The Vermont Legislative Research Shop

Medical Savings Accounts

What are MSAs or HSAs?

Medical Savings Accounts are tax-free savings accounts for individuals with a high deductible insurance used to pay for health expenses not covered by their insurance provider. This money is kept in a separate bank account (accessible through checks or a debit card), which is available to be used for medical expenses that are not covered by health care coverage (The New Health Savings Accounts 2004).

Inside Governor Douglas' health proposal plan he presents a different program from the technical definition of a medical savings accounts, which he has titled, "The Small Employer Health Care Incentive Program." The program covers businesses with 25 or less employees who would like to provide health care for their workers, but who find it too costly. The plan will provide refundable state tax credit to be used in conjunction with health savings accounts where the employer matches 50% of the premiums and deductible accounts. Within this program the employee has the option of depositing a portion of their wages, tax free, into their Health Savings Account to be used for co-pays and deductibles. The employer incentive plan will be available within sustainable financial parameters to employers currently offering health insurance and to employers unable to offer coverage. After the start up period, companies will be asked to contribute increasing amounts until they are able to be self-sustaining without government assistance (Office of the Governor of Vermont 2004).

What and How Many States Have Them?

The state of Montana instituted a similar program to the one proposed by Governor Douglas in January 1996. The program allows employees to create a separate account for non-taxed earning to be used towards medical expenses not covered by their health care provider. The maximum amount any person can put into their account annually is $3,000; however, any person who has an account may open an account for their spouse in which they may deposit up to $3,000 as well. A difference in Montana's plan to the proposed plan in Vermont, is that an account is available though a state or federally chartered bank, savings and loan, credit union, or trust company; a qualified health care insurer; a licensed CPA; a licensed public accountant; an enrolled agent; a Montana-licensed attorney; a broker, insurance producer or investment advisor regulated by the commissioner of insurance; or an employer, if the employer has a self-insured health plan under the Employee Retirement Income Security Act (ERISA). There are two main differences between the Montana plan and the Vermont plan; first that there are many places in which a person can maintain their account other than their employer and secondly that these are not limited to small businesses with fewer than 25 employees (Montana State University Extension Service 2003).

A West Virginia MSA is a trust established for the payment of most medical expenses created or organized for an individual, his/her children and his/her beneficiaries. Any individual who is a resident of West Virginia may establish a West Virginia MSA to serve as self-insurance to pay for qualifying medical expenses. Contributions to a West Virginia MSA are subject to federal tax, but excluded from state taxes through decreasing modification to the taxpayers' federal adjusted gross income (West Virginia Tax Commission 1998).

Since 1997, Arizona has offered all employees and self-employed individuals MSAs that are not subject to Arizona income tax (State of Arizona Department of Revenue1997).

Ohio MSA plans have been available since 1996, and off the self-employed individual (including sole proprietors and general partners) and small business an opportunity to use your pre-tax money to pay their medical expenses. The premiums paid for the insurance are deductible as a business expense, and the contributions made to the MSA come off the top and reduce your gross income dollar for dollar (Ohio Department of Insurance 2004).

In Connecticut MSAs have been created in which residents can contribute up to $2,000 tax-free to their account, to be used for health care costs. It was one of the few states that previously disallowed MSAs until April of 2003 (Kaiser Network 2003).

Utah began its MSAs in 1995. Their plan allows Utah residents to make state tax exempt deposits to their personal MSA accounts. The account holder will be excluded from state taxable income up to the maximum of $2,000 annually or an amount equal to the eligible medical expenses paid out in that tax year, whichever is greater (Utah Income Tax 2003).

Evidence of the Effect?

There are not very many sources available on the outcome of these accounts due to the fact that they have not been around that long. A conference on Health Policy sponsored by the National Conference of State Legislatures, Linda Blumberg, of the Kaiser Network, stated her opinion of the accounts and how it affect the population at large, "I also think with these kinds of changes, they're likely to create access issues for particular groups of individuals, particularly the low income workers, who may not be able to cover the cost of the higher deductibles and cost sharing; and chronically ill individuals, or individuals with very expensive, even acute kinds of problems, where greater burdens of the costs are going to be shifted to them they're used to" (The Kaiser Network was established to advance the mission of the Henry J. Kaiser Family Foundation, which is a non-profit, private foundation focusing on the major health care issues facing the nation.) Additionally, Scott Leitz, the Health Economist of the State of Minnesota, stated, "These ideas may well make insurance more affordable for a number of small businesses and individuals" (King 2003).

References:

Info on Medical & Health Savings Accounts. The New Health Savings Accounts. http://www.msainfo.net December 8, 2003. Visited Februrary 18, 2004.

Kaiser Network. “Connecticut Senate Approves Measures to allow Medical Savings Accounts.” http://www.kaisernetwork.org/daily_reports/print_report.cfm?DR_ID=17270&dr_cat=3. Friday, April 18, 2003. Visited Februrary 18, 2004.

King, Martha P. “Hurdles of Health Care Reform.” State Legislatures. January 2003.

Montana State University Extension Service. “Montana Medical Care Savings Accounts.” http://www.montana.edu/wwwpb/pubs/mt9817.html. September 9, 2003. Visited Februrary 18, 2004.

National Conference of State Legislatures, Sixth Annual Health Policy Conference. http://www.kaisernetwork.org/health_cast/uploaded_files/Transcript_for_Pitfalls_and_Perils.pdf. November 18, 2002. Visited Februrary 18, 2004.

Ohio Department of Insurance. “Ohio Medical Savings Accounts (MSAs): Common questions and answers about Ohio MSAs.” http://www.ohioinsurance.gov/consumserv/publications/MedSavAcct.htm. Visited February 18, 2004.

Prescription for a Healthy Vermont. http://www.vermont.gov/governor/priorities/Prescription-Healthy-VT.pdf. January 20, 2004. Visited Februrary 18, 2004.

State of Arizona Department of Revenue. “Medical Savings Accounts.” http://www.revenue.state.az.us/brochure/542.pdf. Visited Februrary 18, 2004.

Utah Income Tax - Medical Care Savings. “Utah Medical Care Savings Account.” http://incometax.utah.gov/deductionsmedical.html. December 30, 2003. Visited Februrary 18, 2004.

The White House. “Fact Sheet: Guidance Released on Health Savings Accounts (HSAs).” http://www.whitehouse.gov/news/releases/2003/12/print/20031222-1.html. December 22, 2003. Visited Februrary 18, 2004.

West Virginia Tax Commission. “Individual Medical Savings Accounts.” http://www.state.wv.us/taxrev/taxdoc/Tsd403.PDF. 11/1998. Visited Februrary 18, 2004.

Complied by Donald Zelaya, Nikki Muradian and Lisa Conlon under the supervision of Professor Anthony Gierzynski on February 18, 2004 for Representative J. Donovan.