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## Advantages & Pitfalls of Medical Savings Accounts (MSAs)

Many medical schemes offer products that include Medical Savings Accounts (MSAs).

MSAs are advertised as self-save options for medical expenses for which cover is not provided by the Medical Scheme.

### **Advantages of MSAs**

1. It helps members to put money aside for medical expenses they may have that are not ordinarily covered by their medical scheme. Examples include specialised dentistry, cosmetic treatments and reading glasses.
2. Contributions toward MSAs are included in the SARS medical expenses calculation and may have tax benefits, especially if you are 65 or older.
3. The full yearly MSA amount is often available at the start of the benefit year. This allows the member to use the fund on day one while paying the contributions over the rest of the year. This is effectively an interest free loan.
4. Some employers subsidise medical scheme contributions and by adding the additional savings component to their benefit options employees can effectively increase their income.
5. Any amounts not utilised by the end of the benefit year are transferred to the next benefit year and is not lost.
6. Some medical schemes pay interest on the funds in the MSAs.

### **Disadvantages of MSAs**

1. Claims for **Medical Emergencies** are often paid from MSA funds when they should be paid in full, from scheme funds.

Unless the member informs the medical scheme that a claim is in respect of a medical emergency chances are that the scheme will pay the claim from MSA funds directly to the service provider.

The following reason code is frequently used:

**“Claims paid from available MSA funds.”**

Few medical schemes advise their members on their claim statements that they have received an invoice that indicates that treatment was for a medical emergency.

**The scheme will reprocess the claim if the payment from the MSA is queried and credit the amount back to the MSA.**

Pathology and Radiology invoices create additional problems since they do not identify emergencies.

**If there was no MSA the scheme would either pay the claim from available benefits or reject it.**

**If rejected, an invoice will be sent for the outstanding amount alerting the member to query the non-payment of the emergency.**

2. Claims for **Prescribed Minimum Benefits (PMBs)** are often paid from MSAs when they should be paid from scheme funds.

Medical schemes should inform members when they receive invoices with ICD-10 codes that identify treatments as potential PMBs and not simply pay these claims from MSAs.

Unfortunately, few schemes do.

If there are sufficient funds to cover the claim from a specific service provider in full then there will be no invoice for an outstanding amount sent to the patient.

**The scheme will reprocess the claim if the payment from the MSA is queried and credit the amount back to the MSA.**

Pathology and Radiology invoice typically do NOT indicate PMB ICD-10 codes because the diagnosis is unknown at the time of testing and are often paid from MSA funds.

**If there was no MSA the scheme would either pay the claim from available benefits or reject it.**

**If rejected, an invoice will be sent for the outstanding amount alerting the member to query the non-payment of the PMB.**

3. **MSAs allow medical schemes to give insufficient and misleading, but true reason codes for paying claims from MSA funds.**

If a benefit option has a MSA the medical scheme can use one of the following codes in respect of claims received.

“Paid in full, from MSA.”

“Insufficient funds in MSA, balance due by member.”

The reason code should alert a member where an emergency or PMB ICD-10 code is reflected on the invoice.

**Bestmed** Medical Scheme ethically uses the following reason code:

“Diagnosis is possible PMB, please submit supporting documentation for PMB entitlement.”

If there is no MSA, the scheme will have to pay from scheme funds or reject the claim in full or in part.

Where payment was not made in full for PMB treatments the service provider is likely to challenge the scheme or request payment from the member.

**Either way the member will know that action is required to get the claim paid in full.**

**4. MSA’s allow medical schemes to mask their actual contribution increases by reducing the Savings component on the affected benefit option.**

This was beautifully illustrated by Discovery Health when announcing their 2024 contribution increases, unfortunately for them the media picked up on it.

Consider the example where the total monthly contribution is R1000 of which R250 is allocated to a MSA (R750 goes to insured benefits and administration costs).

Because of poor financial performance the scheme decides to increase the R750 component of the contribution to R900, an increase of 20%.

Reducing the MSA contribution from R250 to R200 per month results in the total contribution increasing from R900 to R1 000, creating the illusion that the increase was only 10%.

**5. MSA’s allow medical schemes to effectively price members out of specific benefit options.**

By adding an involuntary savings component to a benefit option, medical schemes can increase the total contribution without taking on additional risk and effectively price lower, and often retired persons out of the benefit option.

Consider the example where a benefit option does not have a MSA component with a monthly contribution of R3 000. If the scheme adds the maximum savings component allowed, 25% of the total contribution, the total contribution increases to R3 600 per month. That is an increase of 20%.

**6. Administration costs** are typically charged as a percentage of total contributions, including the savings component, but paid by medical schemes from scheme funds.

Since general scheme funds are used to pay the administration costs relating to the MSAs there are less funds available to pay insured claims.

7. **Broker fees** are typically charged as 3% of total contributions, including the savings component, and paid by the medical scheme from scheme funds.

Less funds are available to pay insured claims because broker fees are paid from scheme funds.

8. **Interest** paid on MSAs is generally less than what is paid on investments.

7. **If payments were made from MSAs and not queried within the time allowed by the rules of the scheme the member may lose the right to have the claim reprocessed for payment from scheme funds.**

8. **MSAs are often used to cover the difference between what a medical service provider charged and the scheme rate for DSPs.**

- a. Medical service providers charge different rates for different medical schemes and even for patients on different benefit options in the same scheme.

If a DSP charges more than the rate agreed with the scheme, he should only be paid the scheme's agreed rate and the balance should not be paid from MSA funds.

- b. Medical emergencies must be paid at cost irrespective of whether the service provider is a DSP or not.

The scheme should not pay the DSP rate from scheme funds and the additional charge from the MSA. The full amount should be paid from scheme funds.

9. **MSAs create the illusion that the scheme is paying a claim when it is not.**

- a. Members and service providers are not aware which funds are used by the medical scheme to make payments at the point of service.
- b. When a service provider enters a potential claim for payment on a medical scheme system it indicates how much the scheme will pay. No indication is given which funds are used.
- c. If the scheme indicates that payment will be made in full there is no incentive for the service provider or member to seek more cost-effective alternatives. Examples include generic substitutes, cheaper spectacle frames and dental fillings rather than crowns.
- d. Members could have avoided or at least reduced these expenses if they were making the payments directly from their own pockets.

**10. Members are not always aware that unused MSA funds are carried over to the following benefit year.**

Unnecessary expenditure is frequently incurred towards the end of the benefit year because of the fear of losing what is not spent.

Without a MSA the member would have to pay directly from his own pocket and will be more cost aware.

**11. Medical schemes can claim against the MSA when a member resigns from the scheme.**

- a. Medical schemes can withhold funds from MSAs to recover cost due to the scheme, for example contributions and outstanding claims.
- b. It is near impossible to fight a medical scheme once the member has resigned from the scheme since the member no longer has direct access to the scheme's systems.

**IN SUMMARY**

Whether Medical Savings Accounts is a good idea or not depends on individual circumstances. Unless the member is very astute and checks **every** claim submitted and **every** claims statement in detail, it may not be advisable to have a MSA.

Fortunately, the decision to have a MSA is not cast in stone. Members are allowed in terms of legislation to change their medical scheme benefit option once a year.

The scheme's Rules will determine when it can be done.

This allows members to choose benefit options that do not have an MSA component.

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## **Advantages and Pitfalls of Medical Savings Accounts (MSAs)**

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