EBRI President's Letter
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Taking Steps to Understand HSA Saving Behavior Using EBRI's HSA Database

Have you ever started a really ambitious project, only to feel overwhelmed by all that needed to be accomplished? Typical advice in such a situation is to break the project into smaller, easier-to-manage steps. The amount of work is still the same, but the task begins to feel much less unwieldy.

Recently, EBRI published a statistic that we update on an annual basis about the amount of money needed to cover health care expenses in retirement: couples who seek a 50 percent chance of meeting costs related to health care such as insurance premiums and out-of-pocket prescriptions would have to accumulate $183,000 by the time they retire.[1] That lump sum may be daunting. However, when spread over a full career, it becomes much less so. We estimate that if that same couple retired today, they would have needed to save $545 each year starting in 1979, scaling up to $1,776 by retirement age (a 3 percent annual increase), to reach the $183,000 goal.[2]

Of course, this assumes that none of the savings would be taxable — during accumulation or at retirement. It is not so far-fetched. Using a health savings account (HSA) in order to save for this expenditure would do the trick: Contributions to an HSA reduce taxable income, earnings build up tax free, and distributions for qualified expenses are not subject to taxation.

There is little evidence, however, that HSAs are being commonly used to save for such retirement health care needs. While HSAs have become common — there were an estimated 25.1 million HSAs as of the end of 2018[3] — very few people are accumulating much in long-term savings. EBRI's database of approximately 6 million accounts shows that:

- Only 13 percent of account holders contributed the fully allowable annual amount in 2017.
- Three-fifths (61 percent) of HSAs had distributions in that same year.
- The average HSA balance among account holders with individual or employer contributions in 2017 was $2,860.
- Only 4 percent of HSAs had invested assets (beyond cash).

There are a number of reasons that people may not be accumulating HSA balances for retirement:

- ***They are impeded by structural limits of HSAs.*** Those contributing to an HSA by definition have a high-deductible health plan; they may not be in a position to leave money in the HSA when using health care. Further, the annual contribution limits of HSAs are much lower than those of 401(k) plans, for example.
- ***They don't understand HSAs.*** To start, HSAs are unfortunately named and sound a lot like flexible spending accounts (FSAs). People may assume that, as with FSAs, HSAs are a "use it or lose it" health care benefit. They also may not understand 1) the triple tax benefit, 2) the fact that money can be saved for expenditures other than health care in retirement, and 3) their eligibility and how to save in an HSA.
- ***HSAs are often not positioned as retirement options.*** Commonly, the HSA and retirement provider have been separate entities, with HSAs communicated as a component of the high-deductible health plan rather than as a savings vehicle. This is changing, however, as large recordkeepers have been integrating their HSA and 401(k) products.
- ***People face the same challenges saving in HSAs as they do in 401(k) plans.*** Before automatic enrollment arguably simplified the 401(k) investment decision, participation among many demographics

> was low in 401(k) plans — especially those new to saving and investing. People were overwhelmed by the investment decision, didn't know how much they should save, and weren't sure when they should start saving for retirement. Many of these same considerations could be plaguing potential HSA investors.

There are potentially many other reasons HSAs are used the way they are. So what can be done to help plan sponsors, providers, and others better understand what the key drivers are? To start, in the second half of 2019, EBRI will begin publishing long-awaited research based on our empirical data answering such questions as: how do workers who have both 401(k) plans and HSAs use them? More specifically, does the presence of both vehicles increase overall savings? And what are the patterns of saving in these accounts when both are present?

We will then turn to overall retirement adequacy and examine how the presence of HSAs affects retirement savings and deficits using EBRI's Retirement Security Projection Model®. Does the presence of HSAs improve projected outcomes, and among which cohorts?

Of course, these are just the first steps. We know there is a plethora of additional questions we can pose of this robust dataset to help better build an understanding of HSA utilization. In EBRI's recent Research Committee meeting in Washington, DC, a number of members — both HSA providers and those in the retirement arena — volunteered their input on just such additional research questions. EBRI's research agenda planning process, which we've honed over the past year and a half to allow for both greater input and transparency into EBRI's research prioritization process, will provide the mechanism for such feedback. In addition, our member-based Research Committee meets regularly to provide their perspectives on our research in progress. This is true not just of EBRI's upcoming HSA/401(k) research but of all research EBRI undertakes.

Both members and non-members alike can also look forward to infographics and webinars on these topics. In keeping with our mission to contribute to, to encourage, and to enhance the development of sound employee benefit programs and sound public policy through objective research and education, we look forward to an ambitious and productive journey in exploring HSA participant behavior.

Lori Lucas

President and CEO

[1] https://www.ebri.org/health/publications/issue-briefs/content/savings-medicare-beneficiaries-need-for-health-expenses-in-2019, This figure excludes long-term care. Assumes the couple has median prescription drug expenses needs.
[2] Projection based on EBRI's Retirement Security Projection Model®, assuming an investment return in line with an asset allocation similar to that of the typical target-date fund.
[3] https://www.ebri.org/publications/research-publications/issue-briefs/content/enrollment-in-hsa-eligible-health-plans-slow-and-steady-growth-continued-into-2018