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FAST Facts

How Sensitive Are Health Savings Account Contributions to State Taxes: Evidence From EBRI's HSA Database

The average contribution to health savings accounts (HSAs) nationwide was $1,607 in 2018. However, we note considerable variations by state, with the state of Oregon having the highest average contribution in 2018 and the state of Virginia having the lowest. Contribution levels might be higher or lower in certain states as a result of average wages (higher tax brackets). But contribution levels could also be affected by differences in state tax implications of HSA contributions. This *Fast Fact* explores the extent to which differing tax treatments by state impact HSA contributions.

About Health Savings Accounts (HSAs)

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]

While the federal tax treatment of health savings account contributions is uniform throughout the United States, there is variation by state. Most states follow the federal HSA tax treatment. However, California and New Jersey must pass legislation before HSAs receive a tax benefit at the state level. Furthermore, nine states[2] do not tax individuals on income; thus there is no state income tax deduction for HSA contributions in these states. Contribution levels might be lower in these states as a result of the less generous tax treatment, higher in states with high marginal tax rates, and higher among individuals in higher tax brackets.

New research by the Employee Benefit Research Institute (EBRI) finds that contributions are lower in states that either do not allow a tax benefit on HSA contributions or do not tax individuals on income, with one exception.

- The individual contribution in states that follow the federal HSA tax treatment averaged $1,620 in 2018.
- In contrast, the average individual contribution was $1,552 in states that do not tax individuals on income.
- In New Jersey, one of the two states that does not provide a tax benefit to HSA contributions, the average contribution was $1,540 in 2018, lower than the average in states that follow the federal HSA tax treatment.
- However, in California, the other state that does not provide tax benefits to HSA contributions, the average contribution was $1,661 in 2018, higher than the average in states that follow the federal HSA tax treatment.

Figure 1
Individual Contribution to HSA, by State Income Tax Treatment, 2018

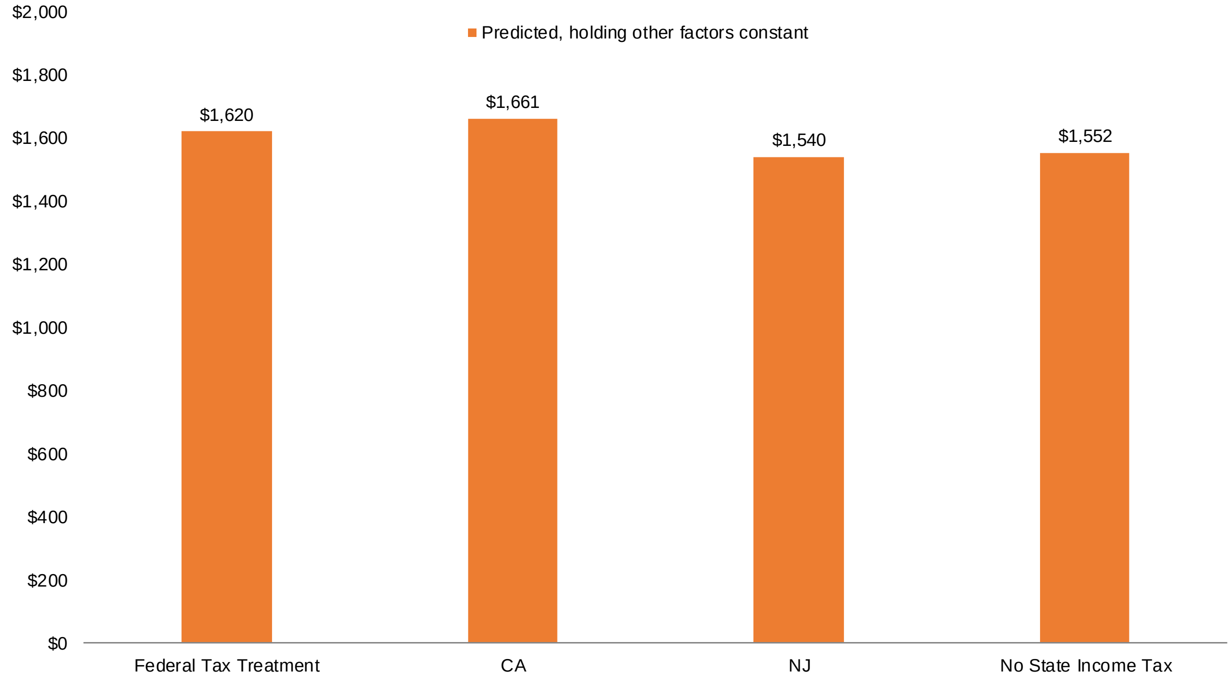
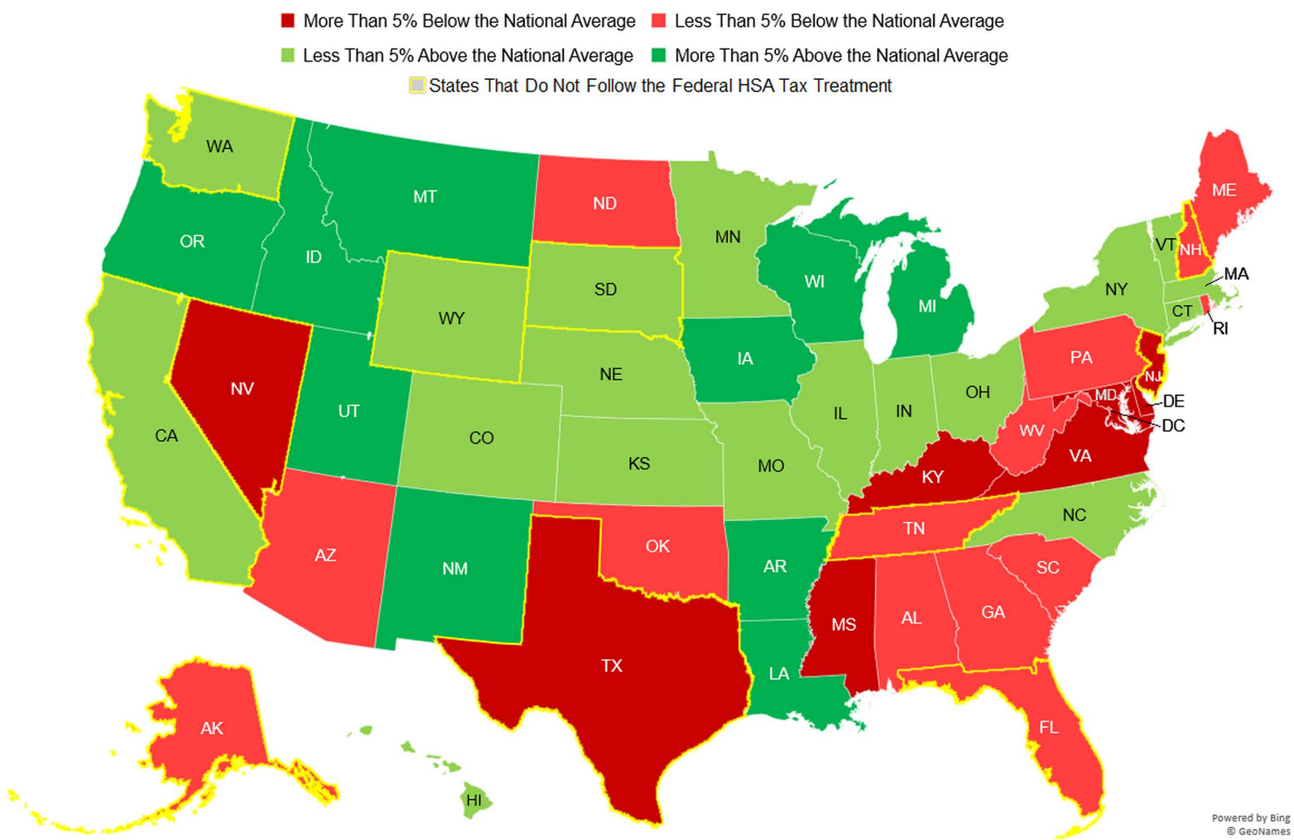


Figure 2
HSA Contribution Variation by State



The state map shows how average state contributions vary relative to overall national contributions. The 11 states that do not provide a tax benefit to HSA contributions, either because they have no state income tax or because they do not allow a deduction for HSA contributions, have a yellow border around them. Those states with average contributions below the national average are highlighted dark red (more than 5 percent below the national average) and light red (less than 5 percent below the national average), while states with average contributions above the national average are highlighted light green (less than 5 percent above the national average) and dark green (more than 5 percent above the national average).

Seven of the 11 states that do not provide a tax benefit to HSA contributions (Alaska, Florida, Nevada, New Hampshire, New Jersey, Tennessee, and Texas) had average contributions below the national average. However, four of the states (California, South Dakota, Washington, and Wyoming) had average contributions above the national average. And while we would expect that states that do not provide tax benefits to contributions would have lower contributions than other states, some states that do provide a tax benefit had some of the lowest average contributions (Kentucky, Maryland, Mississippi, and Virginia).

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.

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

These contribution estimates are based on a regression that isolates the effect of state tax treatment from other variables that may affect HSA contributions. The other variables include measures for income, age of the account owner, the number of years the HSA has been open, annual distributions in 2018, employer contributions in 2018, and an indicator for whether the account was invested in 2018. One of the limitations of the model is that we do not have information on whether the accountholder had individual health coverage or family coverage. Those with family coverage can contribute higher amounts than those with individual coverage.[3]

Notes

[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] Alaska, Florida, Nevada, New Hampshire, South Dakota, Tennessee, Texas, Washington, and Wyoming.

[3] More information about the regression analysis is available upon request.