

REPORT OF THE
BUREAU OF INSURANCE

HIGH-DEDUCTIBLE PLANS USED
WITH MEDICAL SAVINGS ACCOUNTS

TO THE GOVERNOR AND
THE GENERAL ASSEMBLY OF VIRGINIA

COMMONWEALTH OF VIRGINIA
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INTRODUCTION

House Bill 414 was passed by the 2002 Session of the General Assembly to address the implementation of the Virginia Medical Savings Account Plan. The bill requires the Department of Taxation and the Bureau of Insurance to perform certain duties regarding Medical Savings Accounts (MSAs) in Virginia.

The Bureau of Insurance is required to provide a report on the available plans or policies for high-deductible indemnity health insurance policies and a cafeteria menu of the insurance plans. The Bureau of Insurance is required to report this information to the Virginia General Assembly. The Department of Taxation made a separate report to the Joint Commission on Health Care, the Senate Finance Committee and the House Appropriations Committee.

Medical Savings Accounts were developed in part as a way to provide incentives for individuals to be cost-conscious in their purchases of medical services. The MSAs were envisioned as tools to provide people with more control over their health care dollars.

Participants in MSAs make tax-free deposits on a regular basis that are used to cover routine medical care up to the amount of the deductible. The high-deductible plan then covers expenses above the deductible according to the coverage terms of the policy. The earnings and other interest on the MSA are tax-free. A tax deduction can be claimed for the contributions even if there is no itemization of deductions. The contributions to the MSA remain in the account from year to year until they are used.

Contributions do not have to be made to the MSA every year.

The covered individual cannot have other health coverage. The prohibition does not include coverage for accidents, disability, dental care, vision care, long-term care, benefits related to worker's compensation, tort liabilities, ownership or use of property, a specific disease or illness, or a fixed amount per day (or other period) of hospitalization according to Internal Revenue Services Publication 969.

MEDICAL SAVINGS ACCOUNTS PLANS

The marketing of high-deductible health insurance policies in Virginia was permissible under Virginia insurance law prior to the development of Medical Savings Accounts and the federal recognition of “qualified plans.”

Federal legislation enacted by Congress in 1996 authorized a four-year demonstration program for Medical Savings Accounts (MSAs). Medical Savings Accounts are trust or custodial accounts that receive preferred tax treatment and are utilized with qualified high-deductible health insurance plans to pay for approved medical expenses. The comprehensive health insurance products were required to meet the following conditions:

- ◆ Annual deductible of at least \$1,500 and not more than \$2,250 for individual coverage.
- ◆ Annual deductible of at least \$3,000 and not more than \$4,500 for family coverage.
- ◆ Annual out-of-pocket maximum (OPM) expenses cannot exceed \$3,000 for individual coverage or \$5,500 for family coverage.
- ◆ Lower deductible or first-dollar coverage is allowed for state-mandated preventive care.

Current requirements allow a deductible of at least \$1,650 and not more than \$2,500 for individual coverage and a deductible of at least \$3,300 and not more than \$4,950 for family coverage. The dollar limits are indexed for inflation based on the Consumer Price Index.

The legislation that contained the MSA project authorization was included in the Health Insurance Portability and Accountability Act of 1996, (HIPAA). The program began on January 1, 1997 and limits eligibility to self-employed individuals and employees of businesses with no more than 50 employees. The employee or the employer may contribute to the MSA, but both may not do so.

The initial legislation authorized a limit of 375,000 MSAs until April 1, 1997. The maximum number of MSAs was increased to 600,000 by April, 1998 and to 750,000 for the total project.

The tax advantages of the program are that (i) the employer contributions are not counted as gross income and (ii) contributions by self-employed individuals and employees of small firms are tax deductible when MSA dollars are used for medical expenses that qualify under the law; they are not considered gross income for federal tax purposes.

The demonstration project was extended to 2002 and MSAs were renamed “Archer MSAs” by legislation in 2000. The Archer MSAs were then extended until December 31, 2003 by the Job Creation and Worker Assistance Act of 2002 that was signed by President George Bush on March 9, 2002.

Thus far, the number of MSA plans sold nationally is considerably less than originally contemplated. The number of Virginians purchasing high-deductible plans that can be used with MSAs is consistent with the numbers on the national level according to information from the Internal Revenue Service, (approximately 65,000 deductions for MSAs have been taken nationwide). The Employee Benefits Institute of America reported in its October 3, 2002 “EBIA Weekly” that the number of returns projected to be filed with MSA deductions for 2002 is 59,151.

VIRGINIA EXPERIENCE

The number of insurers that offer and market MSA plans has decreased over time in Virginia. This decrease is consistent with national activity. In 1999, there were 22 companies that had policies approved for sale in Virginia that met the federal requirements to be used with MSA accounts.

Eight insurers marketed the contracts at one time but no longer do so. Two insurers merged with other companies that are active in the MSA market. Four companies never marketed the approved plans in Virginia for use as MSA vehicles. There are at least eight insurers that are actively marketing the high-deductible plans for use with MSA accounts at the present time. These figures are based on previous surveys of licensed

accident and sickness insurers operating in Virginia, subsequent computerized tracking of forms filings from licensed insurers, and direct contact with insurance company personnel.

The number of Virginians covered by the high-deductible plans is estimated to be a minimum of 3,000. Some insurers were not able to provide figures, particularly those no longer offering the contracts in Virginia.

COMPANIES WITH POLICIES APPROVED FOR SALE IN VIRGINIA THAT CAN BE USED IN CONJUNCTION WITH MEDICAL SAVINGS ACCOUNTS AND CURRENTLY MARKETING IN VIRGINIA

- ❖ American Republic Insurance Company
- ❖ Fortis Insurance Company
- ❖ Golden Rule Insurance Company
- ❖ Medical Savings Insurance Company
- ❖ Mennonite Mutual Aid Association
- ❖ Mutual of Omaha
- ❖ Trustmark Insurance Company
- ❖ UniCare Life and Health Insurance Co.

HIGH-DEDUCTIBLE PLANS AND BENEFITS

The benefits offered by the high-deductible plans in Virginia vary. Most of the companies allow the insured to select one of the available options for the lifetime maximum payment limit. The plans we reviewed had lifetime maximums that varied from a low of \$1,000,000, but with some companies offering up to \$5,000,000, \$6,000,000, or even \$8,000,000.

The deductibles offered by the plans are consistent with federal requirements and range from the \$1,500 minimum to the maximum of \$2,500 for single coverage. The co-insurance requirements that are available include a range from zero after the deductible, up to 50% options. Many of

the plans are available on either an indemnity basis or through a preferred provider organization.

All of the plans that were reviewed covered doctor's visits as well as emergency room care. Hospital care was also included in all of the plans on both an in-patient and an out-patient basis. Surgical fees are also covered by all of the plans that were reviewed.

Coverage for preventive care varied considerably. One plan limits preventive care coverage to children. Another insurer limits the coverage to mammograms and other plans have dollar limits of \$150 per year; options are available from other plans of up to \$500 per year. Coverage for maternity also varies. Some plans provide the coverage while others exclude maternity care. Other companies offer it on an optional basis. Coverage for prescription drugs is standard coverage for some plans and is offered as an option by others. One plan offers preferred pricing at pharmacies with the use of its coverage card. Coverage for home health care is included by nearly all the plans that were reviewed.

Generally, the coverage alternatives that are available in the high-deductible plans are consistent with the accident and sickness market; coverage for preventive care, maternity benefits, and prescription drugs is sometimes available in the standard policy, or on an optional basis. Many of the companies vary their plans according to the requests of a small employer.

The benefits are summarized on the following pages.

HIGH-DEDUCTIBLE PLANS MARKETING FOR USE WITH MEDICAL SAVINGS ACCOUNTS

	<i>American Republic</i>	<i>Fortis Ins. Company</i>	<i>Golden Rule</i>	<i>Medical Savings Ins. Co.</i>
Lifetime Maximum	\$5,000,000	\$6,000,000 \$3,000,000; \$8,000,000& \$3,000,000-PPOs	\$3,000,000	\$2,000,000
Deductibles	\$4,000 Fam. \$4,500 Fam. \$2,000 Ind.	\$1,650 \$2,000 \$2,400	Fam: \$3,300- \$4,950; Single: \$1,650-\$2,500 OR Family: \$2,500 - \$1,000 Single: \$1,500 – 2,500	Family: \$3,500-\$4,950 Single: \$1,650-\$2,500
Co-Insurance	After Ded. In Network- 100%; Out-of-Network 80%	100% or 50% or 80%	Options: 1) 100% after deductible 2) 80% after deductible	Limited to \$500 per year
Dr. Visits Emer. Rm.	v	v	v	v
Preventive Care	Child	Up to \$500	\$150 per calendar yr.	v
Prescription Drugs	v	Optional	No (Unless covered by outpatient exp. Benefits	Yes, Plans 1 & 3
Hospital In – Patient/Out	v	v	v	v
Surgical Fees	v	v	v	v
Maternity Benefits	No	Optional	No, But Rider Available	No - Plans 1 and 2. Yes – Plan 3
Home Health Care	v	v	v	v

HIGH-DEDUCTIBLE PLANS MARKETING FOR USE WITH MEDICAL SAVINGS ACCOUNTS

(Continued)

	<i>Mennonite Mutual Aid Association</i>	<i>Mutual Of Omaha</i>	<i>TrustMark</i>	<i>UniCare</i>
Lifetime Maximum	Up to \$5,000,000	\$1,000,000 or \$2,000,000 (PPO)	\$5,000,000 \$2,000,000	\$5,000,000
Deductibles	Family: \$3,200-\$4,100 Single: \$1,600 – 2,000	\$2,500 \$3,300 \$4,950	Fam: \$3,400, \$4,250, \$5,050 Single: 1,700, \$2,150, \$2,500	Family: \$4,950 Single: \$2,500
Co-Insurance	None after Deductible	Options: 50% Co-In 80% Co-In 100% Co-In	100% 90% 80%	100% After Deductible
Dr. Visits Emer. Rm.	v	v	v	v
Preventive Care	Some Plans	Mammograms Only	v	v
Prescription Drugs	Preferred Pricing at Pharmacies with Card	v	v	v
Hospital In – Patient/Out	v	v	v	v
Surgical Fees	v	v	v	v
Maternity Benefits	Optional	No, But Rider Available	Optional	No
Home Health Care	Some Plans	v	v	v

FUTURE FEDERAL ACTION

A number of proposals from the Bush administration and other MSA supporters would expand the eligibility and features of the current program. However, legislation was not passed by the end of 2002.

Previous suggestions for expansion include:

1. Removing the limit to small businesses;
2. Lower the deductible to \$1,000 for individuals, and \$2,000 for families;
3. Allow joint employer-employee contributions; and
4. Make MSAs a permanent option.

Further growth and development of Medical Savings Account Plans is highly dependent on the changes made on the federal level.

CONCLUSION

High-deductible plans that are qualified for use with Medical Savings Accounts are available in Virginia. Although some insurers that offered the contracts initially no longer do so, contracts are available in Virginia for consumers who desire high-deductible coverage. The contracts are available from at least eight companies and most of the companies offer more than one option for coverage. The future of the plans is dependent on federal legislation to extend or expand the Medical Savings Accounts program or change the program from a pilot program to a permanent one.