EBRI FAST Facts

March 18, 2021, #390

Is Two Really a Crowd? How HSAs Crowd out 401(k) Contributions

Saving for retirement in a 401(k) plan has become the norm for the millions of people who have access to these defined contribution plans through work. More recently, high-deductible health plans (HDHPs), and with them, health savings accounts (HSAs), have proliferated in the workplace, giving workers yet another tax-advantaged account they can use to save for the future. However, workers have a limited amount of discretionary money from their paychecks that they can divert to savings vehicles. Even for diligent savers, contributing to a new type of savings vehicle while maintaining their savings levels in their 401(k) plans could prove to be a difficult task. So, when workers begin contributing to HSAs, is it at the expense of 401(k) contributions?

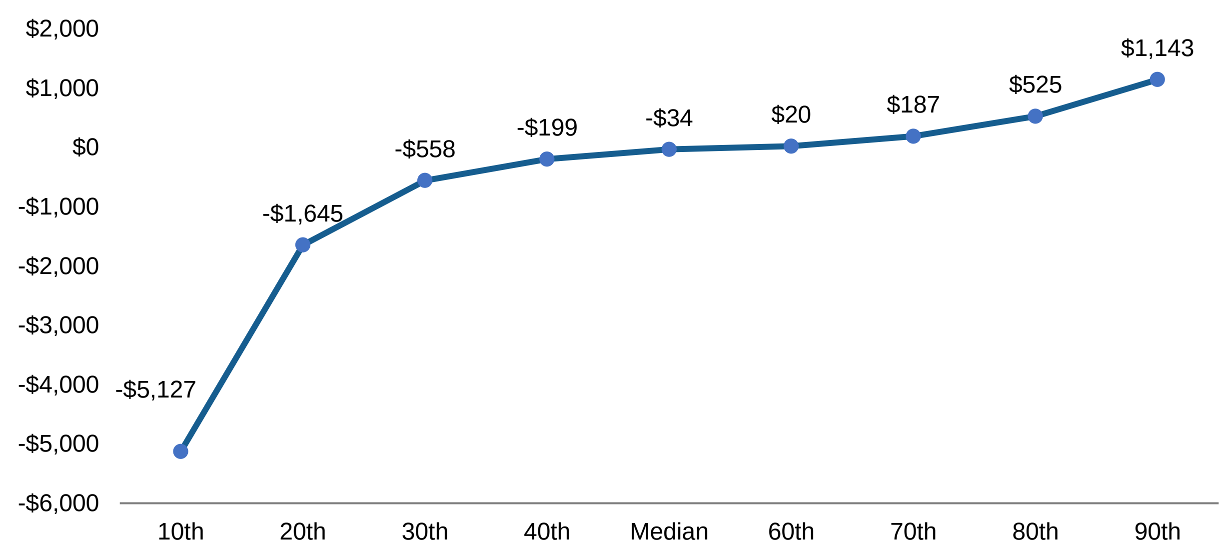
To answer that question, the Employee Benefit Research Institute (EBRI) leveraged the participant-level data in both the EBRI/ICI 401(k) and the EBRI HSA databases, examining the contribution behavior of participants who appeared in both databases.

The short answer is workers do contribute to HSAs at the expense of 401(k) contributions, but the median participant's savings changes are marginal. In particular, while 56 percent of workers reduced their 401(k) contributions the first year they made contributions to their HSA, the median worker who opened an HSA decreased their 401(k) contribution by just $34 (Figure 1).

Notably, though, there was a wide range of responses by workers. Some workers decreased their 401(k) contributions by more than $5,000 when they began contributing to their HSA. Other workers *increased* their 401(k) contributions upon beginning to contribute to their HSAs and did so in rather large amounts in some extreme cases. Still, a majority of workers ended up reducing their 401(k) contributions when they began contributing to an HSA.

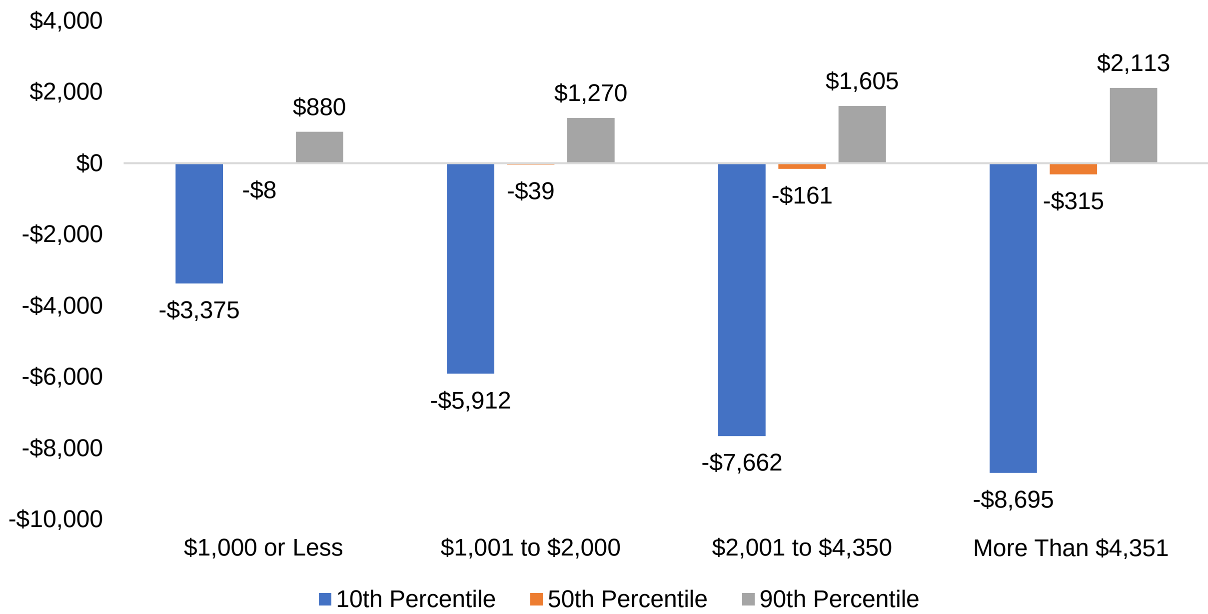
Figure 1

Distribution of 401(k) Contribution Changes in First Year of HSA Contributions



Higher HSA contributions are one factor associated with the size of 401(k) reductions. Among those who contributed more than $4,350 to their HSAs, the median 401(k) reduction was $315, while a worker at the 10th percentile reduced their contribution by $8,695 and a worker at the 90th percentile increased their contribution by $2,113 (Figure 2). For those who made relatively small contributions to their HSAs — $1,000 or less — the median 401(k) contribution fell by only $8. This comports with intuition, as workers who contribute more money to their HSA will have less money available to save in their 401(k) plans, assuming they make no other budgetary changes.

Figure 2
Distribution of 401(k) Contribution Changes, by HSA Contribution Amount



While saving in both types of tax-advantaged vehicles is beneficial for plan participants, EBRI's study finds evidence that, for many workers, HSAs and 401(k) plans compete over scarce discretionary dollars. Most workers — 56 percent — who began contributing to an HSA ended up reducing their 401(k) contributions. And workers who made higher HSA contributions also made larger reductions in their 401(k) contributions.

Different workers have different financial situations, and thus there is no one-size-fits-all guidance on how to allocate savings. Employers ought to be aware that the introduction of an HSA can reduce an employee's 401(k) contributions. Furthermore, employers can play a pivotal role in helping workers understand the role that 401(k) plans and HSAs play in their personal finances.

The EBRI report, "Two's a Crowd: Do HSA Contributions Crowd out 401(k) Contributions?," is published as the February 2021 *EBRI Chartbook*, and is available online [here].

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