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EBRI News

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New Research from EBRI:

HSAs Play Minor Part in Saving for Retiree Medical Expenses

WASHINGTON—Health savings accounts (HSAs) represent an important option for consumers seeking more control over their health care spending, but statutory contribution limits make it unlikely that these accounts will play more than a minor part in savings for health care costs in retirement, according to a new study by the Employee Benefit Research Institute (EBRI).

"The maximum savings that can be accumulated in an HSA will be far from sufficient to fully cover the savings needed in retirement for insurance premiums and out-of-pocket expenses," concludes the study in the August *EBRI Notes.*

The study includes this example:

- A husband and wife both age 55 this year would be able to save $118,000 in a health savings account by 2018 if both made the maximum contributions allowed by law, including catch-up contributions.
- A husband and wife both age 55 this year would need to save a combined $325,000–$654,000 by the time they both reach age 65 in 2018 to have enough money to cover health premiums and out-of-pocket expenses 50 percent of the time. If the couple wanted to have a 90 percent chance of having enough money to cover premiums and out-of-pocket expenses, they would need to save from $511,000 to just over $1 million, according to EBRI research.

Health savings accounts, sometimes touted as a vehicle for funding future retiree health care costs, allow individuals to make tax-deductible contributions to an account that can be used to pay for qualified medical expenses. They are always portable from job to job for the worker who makes the contributions. But the study notes the accounts have a number of limitations:

- Contributions are limited. This year the maximum contribution is $2,900 for an individual and $5,800 for families. Contribution limits and catch-up contributions are indexed for inflation.
- In order to qualify for tax-free contributions to a health savings account, individuals must be covered by a qualified high-deductible health plan—one that has an annual deductible of at least $1,100 for individual coverage and $2,200 for family coverage in 2008.
- Because HSAs are linked to high-deductible health plans, it is likely HSA owners will tap their accounts to pay for medical expenses during their working years. In addition, distributions cannot be used for employment-based retiree health insurance until an individual has reached age 65. Thus, early retirees do not have immediate access to HSA accounts for retiree health premiums.

EBRI research published in March reported the results of a 2007 survey that found that 12.5 million individuals were in high-deductible health plans and that 42 percent of those (5.2 million) were eligible for a health savings account but did not have such an account.

EBRI is a private, nonprofit research institute based in Washington, DC, that focuses on health, savings, retirement, and economic security issues. EBRI does not lobby and does not take policy positions. www.ebri.org

Note: The August 2008 EBRI Notes is posted on the EBRI Web site at www.ebri.org

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