

## **FACT SHEET ON MEDICARE MEDICAL SAVINGS ACCOUNT (MSA) PLANS**

**What is a Medicare Medical Savings Account (MSA) Plan?** – A Medicare Medical Savings Account (MSA) plan is a type of Medicare Advantage plan that combines a high-deductible health plan with a medical savings account. Enrollees of Medicare MSA plans can initially use their savings account to help pay for health care, and then will have coverage through a high-deductible insurance plan once they reach their deductible. Medicare MSA plans can provide Medicare beneficiaries with more control over health care utilization, while still providing coverage against catastrophic health care expenses.

**A Short History** – Medicare MSAs were first proposed as a limited demonstration program in the Balanced Budget Act of 1997. In 2003, the Medicare Modernization Act made this plan type permanent. 2007 was the first year that MSAs were actually available to Medicare beneficiaries for enrollment. In demonstration MSA plans, some MSA provisions are waived to make the plans more like other consumer-directed health plans, such as health savings accounts (HSAs), available in the private sector.

**MSAs and Prescription Drug Coverage** – MSA plans do not offer Medicare Part D prescription drug coverage. MSA enrollees can, however, join a stand-alone Medicare prescription drug plan (PDP) where MSA savings account withdrawals for Part D drug co-pays will count towards the PDP's out of pocket spending limit known as TROOP. (Note that MSA account withdrawals used for either prescription or non-prescription drugs are not taxed. See below discussion on non-taxable qualified medical expenses.)

**Savings Account** – The first part of a Medicare MSA plan is a special type of savings account. Medicare pays a set amount of money to private companies that apply to offer these plans. The plan deposits money from Medicare into the savings account at the beginning of each year. Enrollees cannot deposit their own money into the account.

- It is important to know both the deposit amount that will go into the savings account and the deductible amount of a plan before enrolling. Enrollees use the account to help pay for health care, and then will also have to pay out of pocket for care, until the MSA plan deductible is met, when coverage by the plan begins.
- Medicare Part A and Part B expenses count towards the MSA plan deductible.
- Enrollees can use their account to pay for any qualified medical expense, including for non-Medicare expenses. Account withdrawals are not taxed when used for “qualified medical expenses”, as outlined in IRS Publication 969. MSA enrollees need to file Form 1040 and Form 8853 annually to report account withdrawals. Non-Medicare expenses do not count towards the plan deductible.
- Enrollees would owe both income taxes and a 50% penalty on any savings account withdrawals that are used for non-medical expenses.
- Any money left in an account at the end of the year will remain in the savings account. If enrollees stay with the plan the following year, the new deposit will be added to any leftover amount. The deposit amount can change each year.

**High Deductible Health Plan** – The second part of a Medicare MSA plan is a high-deductible Medicare Advantage Plan. MSA benefit packages must cover all Medicare

Part A and Part B services. MSA plans may or may not have contracted providers, but MSA plans cannot restrict access to a network of providers.

- The plan will cover Medicare costs once an enrollee meets the yearly deductible. Only Medicare Part A and Part B expenses can count towards the plan deductible.
- Plans cover costs beyond an out-of-pocket spending limit (catastrophic coverage).
- Enrollees do not pay a plan premium to MSA plans. Plan enrollees are still required to pay their monthly Medicare Part B premiums to Medicare.
- In order to allow a lower deductible, some demonstration plans will have cost-sharing after the deductible up to the out-of-pocket limit, and differential cost-sharing may apply network vs. non-network (demonstration plans only).

**Other Benefits** – Other benefits that may be offered under Medicare MSA plans include:

- Information services, called transparency, to help enrollees shop for health care by comparing the cost and quality of providers.
- Coverage for additional benefits such as vision, hearing or dental at an optional additional cost to the member. These do not count towards the plan deductible.
- Coverage of preventive services before the deductible (demonstration plans only).

**Who Can and Who Cannot Enroll?** – Beneficiaries with both Medicare Part A and Part B can enroll in a MSA plan. The law provides that people who have other types of health insurance in addition to Medicare generally cannot enroll, and other groups as follows:

- If the beneficiary has health insurance coverage that would cover some or all of the MSA plan deductible, including benefits under an employer or union group health plan; health care benefits from the Department of Defense (TRICARE) or the Department of Veterans Affairs; or is a retired Federal government employee and part of the Federal Employee Health Benefits Program (FEHBP).
- If the beneficiary is eligible for Medicaid (a joint Federal and state program that helps with medical costs for some people with limited income and resources).
- If the beneficiary has End-Stage Renal Disease.
- If the beneficiary is currently getting hospice care.
- Or if the beneficiary primarily lives outside the United States – 183+ days a year.

Some plans may be sponsored by employers or unions and offered only to members.

**When Can People Enroll in a Medicare MSA Plan?** – Beneficiaries can join a Medicare MSA plan either when they are first eligible for Medicare, or between November 15 and December 31 of each year during the Annual Election Period. Employer or union group members may be able to enroll or to disenroll during the year.

**When Can People Disenroll from a Medicare MSA Plan?** – Enrollment is generally for the full calendar year. Enrollees can leave their MSA plan between November 15 and December 31 of each year, effective January 1 of the next year. MSA enrollees cannot disenroll during the January 1 to March 31 period, as other MA enrollees can. The only other times MSA enrollees may disenroll during the year are during a special enrollment period if they move, become eligible for Medicaid, or under other special circumstances. If people disenroll during the year, a portion of the account deposit is returned to the plan.

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