

HSAs and Coronavirus: A Look at COBRA Premiums, OTC Expenses, Telemedicine, and Investment Balances

There are several reasons why health savings accounts (HSAs) and the coronavirus (COVID-19) may be forever linked. The Coronavirus Aid, Relief, and Economic Security (CARES) Act was signed into law on March 27, 2020, to provide economic relief related to the COVID-19 pandemic and economic downturn affecting millions of families and businesses in the United States. Two sections of the CARES Act are pertinent to HSAs. First, Sec. 3701 includes a provision that allows HSA-eligible health plans to provide access to telemedicine services prior to meeting the annual deductible. This provision is temporary and ends on Dec. 31, 2021. Second, Sec. 3702 allows HSAs to be used to purchase over-the-counter (OTC) medical products without a prescription from a physician including pain relievers, cold medicines, bandages, feminine hygiene products, and more. This provision is permanent and is retroactive to Jan. 1, 2020.

Health savings accounts (HSAs) are tax-exempt trust or custodial accounts that are funded with contributions that an individual 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. In 2020, contributions are limited to \$3,550 for people with individual coverage and \$7,100 for those with family coverage.¹

Impact of Moving the Federal Income Tax Filing Date

Equally importantly, because the IRS moved the due date for filing federal income tax returns to July 15, 2020, due to the coronavirus, HSA contributions may be made until then that count against the 2019 contribution limit. This is significant because Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA) premiums can be paid from HSAs for individuals receiving unemployment benefits. With nearly 10 million jobless claims in the last two weeks of March 2020, those individuals who did not contribute the maximum to their HSAs in 2019 are in a position to take advantage of the extended filing period in order to pay COBRA premiums using HSA contributions. The use of HSAs to pay COBRA premiums makes those premiums more affordable in a time when people might otherwise find paying such premiums challenging. This allows individuals to maintain their prior health care coverage instead of having to get coverage through an Affordable Care Act (ACA) exchange or Medicaid.

HSA Balances and the Impact of Market Volatility

Very few HSA owners invest,² but those who do have much higher balances than those who do not invest. HSA investors ended 2018 with an average balance of \$12,968, whereas those who did not invest ended the year with an average balance of \$1,787.³ How has the recent decline in the stock market impacted HSA balances in accounts with investments?

Among HSAs with investments, some of the balance is usually kept in a money market account. Using data from the EBRI HSA Database, we find that \$9,153 of the \$12,968 average account balance at the end of 2018 was invested. We examine two assumptions related to investment behavior. First, we project account balances

assuming that the HSA was invested in a balanced portfolio, with 60 percent of the account balance invested in stocks and 40 percent of the account balance invested in bonds. Second, we project account balances assuming that the HSA was invested in an S&P 500 index fund, which is comprised of 500 large-cap companies in the United States.

About the EBRI HSA Database

The EBRI HSA Database is a representative repository of information about individual HSAs. The database is unique because it includes data provided by a wide variety of account recordkeepers and, therefore, represents the characteristics and activity of a broad range of HSA owners.

As of Dec. 31, 2018, the EBRI HSA Database includes:

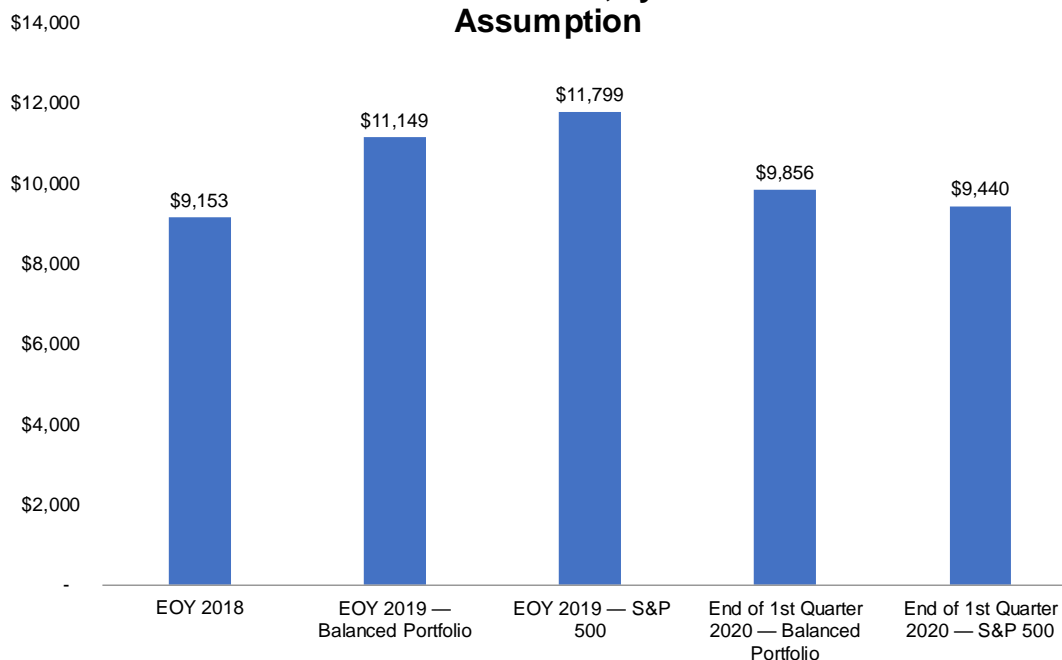
- 9.8 million health savings accounts.
- \$22.8 billion in assets.

Since 2010, the database has grown from 200,000 to 9.8 million accounts, and assets have grown from \$0.2 billion to \$22.8 billion. Most HSAs in the EBRI HSA Database were initially opened within the past few years. Overall, 71 percent of the accounts were opened between 2015 and 2018.

See <https://www.ebri.org/health/hsa-database> for more information about the EBRI HSA Database.

Had HSAs been invested in a balanced portfolio, the non-money-market part of the investment balance would have increased from \$9,153 to \$11,149 at the end of 2019 but would have fallen to \$9,856 by the end of March 2020. Similarly, if HSAs had been invested in an S&P 500 index fund, investment balances would have reached \$11,799 at the end of 2019 but would have fallen to \$9,440 by the end of March 2020. This assumes that none of the HSA funds were moved into safer investments when the stock market was falling during March 2020.

Impact of March 2020 Stock Market Decline on Average HSA Investment Balances, by Rate of Return Assumption



Source: Projections based on the EBRI HSA Database.

A recent report estimated that \$15.7 billion of HSA assets were invested at the end of 2019.⁴ If these assets were not moved into safer investments during March 2020, total HSA investments would be between \$13.5 billion and \$14.5 billion at the end of March 2020, depending on whether those accounts were invested with a balanced portfolio or in an S&P 500 index fund.⁵

The Employee Benefit Research Institute is a private, nonpartisan, 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. The work of EBRI is made possible by funding from its members and sponsors, which include a broad range of public, private, for-profit and nonprofit organizations. For more information go to www.ebri.org or connect with us on [Twitter](#) or [LinkedIn](#).

¹ More detailed information about HSAs can be found in the appendix in <https://www.ebri.org/publications/research-publications/issue-briefs/content/trends-in-health-savings-account-balances-contributions-distributions-and-investments-2011-2018-estimates-from-the-ebri-hsa-database>

² See <https://www.ebri.org/health/publications/issue-briefs/content/summary/are-hsa-investors-born-or-made>

³ See <https://www.ebri.org/health/hsa-database/content/health-savings-account-balances-contributions-distributions-and-other-vital-statistics-2018-statistics-from-the-ebri-hsa-database>.

⁴ See <https://www.devenir.com/research/2019-year-end-devenir-hsa-research-report/>

⁵ It is assumed that 29 percent of investment account balances are in money market funds and were unaffected by the stock market decline.

###