual basis as with section 125 plans, an employee may start and stop or increase or decrease the election at any time, as long as the change is effective prospectively. If an employer places additional restrictions on the election of HSA contributions under a cafeteria plan, the same restrictions must apply to all employees.

It is important to understand that the following three limits which apply to health flexible spending arrangements (FSAs) under a cafeteria plan do not apply to HSAs: (1) the prohibition against a benefit that defers compensation by permitting employees to carry over unused elective contributions or plan benefits from one plan year to another plan year; (2) the requirement that the maximum amount of reimbursement must be available at all times during the coverage period; and (3) the mandatory 12-month period of coverage.

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Topic #18 — Comparability/Nondiscrimination Rules

The testing period for making comparable contributions to employees' HSAs is the calendar year. To satisfy the comparability rule in section 4980-G, an employer must make comparable contributions to HSAs of employees who are eligible individuals.

The comparability requirement of Code section 4980-G is not met even if an employer has offered to make an HSA contribution to the HSA of each employee who is an eligible employee in an amount equal to the employee's own contribution or make a matching contribution of a certain percentage. The reason being — all employees would have to contribute the same amount in order for there to be comparability as required for Code section 4980-G purposes.

The comparability requirements do not apply to contributions made through a cafeteria plan. Therefore, an employer could make contributions through a cafeteria plan to the HSA of each employee who is an eligible individual, in an amount equal to the amount of the employee's HSA contribution or a percentage of the amount of the employee's HSA contribution (i.e. matching contributions). However, contributions including "matching contributions" to an HSA under a cafeteria plan are subject to the section 125 nondiscrimination rules (eligibility rules, contributions and benefits test and key employee concentration tests).

The comparability requirement of Code section 4980-G is not met even if an employer offers to make available additional HSA contributions to all employees who are eligible individuals and who have attained a specified age or who qualify for the additional catchup contributions. The reason being — if all employees who are eligible individuals do not meet the age requirement or do not qualify for the additional catch-up contributions, then all employees who are eligible individuals do not receive comparable benefits as required for Code section 4980-G purposes.

There is a special rule which applies if some employees work full time during the entire calendar year and other employees work full time for less than the entire calendar year. The various contribution amounts must be comparable when determined on a month-by-month basis. For example, an employer contributes $240 to the HSAs of each full-time employee who works the entire calendar year. The employer would be required to contribute $60 for a full-time employee who worked only three months.

If an employer contributes to the HSA of any employee who is covered under an HDHP provided by the employer, then in order for the comparability requirement to be met, the employer is required to make comparable contributions to all eligible individuals with coverage under any HDHP provided by the employer.

An employer that contributes to the HSA of employees with coverage under the HDHP provided by the employer, is not required to make comparable contributions to HSAs of employees who are not covered under the HDHP provided by the employer.

However, an employer that contributes to the HSA of any eligible individual with coverage under any HDHP, even if that coverage is not an HDHP of the employer, must make comparable contributions to all eligible individuals whether or not covered under an HDHP of the employer.

IRS Examples

Example (1). An employer offers an HDHP to its full-time employees. Most full-time employees are covered under the employer's HDHP, and the employer makes comparable contributions only to these employees' HSAs. Employee D, a full-time employee and an eligible individual, is covered under his spouse's HDHP and not under his employer's HDHP. The employer is not required to make comparable contributions to D's HSA.

Example (2). An employer does not offer an HDHP. Several full-time employees, who are eligible employees have HSAs. The employer contributes to these employees' HSAs. The employer must make comparable contributions to the HSAs of all full-time employees who are eligible individuals.

Example (3). An employer offers an HDHP to its full-time employees. Most full-time employees are covered under the employer's HDHP, and the employer makes comparable contributions to these employees' HSAs and also to HSAs of full-time employees not covered under the employer's HDHP. Employee E, a full-time employee and an eligible individual, is covered under his spouse's HDHP and not under his employer's HDHP. The employer must make comparable contributions to E's HSA.

The comparability requirements do not apply to after-tax employee contributions to an HSA. Thus, an employer would be able to establish a payroll-deduction program and make HSA contributions after being so instructed by employees.

Topic #19 — Other Issues

An employer's responsibility will be somewhat limited with respect to determining whether an employee is an eligible individual, and the employee's maximum contribution limit. The employer will be responsible to determine: (1) the employee's age (for catch-up contributions) and (2) whether the employee is covered under an HDHP (and the deductible) or low deductible health plan or plans (including health FSAs and HRAs). The employer is allowed to rely on the employee's representation as to his or her date of birth.

A self-employed individual is allowed to make an HSA contribution if he or she is an eligible individual. The self-employed individual will be entitled to take a tax deduction for his or her HSA contributions. The deduction is an adjustment to gross income and is reportable on the Form 1040 as an adjustment to gross income. The HSA contribution is not attributable to a trade or business, so it is not taken as a deduction on Schedule C, Form 1040, nor is it taken into account in determining net earnings from self-employment on Schedule SE, Form 1040.