EBRI Fast Facts
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Utilization of Below-the-Radar Features of HSAs

There are a number of below-the-radar features of health savings accounts (HSAs) that may come in handy for people who became unemployed during the pandemic.

First, HSAs can be used to pay COBRA premiums on a tax-preferred basis for individuals receiving unemployment benefits.[1] Prior EBRI research has estimated that 7.7 million workers lost jobs that came with health benefits as of June 2020. If these workers also lost their health benefits, they would be required to pay the full premium (plus a 2 percent administrative fee) to keep their health benefits via COBRA. The ability to pay COBRA premiums on a tax-preferred basis via HSAs may be the only way that such health coverage is affordable for them at a time when they also lost their income.

About HSAs

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.[2]

Second, there is a lot of flexibility when it comes to the timing of HSA contributions. Account owners have until April 15 of each calendar year to make contributions that count toward the maximum contributions allowed in the prior calendar year. Because the IRS moved the due date for filing federal income tax returns to July 15, 2020, due to the pandemic, the deadline for making tax-year-2019 HSA contributions was similarly delayed. Those individuals who did not contribute the maximum to their HSA in 2019 were in a position to take advantage of the extended filing period in order to pay COBRA premiums using HSA contributions.[3] The use of HSAs to pay COBRA premiums makes those premiums more affordable at a time when people might otherwise find paying such premiums challenging.

Evidence From the EBRI HSA Database

[1] COBRA is the acronym for the Consolidated Omnibus Budget Reconciliation Act, a federal law that was signed into law in 1985. The legislation allows workers to continue participating in their employment-based health insurance coverage after separating from their employer.

[2] More detailed information about HSAs can be found in the appendix in https://www.ebri.org/docs/default-source/ebri-issue-brief/ebri_ib_497_hsalong-9jan20.pdf?sfvrsn=a30f3d2f_8

[3] Only 13 percent of HSA owners make the maximum contribution. See https://www.ebri.org/docs/default-source/fast-facts/ff-311-hsa-30july18.pdf?sfvrsn=cf17302f_2

Using data from EBRI's database of 10.5 million HSAs, representing $28.1 billion assets, we find that the average amount contributed to an HSA before the tax filing deadline — but that counted toward the prior calendar year limits — increased from $628 during Jan. 1 to April 15, 2019, to $713 during Jan. 1 to July 15, 2020. This may be due to the additional three months that HSA owners were allowed to make such contributions in 2020. In addition, individuals may have increased their year-over-year contributions in anticipation of using these funds to pay COBRA premiums.

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, 2019, the EBRI Database includes:

- 10.5 million health savings accounts.
- $28.1 billion in assets.

Since 2011, the database has grown from 800,000 to 10.5 million accounts, and assets have grown from $1.5 billion to $28.1 billion. Most HSAs in the EBRI HSA Database were initially opened within the past few years. Overall, 77 percent of the accounts were opened between 2015 and 2019.

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

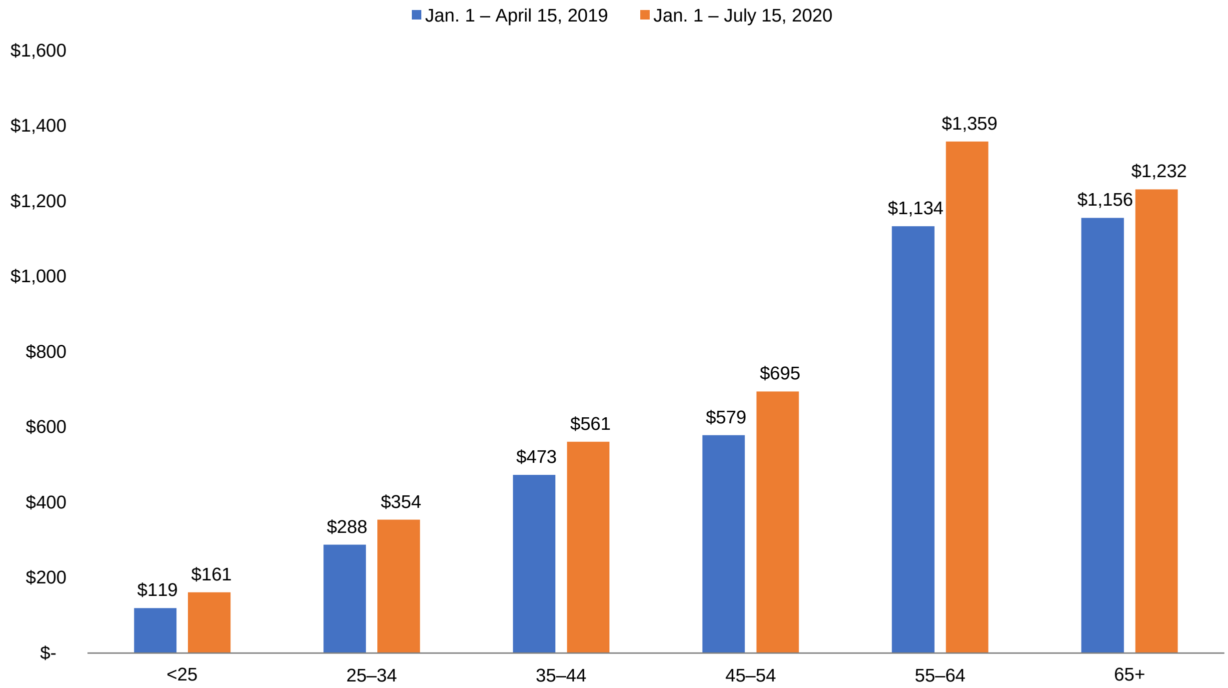
We also found that the percentage of HSA owners making such contributions fell slightly from 6 percent in 2019 to 5 percent in 2020. Despite having more time to make such contributions, the slight reduction in people making these contributions may be due to fewer people being in a financial position to contribute to their HSA when they not only lost their job but lost their income as well.

Contributions made before the tax filing deadline that count toward the prior calendar contributions increased for all age groups (Figure 1), including older HSA owners. Older people are more likely to enroll in COBRA because they are more likely to have chronic health conditions.[4] It is possible that some of the higher contributions by older workers may be due to higher COBRA take-up, but there are other factors that may influence the higher level of contributions, such as a focus on building retirement savings and the simple fact that the older population uses more health care services than younger groups. We also found that the likelihood of making such a contribution was highest for older HSA owners, until age 65 (Figure 2). However, the likelihood of making such contributions was lower in 2020 than in 2019, suggesting that despite the longer time period to make such contributions, fewer people were in a position to do so because of loss of income.

[4] See Figure 3 in https://www.ebri.org/docs/default-source/ebri-issue-brief/ebri_ib_508_cobra.9jul20.pdf?sfvrsn=47e63d2f_8

Figure 1

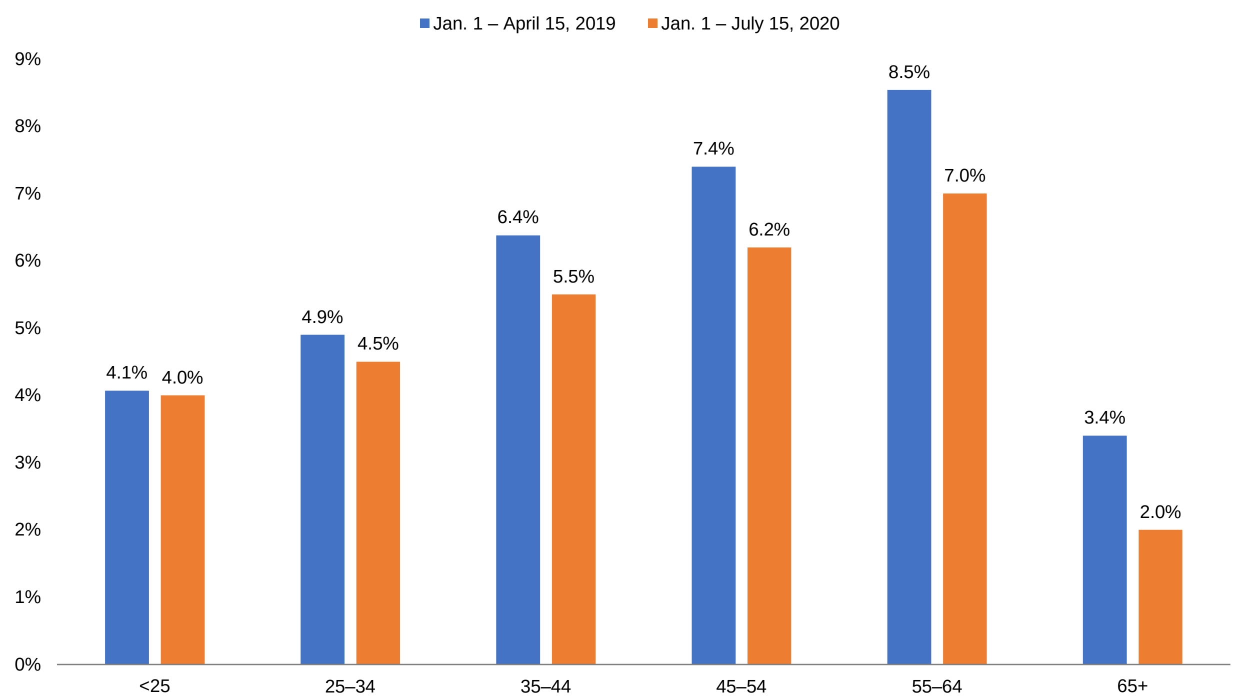
Average Amount Contributed to HSA Before Tax Filing Deadline That Counts Toward Prior Calendar Year, Among Account Owners Making Such a Contribution, by Account Owner Age



Source: EBRI HSA Database.

Figure 2

Likelihood of Contributing to HSA Before Tax Filing Deadline for Prior Calendar Year, Among Account Owners Making Such a Contribution, by Account Owner Age



Source: EBRI HSA Database.

Conclusion

There may be opportunities to educate HSA owners about the use of HSAs to pay COBRA premiums. This would be especially valuable in the absence of subsidies for COBRA premiums, and in light of the fact that the Department of Labor's EBSA Disaster Relief Notice 2020-01, released in early May, extended the time period for COBRA elections.

About Disaster Relief Notice 2020-10

Prior to Disaster Relief Notice 2020-10, qualified beneficiaries had 60 days to elect coverage after being notified by the plan administrator of the right to COBRA coverage. The Department of Labor (DOL) guidance gives qualified beneficiaries additional time to elect COBRA coverage. Specifically, qualified individuals have until 60 days after the end of the national emergency to elect COBRA coverage.

In order to understand the additional time period, it is helpful to define one key date: the end of the COVID-19 national emergency. National emergencies can be declared using the National Emergencies Act of 1976 and/or the Robert T. Stafford Disaster Relief and Emergency Assistance Act of 1988. Both acts were used to declare a national emergency on March 13, 2020. As of this writing, the end date of the national emergency has not been announced.

We are currently still in the national emergency. For purposes of explaining the additional COBRA election period, we are going to refer to the example in the DOL/Treasury final rule released on April 28, 2020, despite the fact that it is out of date. The example in the rule assumed that the national emergency ended on June 29, 2020. Qualified beneficiaries would have then had until Aug. 28, 2020, to elect COBRA coverage. COBRA coverage would have then been retroactive to the date that a beneficiary lost coverage. So, if coverage were lost on April 1, 2020, potential COBRA beneficiaries would have the better part of five months to elect coverage, and the coverage would be retroactive to April 1. The COBRA beneficiary would have another 45 days after Aug. 28, 2020, to pay any past premiums. Today, qualified beneficiaries have even longer to elect COBRA because the national emergency is ongoing.

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