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**New Research from EBRI:**

## **How HSAs are Being Used Over Time**

WASHINGTON—The first-ever analysis of how health savings accounts (HSAs) are being used over time shows that most account owners use them more as specialized checking accounts rather than investment vehicles, according to new research by the nonpartisan Employee Benefit Research Institute (EBRI).

“HSAs offer a valuable tax incentive to set aside money on a tax-favored basis for current or future medical expenses,” said Paul Fronstin, director of EBRI’s Health Research and Education Program and author of the report. “However, most account holders appear to be using the accounts to cover current expenses, such as deductibles, coinsurance and copayments, rather than fully taking advantage of the tax preference by contributing the maximum.”

HSAs are a tax-exempt trust or custodial account that is funded with contributions and assets that a individual workers can use to pay for health care expenses. Individuals can contribute to an HSA only if they are enrolled in an HSA-eligible health plan. HSAs benefit from a triple tax advantage: employee contributions to the account are deductible from taxable income, any interest or other capital earnings on assets in the account build up tax free, and distributions for qualified medical expenses from the HSA are excluded from taxable income to the employee.

EBRI’s new analysis is the first longitudinal study to examine time trends HSAs. The results from the proprietary EBRI HSA Database, which includes administrative data on 5.5 million accounts with \$11.4 billion in assets, and examines account balances, individual and employer contributions, distributions, investments and account-owner demographics from 2011–2016. Among its key findings:

**On average, account holders appear to be using HSAs as specialized checking accounts rather than investment accounts.** Average total contributions—combined individual and employer contributions—increased from \$2,348 to \$2,922 between 2011 and 2016. This average was just above the minimum allowable deductible amount for family coverage, but less than one-half the allowable contribution maximum for family coverage.

- Overall, 63 percent of account holders withdrew funds. The average annual amount distributed was \$1,771 in 2016, implying an average rollover of \$1,151.
- Very few account owners invested their HSA balance in investments other than cash despite the tax saving possibilities. In 2016, 4 percent had investments other than cash.

**Longer experience with HSA improves account holder prospects for financial security.** The rollover feature of HSAs enables account holders to build up a balance for unexpected major medical expenses—in the near future and/or for retirement.

- Average end-of-year balances, by the year the account was opened, show that financial security increases over time. Accounts opened in 2004 (or earlier) had an average \$14,873 year-end account balance, while accounts opened in 2016 had an average \$1,027 year-end account balance.
- Annual 2016 contributions are higher the longer an account owner had an account. Individual contributions averaged \$3,658 among those who opened their account in 2005, but only averaged \$1,290 among those who opened their account in 2016.
- Older, larger accounts offer a stronger hedge against unexpected bills. Those accounts opened in 2005 had an average annual distribution of \$2,756, while those only opened in 2016 took \$1,051 in distributions.

The report notes that over time, HSA owners appear to see the value in investing. In 2016, 11 percent of accounts opened in 2005 had investments other than cash, compared to only 1 percent among those opened in 2016. It is possible that rules requiring minimum balances may have prevented owners of relatively new accounts from investing as the accounts would not have reached the minimum balance requirement.

The full report is published in the July 11, 2017 *EBRI Issue Brief*, “Trends in Health Savings Account Balances, Contributions, Distributions, and Investments, 2011–2016: Estimates from the EBRI HSA Database,” available online at [www.ebri.org](http://www.ebri.org)

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