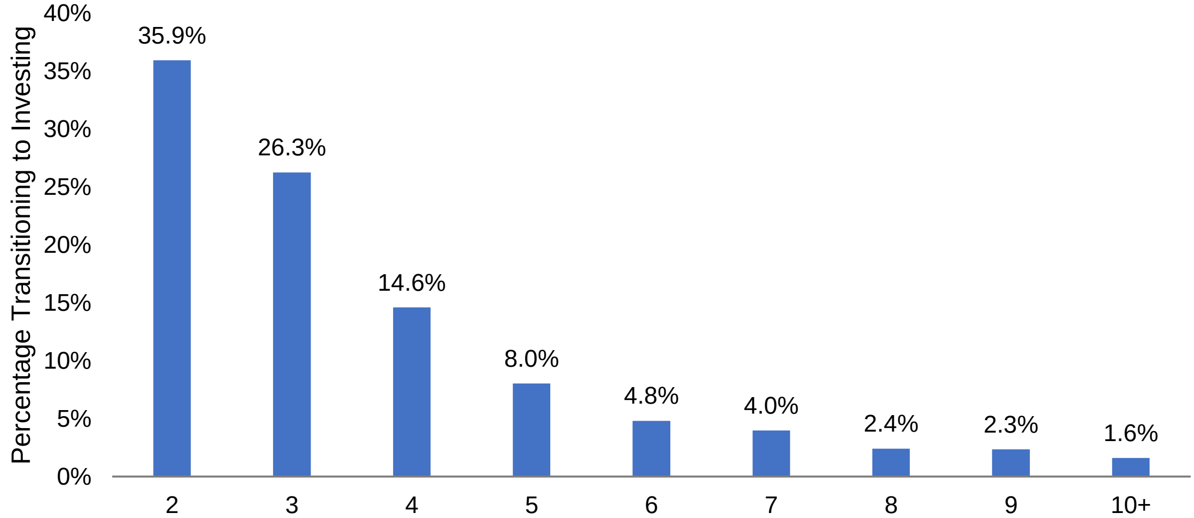
EBRI Fast Facts
April 16, 2020, #350

Who Doesn't Immediately Invest Their HSAs? A Look at Latecomers

Health savings accounts (HSAs) are a useful way for people covered by high-deductible health plans (HDHPs) to save for current and future health care expenditures. One of the largest benefits offered by HSAs — the ability to invest assets saved in the account with triple tax benefits[1] — remains seldom used, as only 6 percent of accountholders invest at least some portion of their HSAs.

New research from the Employee Benefit Research Institute (EBRI) takes a close look at HSA owners who decide to invest their balances, and specifically, those who do not immediately invest their balances. EBRI's research finds that 38 percent of HSA owners who invested their balances did not do so within their first year of account ownership. Of those who did not invest immediately, 62 percent started investing within the first three years of account ownership (Figure 1).

Figure 1
Years of Tenure When Non-Immediate Investors Transitioned to Investing

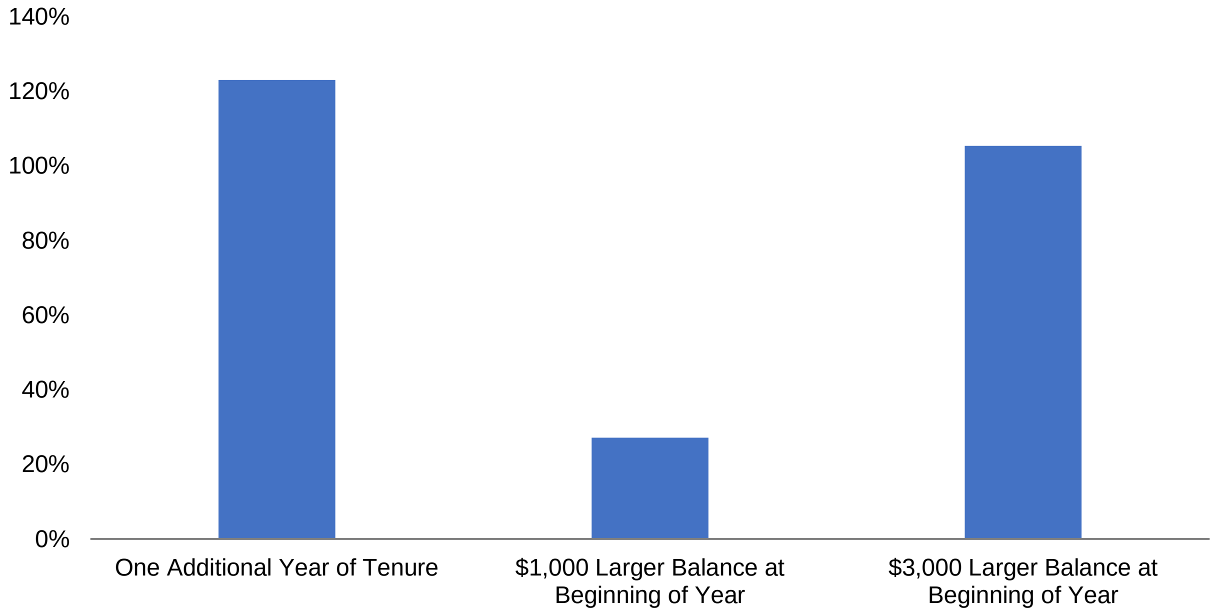


EBRI further analyzes the conditions under which HSA owners invest. Specifically, EBRI's research indicates that — all else equal — the longer an HSA owner has had their account, the higher the likelihood of that HSA owner investing. That longer-tenured HSA owners were more likely to invest suggests a familiarity effect. Perhaps after several years of tenure, HSA owners are more comfortable with using HSAs and have a better idea of how HSAs fit into their personal finances.

[1] Contribution to HSAs are tax deductible, earnings grow tax free, and distributions are not taxable if used for approved health care expenses.

Similarly, account balance had an impact on the likelihood of investing: Account owners with higher balances were more likely to invest, perhaps because they feel that they have built up a large enough buffer to cover health care costs. This result suggests that higher balances may lead HSA owners to feel more comfortable investing. EBRI calculates that the impact on the likelihood of investing of an additional year of account ownership was roughly equal to having a $3,250 larger account balance (Figure 2).

Figure 2
Change in Probability of Transitioning to Investing



These findings have useful implications for employers as well as HSA providers. They suggest that employees may respond to education highlighting the long-term benefits of investing HSAs, which is important given that retirees face large health care costs in retirement. Further, employers and providers may wish to emphasize the value of accruing balances in HSAs that are larger than strictly necessary to cover immediate medical expenses.

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 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.

The EBRI report, "Are HSA Investors Born or Made?," is published as the April 2, 2020, *EBRI Issue Brief* and is available online here.

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.

###