Health Savings Accounts *and* Medical Savings Accounts

This document describes Health Savings Accounts (HSAs) and Medical Savings Accounts (MSAs) and how and when they can be used for Christian Science care purposes.

Health Savings Accounts (HSAs)

Health savings accounts (HSAs) are custodial accounts that can be set up through financial institutions such as banks and credit unions, either directly by an individual or through an employer-sponsored plan. HSAs provide tax benefits to an individual for setting aside money to pay for current and future health care expenses. Tax laws only allow establishment of and contribution to an HSA when the account holder has health coverage through an HSA-compatible health plan (also sometimes referred to as a “high-deductible”, “self-directed”, or “catastrophic” health insurance plan).[1] Those kinds of plans usually have lower monthly premiums than other health plans do — because the annual deductibles are higher. The motivation behind the HSA-compatible plan is to encourage saving (or investing) of money that would otherwise be spent on health insurance premiums, to give the account holder more discretion in how those dollars are used to pay for immediate or future out-of pocket health care needs.

Who can set up an HSA?
Generally speaking, if you are covered by an HSA-compatible health plan, you can set up an HSA. You are not eligible to establish an HSA if you have other health coverage through a non-HSA-compatible health plan, *including Medicare*. See the Medical Savings Account (MSA) section below for more information when covered by Medicare.

Contributions to an HSA
Contributions to the HSA can only be made when the account holder has health coverage through an HSA-compatible health plan. The IRS sets annual contribution limits, and contributions can come from a variety of sources, including account holders, employers, family members, and even from a limited one-time rollover of IRA funds. These contributions are not taxed, nor are distributions (provided they are used for qualifying health care expenses). If HSA funds are used for non-qualifying expenses before age 65, the account holder not only is obligated to pay regular income tax on the distribution, but is also subject to a penalty for early withdrawal. Once the account holder turns 65, non-qualifying distributions are subject only to regular income tax, without penalty.

[1] *Please note that some high-deductible coverage is compatible for use in conjunction with a health savings account (HSA) and some is not. If you are interested in pairing a high-deductible health plan with an HSA, you will want to verify that the coverage is an HSA-compatible health plan. It should reference "HSA" somewhere in the plan name or description, but you should also verify that in writing with the insurance carrier.*

HSAs and Christian Science care

The determination of which health/medical expenses can be legally paid for by an HSA is governed by Section 213(d) of the Internal Revenue Code, which defines “medical expense” for purposes of income tax deduction to include amounts paid “for the diagnosis, cure, mitigation, treatment, or prevention of disease, or for the purpose of affecting any structure or function of the body.”

Accordingly, over the years, payments made by individuals to Christian Science practitioners, Christian Science nurses, and Christian Science nursing facilities that relate to the healing of physical or mental conditions generally have been treated as tax-deductible under Section 213(d) of the Internal Revenue Code. This is consistent with IRS regulations interpreting this section, which approve expenses for “treatments affecting any portion of the body” and for the “prevention or alleviation of a physical or mental defect or illness”, including “hospital” and “nursing services” and “other diagnostic and healing services”. While this would not likely extend to expenses unrelated to a health condition, there appears to be great flexibility for coverage of expenses that directly relate to healing of a physical or mental condition.

Your eligibility to establish and contribute to an HSA, as well as the eligibility of specific health/medical expenses, should be discussed with an attorney, tax advisor, or benefits consultant that is qualified to advise you under your particular tax circumstances.

Medical Savings Accounts (MSAs)

Although Health Savings Accounts (HSAs) cannot be paired with original Medicare coverage (Medicare Parts A and B), there is a Medicare-related form of HSA called an MSA (Medical Savings Account) which works similar to an HSA. This option requires the individual to be enrolled in a consumer-directed (high deductible) Medicare Advantage plan, also called a Medicare Advantage Medical Savings Account (MSA) plan. Medicare Advantage plans require an individual to receive all of their Medicare benefits through a private managed care organization. Note that these plans often *do not work well* with Christian Science nursing facilities. For more information about Medicare Advantage plans generally and issues relating to coverage of Christian Science nursing facility care, read the Medicare FAQ, in particular, Question 10.

In the case of a Medicare Advantage MSA plan, the Medicare program contributes an amount into the individual's MSA account on an annual basis. Funds in an MSA can be used to pay for the same types of "medical expenses" as an HSA. Both are tied to a definition of "medical expense" in Section 213(d) of the Internal Revenue Code, which has been interpreted by the Internal Revenue Service to extend to health-related expenses for care from Christian Science practitioners, Christian Science nurses and Christian Science facilities. IRS Publications 969 and 502 discuss this further (Publication 502 directly references the expenses of a Christian Science Practitioner in the section titled, "What Medical Expenses Are Includible?").

Unlike HSAs, an individual cannot make contributions to an MSA on his or her own, so it's important to find out how much the plan deposits each year before joining. The amount of deposit can change each year and may also earn interest. Any money left in the MSA account at the end of the year will remain in the account and combine with future annual Medicare deposits to the MSA. Medicare provides some examples of how these accounts work. Regardless of what is said in these government publications, it is important to verify all of this with the plan before signing up to avoid disputes later on.