

## **Appendix J. Medical Savings Accounts as of November 2000**

One alternative to the shortage of small employers offering reasonable health insurance options is to offer medical savings accounts (MSAs). Although they have existed for several years, the Health Insurance Portability and Accountability Act of 1996 created the current tax-favored medical savings account, which established a tax-free, individual account set up solely for medical expenses, giving consumers more say in their own medical treatment than the traditional preferred provider or health maintenance organization.

Medical savings accounts consist of two parts—a high-deductible, catastrophic insurance plan purchased by the employer and an account specifically set aside for medical expenses to which the employee or employer, but not both, contributes a premium. This account is completely tax-exempt, reserved only for medical expenses, and lasts indefinitely.

In order to meet the requirements that the medical savings account receive favorable tax treatment, the high-deductible health insurance plan must meet certain standards. The minimum annual deductible must be \$1,500 for employee-only coverage and \$3,000 for a family plan. The maximum annual deductible is \$2,250 for employee-only and \$4,500 for family coverage. The maximum out-of-pocket expenses allowed are \$3,000 for employee-only and \$5,550 for family.<sup>1</sup>

The maximum amount that an employer can contribute to the accounts is also regulated. An employer can contribute up to 65 percent of the high deductible to an individual's account and up to 75 percent to a family's account.<sup>2</sup> This money, whether paid by the employee or employer, is tax-exempt and stays in the account until it is needed to cover a deductible. It will be used to pay the deductibles until the pre-determined amount is reached, at which point the insurance company is liable for any additional expenses each year.

A simplified example is as follows: an individual has a medical savings account with a deductible of \$1,500 and the MSA has accumulated \$2,000. If the individual incurs \$5,000 in health costs, the individual is liable for the \$1,500 deductible and the health plan is liable for the additional expenses of \$3,500. The MSA balance is reduced to \$500. The catastrophic plan must cover the cost of any medical procedures for the rest of the year because the individual has already spent the maximum for the year.

The four-year demonstration medical savings account project set up in 1996 put a cap of 750,000 on new medical savings accounts that may be created. As of November 2000, there have been less than 100,000 accounts created.<sup>3</sup> The lack of participation to date makes the full effects of the legislation hard to assess.

<sup>1</sup> Internal Revenue Service, *Understanding MSAs, Publication 969, Medical Savings Accounts*. Online. [http://www.irs.ustreas.gov/plain/forms\\_pubs/pubs/p96901.htm](http://www.irs.ustreas.gov/plain/forms_pubs/pubs/p96901.htm). Accessed: October 22, 2000.

<sup>2</sup> Physicians Who Care, *A Brief Summary of Medical Savings Accounts*. Online. Available: <https://www.msapage.org/mssaguide.html>. Accessed: October 22, 2000.

<sup>3</sup> Reuters Health, *Bill Would Expand Medical Savings Accounts* (September 12, 2000). Online. Available: <http://thriveonline.oxygen.com/news/2000Sep12/45.html>. Accessed: November 11, 2000.

