

Medicare's Biggest Little Secret

The Untold Story of
Medicare MSAs

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One of the great ironies of public policy in the past few years was that the Medicare Modernization Act (MMA) of 2003, that created the “Part D” prescription drug benefit, also created Health Savings Accounts for everyone in the United States – except those on Medicare. The law did, however, reauthorize the old “Medical Savings Accounts” (MSA) provision that was passed as part of the Balanced Budget Act in 1997 but never implemented.

There were many reasons the original MSAs in Medicare never came about. The plan was time limited and restricted to no more than 300,000 beneficiaries. It was unlikely that any private insurer would invest significant Research and Development funds in a program that was so tentative – and none did.

Today conditions have changed. The idea of consumer driven health care is now widely accepted as a major addition to the offerings in the private benefits market. Over ten million people are currently covered by some sort of “account-based” health plan (HSA or HRA), and virtually every insurance company is offering a version of the approach. Banks and information services companies see consumer driven care as an unprecedented opportunity to reform the health care system and open up new markets. And the MMA law removed most of the restrictions that made Medicare MSAs unattractive to vendors.

So, now we have a world in which the vendors are adept at marketing and managing account-based plans, citizens are increasingly accustomed to the approach, and Congress removed the most onerous restrictions to providing MSAs in the Medicare program.

In response, the Center for Medicare and Medicaid Services (CMS) has developed a new approach for Medicare beneficiaries. In 2007, for the first time ever, Medical Savings Accounts were available to people on Medicare. These programs became available during the “open enrollment” period in late 2006, but they were not well-publicized, so few people chose them. But 2007 amounted to a test case for the companies offering the Medicare MSAs, and in 2008 they will be available to virtually all beneficiaries in the United States. Existing beneficiaries may select an MSA during the Open Enrollment period (November 15 to December 31, 2007), and newly eligible beneficiaries may enroll in the MSA throughout 2008.

Beneficiaries should take a close look at this option, because it could be a very attractive choice for many people.

A Medicare MSA has Three Parts

The first part is a sum of money the government deposits into your savings account. You may pay directly for services out of this account, even services not normally covered by Medicare such as eyeglasses and dental work. Any money not spent during the year stays in the account (“rolls over”) into the next year, and a new contribution is made by the government in Year Two.

The second part is a “bridge” of out-of-pocket spending, based on the size of your deductible. You may, for example, have a deductible of \$4,000 with a federal contribution of \$1,375. That means there is a bridge of \$2,625 you have to pay before your insurance starts paying benefits.

Finally, once you have crossed that bridge, the insurance plan will pay 100% of your Medicare covered expenses with no additional deductibles, co-payments or coinsurance.

There is no additional premium for this program (beyond the premium for Part B that you would have to pay anyway), and there would be no need to purchase Medicare supplemental (“MediGap”) coverage, so the savings to you should be substantial. The program does not cover prescription drugs, so you may still want to buy an additional “Part D” program to fill in that gap. Prescription drugs may also be paid directly from the MSA account.

This is a far simpler program and may involve much less out-of-pocket expenses than “regular” Medicare. Regular Medicare requires a deductible of \$1,024 for hospital inpatient stays, plus a payment of \$256 per day after the first 60 days in the hospital. It also requires a deductible of \$135 before covering physician visits and requires you to pay 20% of the cost after you have met the deductible for virtually all outpatient care. Medicare has very limited benefits for Skilled Nursing care and pays only 50% of outpatient mental health care. There is no limit on the amount you have to pay under regular Medicare.

With a Medicare MSA, your out-of-pocket responsibility is limited to the difference in the fixed deductible and the amount of the government contribution. But keep in mind that MSA money you spend on

non-covered services (such as eye glasses or prescription drugs) will not count towards meeting your deductible.

Also, the balance in the MSA from previous years is your property. You may use it on non-medical expenses, but you will have to pay taxes and a penalty on the amount used. The balance becomes part of your estate and will be inherited by your spouse or other beneficiary upon your death. Your spouse may continue to use the funds for his or her own medical expenses without tax or penalty, but it will be taxed if it is received by another beneficiary.

How to Get Information

To get general information on these MSA programs from the official Medicare web site, go to www.medicare.gov and type in “Medicare MSAs” in the search area to access a booklet explaining the program, “Your Guide to Medicare Medical Savings Account Plans.”

To get specific information about what is available in your area you need to --

1. Go to www.medicare.gov, click the “Medicare Health Plans - 2008 Plan Data” link.
2. Scroll down on the left side to “Learn More About Health Plans in Your Area.”
3. Pick your state and click “View Plans.”
4. Once at that page, click, “Select Criteria to Reduce Number of Plans Shown.”
5. Check the box that says, “Plans that are Medicare Medical Savings Accounts” and click the button that says “Apply Limits.”
6. Finally there will be a list of the MSA plans that are offered in your area.

This program has not been publicized at all, so very few people know about it. Yet it could be a real boon for beneficiaries. It limits their out-of-pocket responsibilities, but also gives them a source of funds to pay for services Medicare does not usually cover. It also gives beneficiaries an incentive to be cautious in their use of health care services, so they can save up funds for the future when they will have extraordinary expenses.

Making Medicare MSAs Even Better

For all of that, the program could be better. Beneficiaries are not allowed to add their own funds to the government-paid MSA contribution. As more people have HSA accounts in their working years, it would make sense to allow them to roll those funds into a Medicare MSA when they become eligible.

There is also a question of whether it is equitable to tax younger workers for the health care needs of the elderly, and then let the elderly cash-out that public money for non-medical expenses. It would be fairer to confine the public funds to the insurance portion of the Medicare MSA program and let beneficiaries fund their own savings account, as Phillips Gausewitz, MD and I suggested in our 2005 paper, “Bringing Health Savings Accounts to Medicare,” (available at <http://www.chcchoices.org/publications.html>). The account could be financed with the money saved by not having to pay MediGap premiums and with funds left over from pre-Medicare HSAs.

Still, the opportunity to enroll in a Medicare MSA is here right now, and the advantages to beneficiaries are considerable. The program should be considered by every person eligible for Medicare today.