

Benefit Fact Sheet

What is it?

The federal government has enacted the Archer MSA program as a time-limited demonstration project. Congress has extended the demonstration several times, and currently **Archer MSAs are scheduled to phase out on December 31, 2007**. After that date, individuals can no longer open new Archer MSAs but can contribute to existing Archer MSAs and can use funds from existing Archer MSAs to pay qualified medical expenses.

Medical Savings Accounts (MSAs) allow self-employed individuals and small employers (fewer than 50 employees) to fund health care through a combination of insurance and medical spending accounts. Participants purchase a high deductible major medical plan (also commonly referred to as catastrophic coverage) and fund all other out-of-pocket health care expenses through an established MSA. An MSA is a tax-exempt trust or custodial account that you set up with a U.S. financial institution in which you can save money exclusively for future medical expenses.

Characteristics of an MSA include:

- Tax-deferred savings vehicle for funding qualified health care expenses.
- Contributions can either be made by the employer or individual, but not both.
- Annual tax-advantaged MSA contribution is limited to the lesser of: 65% (for individual plans)/ 75% (for family plans) of the deductible OR the individuals annual salary.
- Unused funds roll over from year to year; interest accrues tax-free. Funds can be invested in mutual funds, stocks, or other investments.
- Funds are taxed if withdrawn for a non-qualified health care expense. Additional 15% penalty applies if withdrawn prior to age 65.
- The MSA is portable.

Why offer it?

- Incentivizes participants to be more cost-conscious consumers through the combination of high deductibles and long term participation in reduced expenditures.
- Offers participants a tax-deferred savings vehicle.
- Tighter control on increasing health care costs.

What types of employers offer it?

- Self-employed or small employers (fewer than 50 employees) concerned with the increasing cost of health care.
- IRS' 2005 records show that approximately 20,000 individuals reported MSA contributions.

What size employers offer it?

Only available to self-employed individuals and small employers (fewer than 50 employees) who maintain a high deductible health plan.

What are the critical underwriting or participation requirements?

- Employer size (< 50 employees when accounts begin)
- Employee demographics
- Plan design

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What is the difference between an HSA and an MSA?

MSAs were initially offered as a pilot program to expire December 31, 2000, or when a cap of 750,000 accounts was reached. As of April 15, 2006, approximately 20,000 taxpayers reported contributions to MSA accounts. As amended by The Tax Relief & Health Care Act of 2006 (TRHCA), the pilot program's "cut-off" year has been extended until December 31, 2007. You can make contributions to an MSA for 2006 until April 17, 2007.

With the introduction of Health Savings Accounts (HSAs), the number of employers offering high deductible health plans (HDHP) is growing. As of March 2005, 1,031,000 people were covered by HSA/HDHP products. While MSAs are only available to small employers or the self-employed, HSAs are open to all employers. MSAs are HSAs with tighter restrictions on contributions and plan design. Rollovers from MSAs to HSAs are permitted and those who are eligible individuals prior to December 31, 2006 may continue with the MSAs if they choose to or may opt to roll over their MSA balance into an HSA.

How much does it cost?

Employers can customize the plan design and MSA contribution based on their budget.

Informational link(s)

- [MSAs: Another Way to Pay for Health Care](#) (insure.com)
- [Tax-favored Health Plans](#) (Internal Revenue Service)

Pros and cons

Pros

- Tax-deferred savings.
- MSA contributions roll-over and accounts are portable.
- MSA balance can be rolled over into an HSA.

Cons

- MSA programs are being phased out.
- HSAs are becoming a more favored tax-deferred savings vehicle for most employers and employees.

Notes

- MSAs must co-exist with a major medical plan that has a high deductible. "High deductible" is defined as \$1,800 - \$2,700 for individuals, \$3,650 - \$5,450 for families. In addition, annual out-of-pocket limits cannot exceed \$3,650 for individuals, \$6,650 for families. Lower deductibles or first dollar coverage is allowed for state mandated preventive care.
- MSAs are federally regulated, however MSAs may not be offered in all states due to state insurance regulations.

This Fact Sheet is designed to provide a general overview of the benefit program, service, or regulatory act it describes. The information included in this document is not a substitute for legal or professional opinion relative to a plan sponsor's particular fact pattern. Your ArlenGroup consultant can answer more specific questions relative to its application for your organization. A menu of additional topics is available online at: www.arlengroup.com/facts.