

Two HSA Characteristics That Stand out: Age and Investment

Research by the Employee Benefit Research Institute (EBRI) based on data from EBRI's HSA Database finds that two factors appear to have a material impact on health savings accounts (HSAs): how early they were offered by their employer and whether account owners invest their HSA balances.

About HSAs

A health savings accounts (HSAs) is 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, combined contributions from individuals and employers are limited to \$3,600 for people with individual coverage and \$7,200 for those with family coverage. 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

Older vs. Newer Accounts

The research shows that HSAs of early adopters have a major advantage compared with newer accounts. Namely, older HSAs received higher employer contributions than accounts opened more recently: HSAs opened in 2019 received an average employer contribution of \$640. In comparison, HSAs opened in 2009 received an average employer contribution of \$1,449.

This is not surprising: Early adopters of HSAs are likely to be more committed to worker financial security. The fact that such employers contribute more to HSAs than their more recent HSA-adopter counterparts suggests this commitment to worker financial wellbeing continues: Such contributions provide employees with greater resources to cover out-of-pocket expenses today or to save for future expenses. More recent employer HSA adopters may, in turn, be more focused on using HSA-eligible health plans, and the associated HSA, as a cost-cutting tool.

HSA Investors

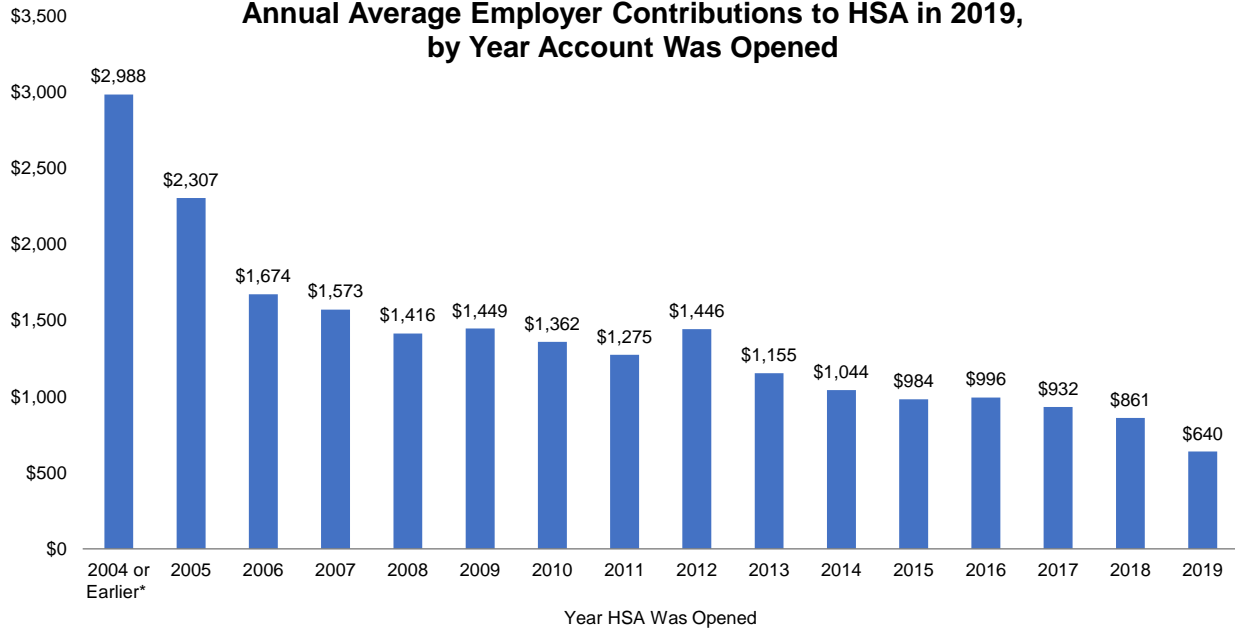
HSAs that are invested, as opposed to held in cash, are rare: Only 7 percent of HSAs had invested assets (beyond cash). However, such HSAs stand out:

- HSAs opened in 2019 that were invested ended the year with an average balance of \$7,119. In comparison, HSAs opened that same year that were in cash had an average balance of \$911.
- Likewise, HSAs opened in 2009 that were invested ended 2019 with an average balance of \$31,695. In comparison HSAs opened that same year that were in cash ended 2019 with an average balance of \$5,061.

Notably, HSA investors keep most of their account balance invested with very little in cash. Two-thirds of balances were invested in accounts opened in 2019. Further, the older the HSA, the greater the percentage of the balance that is invested. Eighty percent of balances were invested in accounts opened in 2009.

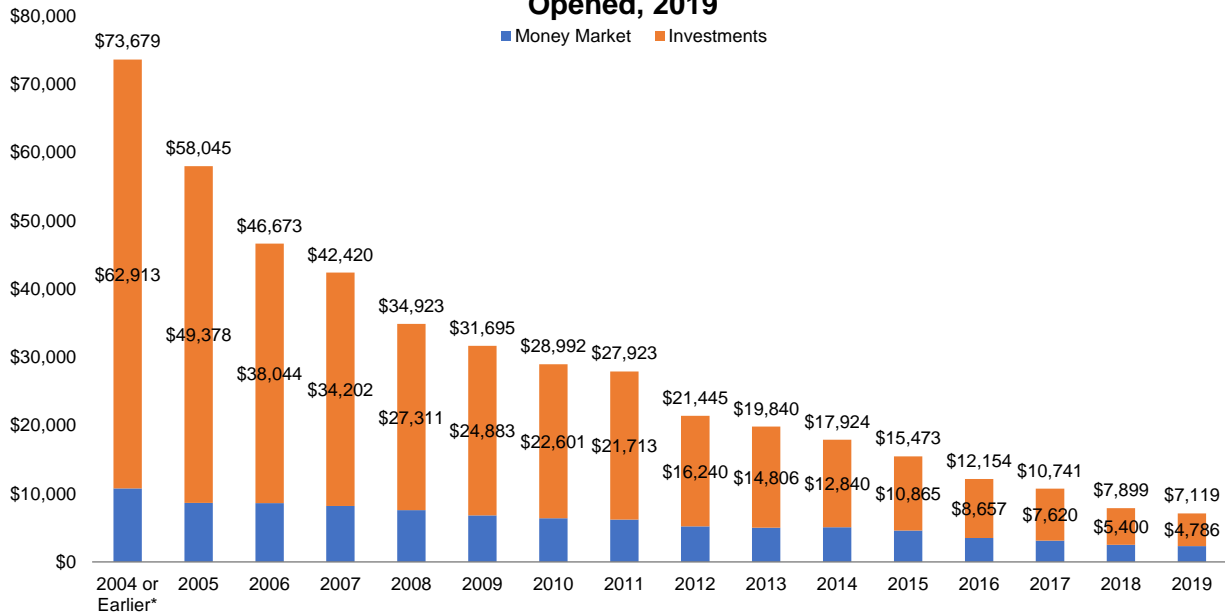
It can be argued that investing an HSA is part of an “optimal” strategy when it comes to maximizing wealth at retirement.

Figure 1
Annual Average Employer Contributions to HSA in 2019,
by Year Account Was Opened



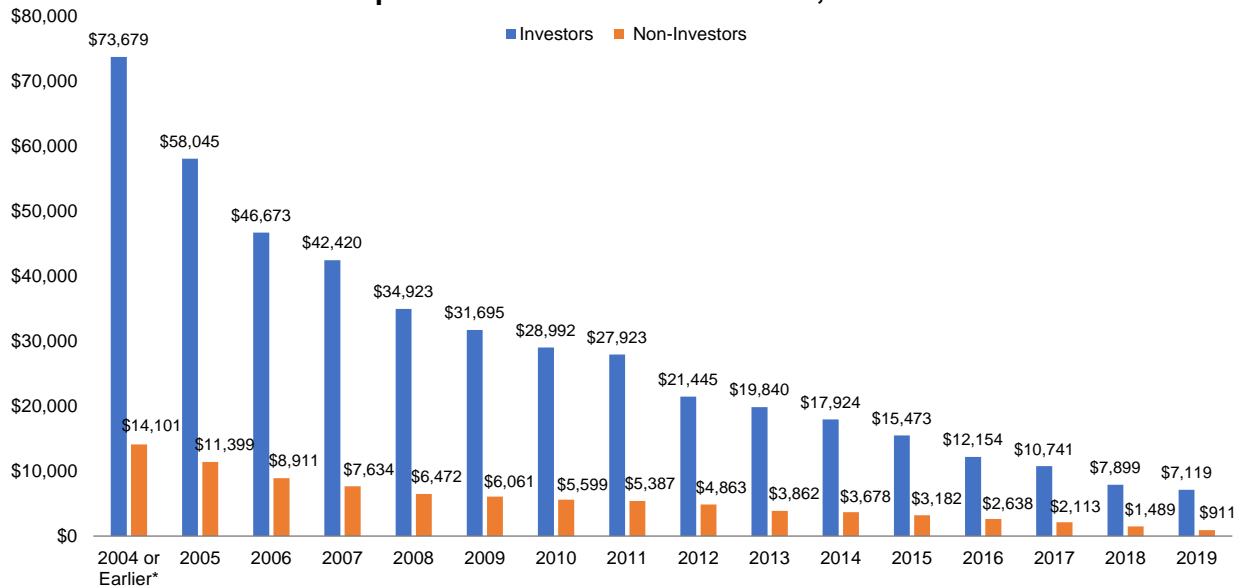
Source: EBRI HSA Database.
 *Includes Archer Medical Savings Account (MSA) rollovers.

Figure 2
Average HSA Balance, Among Investors, by Year Account Was
Opened, 2019



Source: EBRI HSA Database.
 *Includes Archer Medical Savings Account (MSA) rollovers.

Figure 3
Average HSA Balance, by Year Account Was Opened and Investment Behavior, 2019



Source: EBRI HSA Database.
 *Includes Archer Medical Savings Account (MSA) rollovers.

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>