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New Research from EBRI:

Lifetime Accumulations and Tax Savings from HSA Contributions

WASHINGTON—With an ever-increasing number of Americans gaining access to health savings accounts (HSAs) via their employment-based health plan, how much could they accumulate for health care expenses in these accounts?

The answer depends on how much is contributed to the HSA—a tax-exempt trust or custodial account that an individual can open and use to pay his or her health care expenses—as well as how much is withdrawn, and what the investment return and fees on the HSA are, according to new research by the nonpartisan Employee Benefit Research Institute (EBRI).

The EBRI analysis finds that a person contributing the maximum allowable amounts for 40 years to an HSA without making withdrawals could accumulate up to $360,000 if the rate of return was 2.5 percent, $600,000 if the rate of return was 5 percent, and nearly $1.1 million if the rate of return was 7.5 percent.

As the EBRI report notes, HSAs provide account owners a triple tax preference: Contributions to an HSA reduce taxable income; earnings on the assets in the HSA build up tax free; and distributions from the HSA for qualified expenses are not subject to taxation. Because of this triple tax preference, some individuals might find using an HSA as a savings vehicle for health care expenses in retirement more advantageous from a tax perspective than saving in a 401(k) plan or other retirement savings plan.

"Depending on the rate of return in an HSA, these accounts have the potential to generate significant assets," said Paul Fronstin, director of EBRI's Health Research and Education program and author of the report. However, he added, "many individuals may not have the means to both save in an HSA and pay their out-of-pocket health care expenses. And HSA balances may not be enough to pay all medical expenses in retirement even if maximum contributions are made for 40 years."

HSAs were created by the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (MMA), which included a provision to allow individuals with certain high-deductible health plans to open and fund an (HSA) starting in 2004 (2014 marks the 10-year anniversary of the introduction of HSAs). In 2013, enrollment in HSA-eligible health plans was estimated to range from 15.5 million to 20.4 million policyholders and their dependents.

The full report, "Lifetime Accumulations and Tax Savings from HSA Contributions," is published in the July *EBRI Notes,* online at www.ebri.org