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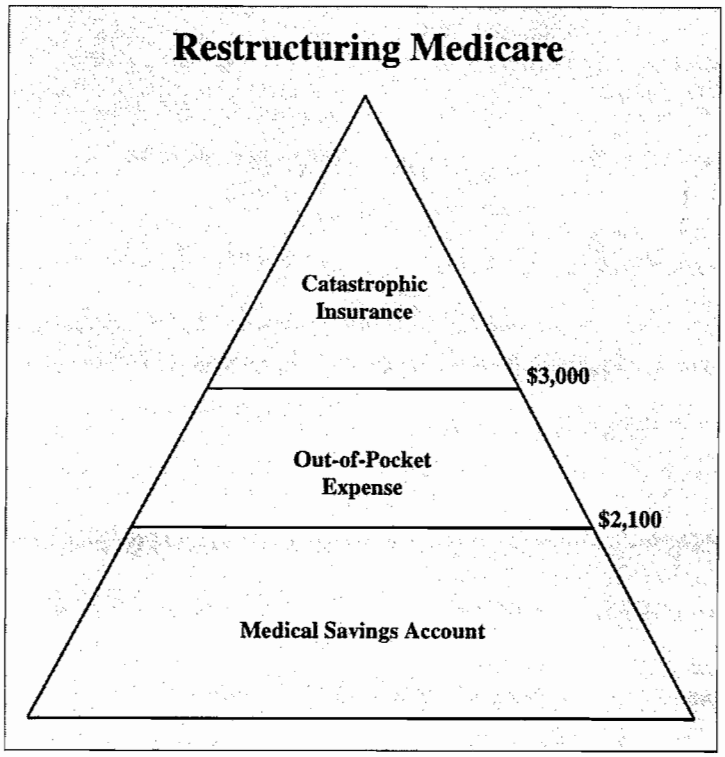
Answers for Seniors About Medical Savings Accounts

The U.S. Congress is on the verge of enacting the most sweeping reform legislation in the 30-year history of Medicare, the federal health insurance program that covers about 37 million seniors and disabled Americans.

Under the legislation, Medicare recipients would have new options, including the choice to remain in the traditional Medicare program, enroll in a health maintenance organization (HMO) or select a high-deductible health insurance plan with a Medical Savings Account (MSA). This Brief Analysis explains how MSAs work.



What are Medical Savings Accounts? Medical Savings Accounts are personal, individual accounts used to pay for routine and preventive health care and are combined with high-deductible, catastrophic health insurance that pays for major expenses. Beneficiaries pay all medical bills up to the deductible with MSA and out-of-pocket funds. Catastrophic insurance pays all expenses above the deductible.

How would the Medicare MSA work? Private insurance companies such as Aetna and Prudential would offer high-deductible insurance policies to seniors as an alternative to traditional Medicare. If a senior chose an MSA plan, the federal government would transfer that senior's allotment of Medicare funds to the insurer, who would deduct the cost of the catastrophic insurance and deposit the rest of the money in the senior's MSA.

Seniors choosing a health plan with, say, a $3,000 deductible could receive an MSA deposit as high as $2,100. [See the Figure.] Thus when seniors entered the medical marketplace, they would pay the first $2,100 out of the MSA and the next $900 out of pocket. The plan would pay all expenses above $3,000.

Any senior who spent less than the $2,100 deposit would get to keep the balance. A senior who spent, say, $1,500 on health care during the year would be able to withdraw the remaining $600 at the end of the year. After paying normal income taxes, seniors could spend the money as they wished.

How would someone pay medical bills with an MSA? One way is by means of a health care debit card. Seniors would present the card to a doctor at the time a service was rendered and funds would automatically be transferred from the patient's MSA to the doctor's account. Another way would be to pay in cash and take or mail the receipt to the financial institution managing the MSA for reimbursement.

How would seniors learn about the MSA plans available to them? Insurers would provide seniors with information about the plans, their costs and their benefits. In addition, once a year Medicare would provide seniors with a booklet, describing each of the plans.

What guarantees that the government won't take money out of someone's MSA? The Medicare MSA would be a personal account belonging to the senior and held by a bank or other financial institution. The government would have no more access to an MSA than it has

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to a checking or savings account, a money market fund or a credit card account.

Would the government force seniors to take an MSA? No. Each senior would choose whether to join an MSA plan. Furthermore, the new legislation would give seniors an annual option of moving out of an MSA plan and back into traditional Medicare.

What would the deductible be? And the deposit? Insurers would offer different options, but most people would likely choose a deductible of $2,000 or $3,000. The higher the deductible, the less expensive the catastrophic insurance would be and the more money would be available to deposit into an MSA.

Would beneficiaries be free to choose their own doctors? That depends on the MSA plan. Seniors could join a fee-for-service plan with free choice of doctors, like traditional health insurance. They also could choose a plan with a managed care component and a network of doctors and hospitals. Such a plan would cost less than pure fee-for-service, leaving more money to be deposited in the MSA and lowering the seniors' out-of-pocket exposure. It also would mean a smaller group of doctors and hospitals from which to choose, although this type of managed care program would be far less restrictive than a traditional HMO.

In general, an MSA plan would make it much easier to see a doctor. Since the current Medicare system pays physicians, on the average, only about 70 percent of their normal fees, many physicians limit the number of Medicare patients they will see. With seniors able to pay the full price of visits and procedures out of the MSA, doctors would begin to accept new Medicare patients.

Would seniors need supplemental health insurance? Probably not. Seniors probably would have the option of buying supplemental (medigap) insurance, but it is unlikely many would want it.

Under the current Medicare system, seniors are exposed to thousands of dollars in out-of-pocket medical expenses. As a result, most purchase supplemental health insurance to help them pay expenses not covered by Medicare. Under the Medicare MSA plan, people would know the amount of their maximum exposure — the difference between the deductible and the amount in the MSA — probably about $900 a year. If seniors allowed the unspent portion of their MSAs at the end of a year to remain in the account and grow, they might have no out-of-pocket exposure in future years.

Another reason why supplemental insurance would not be needed is that private health plans would make better arrangements with doctors. Currently, Medicare pays less than the full amount of medical bills, and seniors buy supplemental insurance to fill the gap. Under Medicare reform, private plans would negotiate rates with doctors and hospitals so that what the plan paid (above the deductible) would be payment in full.

What about preexisting conditions? Approved private plans would have to accept all applicants, regardless of health condition.

Why are MSAs better than traditional Medicare? Just consider:

- For the first time, seniors would have genuine catastrophic insurance, unlike the present system that leaves them exposed for tens of thousands of dollars in out-of-pocket expenses.
- Using their MSA funds, seniors would have first-dollar coverage for such services as primary and preventive care, in contrast to Medicare, which has deductibles and copayments.
- Seniors could use their MSA funds for items not covered by Medicare, such as eyeglasses and prescription drugs.
- Patients would have incentives to make prudent choices, because they would get to keep any MSA money they did not spend.
- Seniors would be able to pay market prices for services rather than live with Medicare's low payment rates, which are limiting their access to doctors and hospitals.
- By returning health care money — and therefore decision-making power — to seniors, MSAs would restore doctor-patient relationships and allow doctors to again act as agents of their patients instead of agents of the Medicare bureaucracy.

This Brief Analysis was prepared by NCPA Health Policy Director Merrill Matthews Jr., Ph.D.