EBRI Fast Facts
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Using HSAs: Length of Time Matters

Health savings accounts (HSAs) offer a valuable tax incentive to set aside money on a tax-favored basis for current or future medical expenses. They benefit from a triple tax advantage: Employee contributions to the account are deductible from taxable income,[1] 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.[2]

> **About HSAs**
> Health savings accounts (HSAs) are a tax-exempt trust or custodial account that is 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. In 2021, contributions are limited to $3,600 for people with individual coverage and $7,200 for those with family coverage.

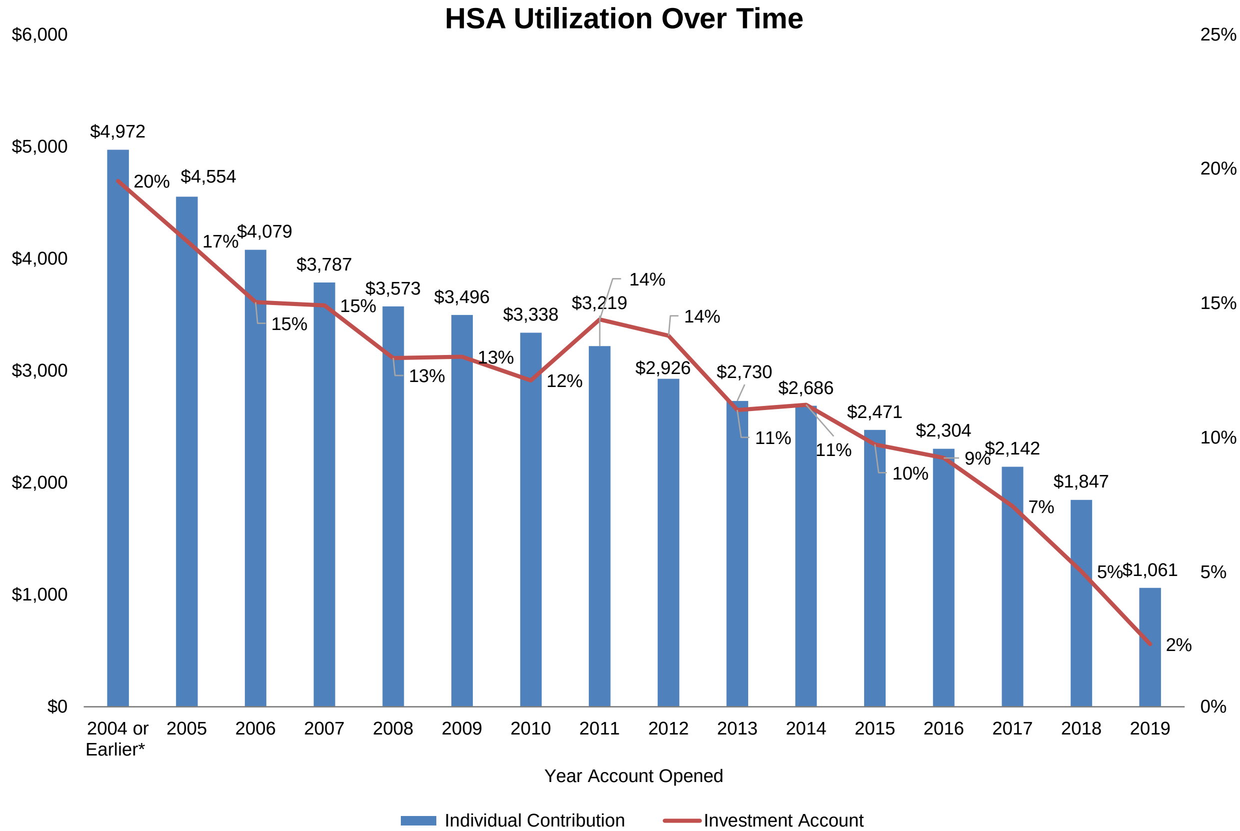
While "optimal" usage of an HSA, from the standpoint of maximizing wealth at retirement, dictates that accountholders maximize their contributions, hold investments other than cash, and avoid withdrawing money from their HSAs unless they cannot pay for health care out of pocket, many accountholders in EBRI's HSA Database do not appear to be following that strategy. Namely:

- Recent EBRI research has found that nearly 40 percent of accountholders in EBRI's HSA Database withdrew more than they contributed, showing that many accountholders tap their HSAs to pay for medical expenses.
- Very few accountholders contributed the statutory maximum in 2019.
- Despite the fact that the ability to invest assets within an HSA is considered one of the most beneficial advantages HSAs offer from a wealth accumulation standpoint, only 7 percent of accountholders held assets other than cash in their HSAs.

However, recent EBRI research has also found that the longer someone has had an HSA, the more likely they are to move toward "optimal" usage. Namely, longer account ownership was associated with:

- ***Larger annual contributions:*** Annual 2019 contributions were higher the longer an account owner had an account. Individual contributions averaged $1,061 among those accounts opened in 2019 but averaged $3,496 among those accounts opened in 2009.
- ***Greater use of investments:*** In 2019, 2 percent of accounts opened in 2019 had investments other than cash, compared with 13 percent among those opened in 2009, indicating that over time, account owners appear to see the value in investing their HSA balances.

Still, despite the trend of moving in the "right' direction from the point of view of optimal usage for long-term savings, after 10 years of account ownership, most account owners do not contribute the maximum, and the percentage of account owners who are investors remains low.



Source: EBRI HSA Database.

The percentage of accounts with investments may start out low for a number of reasons. First, in order to invest, account owners often must have a minimum account balance. As reported above, most accounts are new, and, therefore, many will not have a large enough account balance to take advantage of investments. Second, not all HSA providers offer investments other than cash. Third, account owners may not be aware of the option to invest. Fourth, account owners may be using the account only to pay for out-of-pocket expenses and therefore may not want to take short-run risks with investment fluctuations.

Plan sponsors that wish to introduce or continue offering HSA-eligible health plans as part of their workplace benefit program can benefit from a long-term view of HSA accountholder behaviors when it comes to worker education around the value of such accounts. Plan sponsors that value employee financial wellness can work with administrators and advisors to better educate employees on use of HSAs, including available investments.

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.

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[1] Both employees and employers can contribute to an HSA. While employee contributions to the account are deductible from taxable income, employer contributions to the account for an employee are excludable from the employee's gross income.

[2] 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-2011-2019-estimates-from-the-ebri-hsa-database

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