Editorial

Medical Savings Account (MSA): A Boost For Alternative Medicine?

The Health Insurance Portability and Accountability Act of 1996 added section 220 to the Internal Revenue Code to permit eligible individuals to establish Medical Savings Accounts under a pilot program beginning January 1, 1997. MSA's are tax-deferred savings accounts designed to pay for qualifying medical expenses. They also allow for the accumulation of savings to pay for future medical expenses.

In order to open an MSA, individuals must meet two criteria. They must be either self-employed or be employed by a business with between 2 and 50 employees and they must have a qualifying high-deductible health insurance plan, in place. A high-deductible plan for individual coverage has an annual deductible of between $1,500 and $2,250, while a plan for family coverage has an annual deductible of between $3,000 and $4,500. Under this type of plan comprehensive coverage for major illnesses or accident is still covered in conjunction with the high-deductible health insurance plan.

The savings part of an MSA is held by a custodian such as a bank, mutual fund, or insurance company. Typically a one-time nominal set-up fee along with a monthly maintenance fee is charged. Funds can be removed from an MSA at any time; however, if the amount withdrawn is not used for qualifying medical expenses, it would be subject to income tax along with a 15% penalty. The method of accessing an MSA fund can vary; however, several providers issue debit cards so an individual can pay for expenses as they are incurred.

MSAs offer an attractive advantage which might in the future stimulate the growth of Alternative Medicine. Money from an MSA can be used to pay for services not normally covered by other group health insurance. In order to be an allowed withdrawal, the money must be used for health care as defined by the Internal Revenue Code, Section 213D. While individuals are encouraged to consult a tax advisor for confirmation and thorough information on a case-by-case basis, the following have been listed as eligible expenses: acupuncture, chiropractic care, dental fees, diagnostic fees, Christian Science treatment, doctor fees, fees of healing services, health club dues (prescribed by a physician for medical conditions), home improvement motivated by medical considerations, laboratory fees, physician fees, therapy treatments (prescribed by a physician), and vitamins (prescribed by a physician). Several of these listings fall within the scope of Alternative Medicine; however, the ambiguous nature of many of the remaining listings might provide a large enough umbrella to cover many of the therapies utilized by alternative practitioners.

Perhaps the greatest benefit of MSAs is the focus they place squarely on the individual for responsibility regarding health related decisions. Individuals have the freedom to choose their doctor. Because they benefit financially by accumulating money when medical expenses are not incurred, they are rewarded for maintaining good health. The individual, not an HMO or insurance organization, makes the determination on when to withdraw money from an MSA and has the bottom line responsibility on determining whether the distribution is used for a medical expense. Of course, the individual must comply with the determination of eligible expenses recognized by the IRS; however, these are far broader guidelines compared with standard insurance.

The intent of the Act, responsible for the establishment of MSAs, was to demonstrate workers, when given a financial incentive, will keep doctors bills down. However, an overwhelming side effect of this Act was the establishment of a terrific tax shelter. Contributions to an MSA are not taxed. They are deducted from gross income similar to an IRA. The maximum annual tax-exempt savings deposited in an MSA is $1,462 (single) and $3,375 (family). Funds and interest in the MSA can accumulate on a tax-deferred basis. Withdrawals from an MSA for eligible medical expenses are not taxed and so are excluded from gross income. MSAs can earn income tax-deferred until you reach the age of 65. Contributions to an MSA can be made in addition to other qualified retirement plans.

The pilot program is scheduled to end in the year 2000; however, the opportunity to establish an MSA will end earlier if the number of taxpayers contributing (or receiving employer contributions) to an MSA exceeds predetermined statutory limits. While a formula for computing the limits for 1997, 1998, and 1999 exists, in general MSAs will be capped when the total number of MSAs reaches 750,000. In determining whether the limits are exceeded, certain previously uninsured individuals will not be counted. Those who get into the pilot program are guaranteed they can keep their MSA and continue the tax shelter.

Although the actual number of individuals who will be allowed to establish an MSA is small, Congress has mandated a study be conducted to determine the effect of MSAs on health costs, preventive care, consumer choice, and other issues. If this program can satisfactorily address these issues, perhaps we are looking at the future today. If not, MSAs are a great investment opportunity now, offering significant advantages for all individuals, both patients and practitioners, wanting to be proactive in their health and to have a greater choice in determining how their money is spent.

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