

## The HSA Conundrum: Getting to “Optimal” Usage by Employees

“Optimal” usage of a health savings account (HSA) from the standpoint of maximizing wealth at retirement dictates that accountholders (1) maximize their contributions, (2) hold investments other than cash, and (3) avoid withdrawing money from their HSAs unless they cannot pay for health care out of pocket. However, many accountholders in EBRI’s HSA Database do not appear to be following that strategy.

### About HSAs

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, 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. 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.

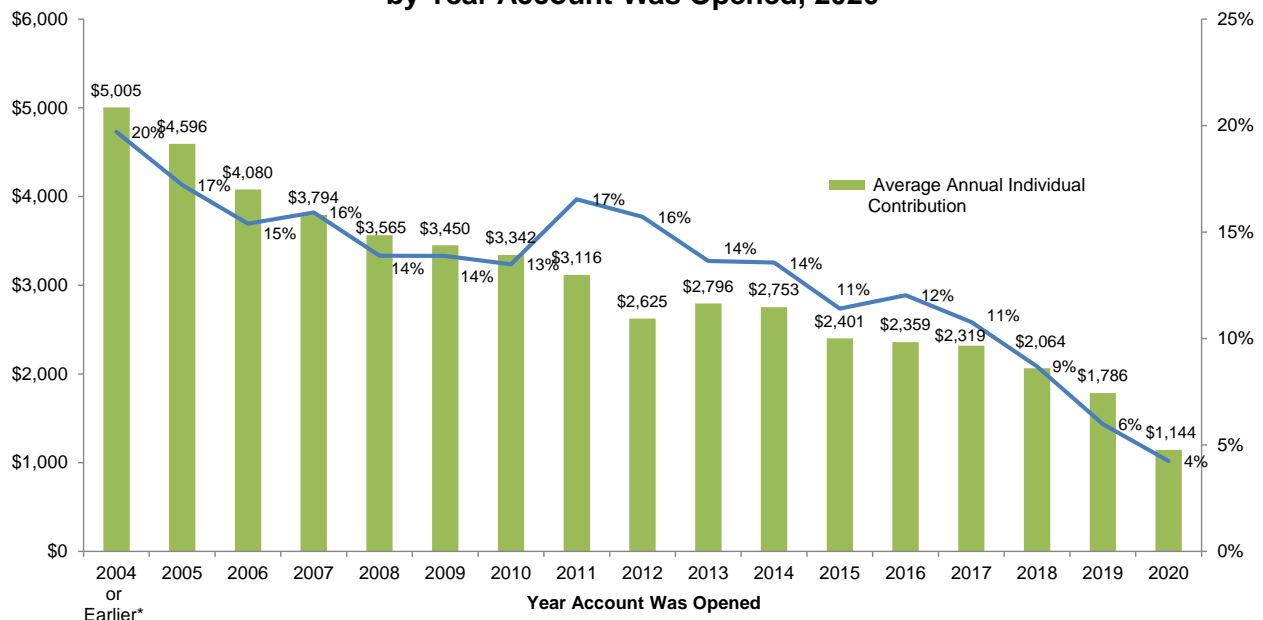
Namely:

- 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 current medical expenses.
- Very few accountholders contribute the statutory maximum.
- 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 9 percent of accountholders held assets other than cash in their HSAs.

Still, other 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 2020 contributions were higher the longer an account owner had an account. Individual contributions averaged \$1,144 among those accounts opened in 2020 but averaged \$3,342 among those accounts opened in 2010.
- **Greater use of investments:** In 2020, 4 percent of accounts opened in 2020 had investments other than cash, compared with 13 percent among those opened in 2010, indicating that over time, account owners appear to see the value in investing their HSA balances.

## Contributions to and Investment in HSAs, by Year Account Was Opened, 2020



Source: EBRI HSA Database.

\*Includes Archer Medical Savings Account (MSA) rollovers.

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. 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, account owners may not be aware of the option to invest. Third, 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. They may be trying to build up an account balance large enough to cover their deductible before investing.

Understanding the long-term behavior of HSA accountholders can be beneficial when it comes to worker education around the value of such accounts. It will also be important to consider the factors — such as those outlined above — that may be driving employee behavior when it comes to those educational efforts.

### 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, 2020, the EBRI Database includes:

- 11.4 million health savings accounts.
- \$32.9 billion in assets.

Since 2011, the database has grown from 800,000 to 11.4 million accounts, and assets have grown from \$1.5 billion to \$32.9 billion. Most HSAs in the EBRI HSA Database were initially opened within the past few years. Overall, 73 percent of the accounts were opened between 2016 and 2019.

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

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