

Medicare Medical Savings Accounts: Availability Expands in 2008

By Lee Barson

A new and innovative type of health plan is now available to Medicare beneficiaries in all 50 states. Instead of other Medicare plans, they now have the option to enroll in a Medicare Medical Savings Account (MSA) Plan as part of the Medicare Advantage Program.

This new type of plan provides an opportunity for Medicare beneficiaries to enroll in consumer directed health plans (CDHPs) similar to the non-Medicare plans with Health Savings Accounts (HSAs) offered today. Not only are Medicare MSA plans available to individual Medicare beneficiaries, but employers providing retiree medical coverage can offer them as well.

Background

Congress authorized Medicare MSA plans in 1997 and reconfirmed them in 2003. However, no health plans offered Medicare MSA plans as an option until Wellpoint and American Progressive in 2007. See the chart on the next page for what's available in 2008. To date, over 2,200 beneficiaries have enrolled in Medicare MSA plans.

Plan Features

All Medicare MSA plans combine a high-deductible Medicare Advantage plan with an MSA.

- **Premiums.** Health plans offering Medicare MSAs cannot charge a premium for plan benefits that are standard under Medicare. Plans may charge a premium for supplemental benefits, but these benefits must be optional.
- **Contributions.** The Centers for Medicare & Medicaid Services (CMS) makes an annual contribution into the MSA of each plan participant via the health plan selected by the participant. The contribution amount reflects the difference between CMS's predicted cost and the health insurer's

contracted cost. In 2007, these annual contributions ranged from \$1,000 to \$1,725. No contributions are permitted from any other source, including individual beneficiaries and employers who sponsor retiree medical plans.

- **Deductible.** The beneficiary must meet the deductible, ranging from \$2,750 to \$5,000 in 2008, before the plan pays for any Medicare Part A and Part B services.

Medicare MSAs combine high-deductible health plans with an MSA.

- **Cost Sharing.** Under MSA plans, once the deductible is met, the beneficiary cannot be subject to any cost sharing; that is, the health plan pays 100% of covered services.
- **Prescription Drug Coverage.** Because MSA plans do not include prescription drug coverage, beneficiaries can enroll in a separate Medicare Part D plan.

Medical Savings Account (MSA)

Features

An MSA is a tax-favored, interest-bearing account owned by the individual beneficiary. Unlike Flexible Spending Accounts (FSAs), unused funds stay in the account from year to year. Like a Health Savings Account (HSA), an MSA is one of the few savings vehicles that are triple tax-free: MSA contributions are tax free to the beneficiary, earnings on contributions are tax-free, and distributions for qualified medical expenses are tax-free.

There are hundreds of qualified medical expenses, including many expenses not covered by Medicare Parts

A and B, such as over-the-counter medications, dental visits, and vision expenses. See IRS Publication 502 for a more complete list of qualified medical expenses (www.irs.gov/pub/irs-pdf/p502.pdf). Funds can also be used for prescription drug cost sharing like co-payments and deductibles, but not for Medicare Part D premiums.

Funds used for non-qualified expenses are treated as taxable income and may be subject to an additional penalty.

In addition to these tax-favored features, MSAs typically also include the following:

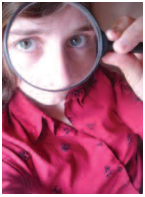
- **Security.** MSAs are often FDIC-insured checking accounts.
- **Access to funds.** Beneficiaries can pay for qualified medical expenses with a debit card and/or a check. Some accounts may include ATM access.
- **Statements.** Paper or electronic account statements are provided on a regular basis (typically monthly).
- **Tax Reporting.** Form 5498-SA notifies the IRS of MSA **contributions** made during the tax year, while Form 1099-SA notifies the IRS of MSA **distributions**. The beneficiary should also receive a copy of the appropriate tax form(s) and is required to complete Form 8853 when filing the federal tax return.

Since MSA features vary by plan, check with a specific carrier for more details.

Plan Administration

Those already covered by Medicare have the opportunity to enroll in MSA plans during their annual enrollment period—typically from mid-November through late-December. New Medicare beneficiaries can enroll in MSA plans when they reach age 65 or qualify for Medicare due to disability. Note that

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Can You Top This?

This regular feature in your PEBA Newsletter is meant to add a lighter note and share some "war stories." These articles will show some of the more fun, or at least interesting, aspects of our jobs.

Regardless of your line of business, it's very likely you'll be asked to occasionally review important documents before widespread distribution. If so, please read the following story and use it as a word of warning.

For many years, I was part of a Health & Welfare outsourcing team specializing in personalized communications (worksheets, confirmation statements, etc.) for Annual Enrollment. As we generated test worksheets, we had a checklist of items to review including standard text content and formatting, variable text content and formatting, benefit costs and coverage amounts, page breaks, etc.

After thoroughly testing the worksheets for a client, we released them to be printed. By chance, as the worksheets were printing, an associate decided to dial the customer service number printed on the worksheet. Thank goodness he did, since there was a typo in the phone number! Of course, the mistyped phone number didn't lead innocently to another department at the client site. As the associate dialed the phone number, he heard "Hi. You've reached the hottest phone line in America."

In this case, I had the opportunity to yell "Stop the presses!!" and the worksheets were reprinted. Many others have not been as lucky.

Note that this story pre-dates the use of the Internet as part of the Annual Enrollment process. However, the same advice applies to checking web site addresses as well. For example, there's a big difference between www.peba.org and www.peba.com!

Can you top this PEBA member company's story? Please e-mail Arleen Barisa, PEBA Communications Committee Chair, at Arleen.Barisa@uphs.upenn.edu. We promise privacy and will work with you to remove all identifying information.

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unlike other Medicare Advantage plans, beneficiaries cannot disenroll from MSA plans from January to March unless they move out of area.

When a beneficiary enrolls in an MSA plan, the health plan submits the enrollment information to CMS for approval. In general, anyone enrolled in Medicare Part B is eligible to enroll in an MSA plan. There are some exceptions, the most common of which is a "dual eligible;" that is, an individual who is also eligible for Medicaid.

Once CMS approves an enrollment, the health plan establishes an MSA with a custodian. CMS then funds the account with an annual contribution at the beginning of the year (or when eligibility begins for mid-year enrollments). If a beneficiary disenrolls during the year, CMS is entitled to receive a portion of the current year's contribution from the health plan, based on the number of months the beneficiary is no longer in the MSA plan. The health plan may, in turn, attempt to collect the funds from the beneficiary.

2008 MSA Landscape

For 2008, the following four health plans are offering MSA plans throughout PA, NJ, and DE or in various counties in each state:

	PA	NJ	DE
Wellpoint	Save Well Plans offered in all counties	Save Well Plans offered in all counties	Save Well Plans offered in all counties
American Progressive	Mpower Health offered in all counties	No plans available	No plans available
Geisinger	Gold Reserve Plan offered in 16 Central PA counties including Berks and Lancaster	No plans available	No plans available
Coventry	Advantra Savings offered in the eight counties in and around Philadelphia in PA and NJ		No plans available

Conclusion

This new CDHP should interest individual Medicare beneficiaries, employers offering retiree medical benefits, and brokers and agents who sell Medicare plans.

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