Real Talk, Real Benefits of HSAs: A Close Look at the EBRI Health Savings Account Database

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Speakers

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To: All panelists

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Real Talk About the Real Benefits of HSAs

Jake Spiegel, Research Associate – Health and Wealth
EBRI’s HSA Database

• EBRI’s HSA Database has grown significantly from its humble beginnings.

• Now 9 years old, EBRI’s HSA database accounts for roughly 40 percent of the entire HSA universe.

EBRI HSA Database: Accounts and Assets, 2010–2021

Source: EBRI HSA Database.
Encouragingly, in 2021, balances continued their well-established upward trajectory.

Notably, the average HSA balance increased despite a rebound in spending on health care services following the COVID-19 pandemic.

Still, the average balance is relatively low.

- The average balance could not cover, for instance, the statutory maximum out-of-pocket of an HSA-eligible health plan, which was $7,000 in 2021.

Source: EBRI HSA Database.
Balances

- Our longitudinal analyses provide additional context.
- Low average balances are partly a result of most HSAs in our database being relatively new.
  - Almost 70% of the accounts in our database are 5 years old or newer.
- When we take a longer view, older accounts have much higher balances than newer accounts.
- This comports with expectations; older accounts have had more time to contribute, and more time for their investments to grow.

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

• The average contribution fell from recent highs to $2,673
  • A few explanations
  • When we take a longer view, older accounts have much higher balances than newer accounts

Annual Average Total Contributions to HSAs, 2011–2021

Source: EBRI HSA Database.
Contributions

• Once again, our longitudinal analyses provide additional context

• As with balances, contributions tended to increase the longer an accountholder has had their HSA

• This also comports with expectations; account tenure is also closely linked with age
  • Older workers tend to earn more than younger workers, and medical expenditures may also be more salient as well

Annual Average Individual Contributions to HSA, by Year Account Was Opened, 2021

Source: EBRI HSA Database.
*Includes Archer Medical Savings Account (MSA) rollovers.
Over half of the HSAs in our database took a withdrawal in 2021

Of accountholders who took a withdrawal, the average amount was $1,753, a slight rebound from 2020, but still lower than recent highs
Distributions

- Much like with contributions, the longer someone has had their account, the higher their average distribution.
- Older accounts are more likely to have built up an appreciable balance.
- Older accounts are also more likely owned by older accountholders, who face higher medical costs than younger accountholders.

![Annual Average Distributions From HSAs, by Year Account Was Opened, 2021](chart)

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

Source: EBRI HSA Database.
Encouragingly, the share of accountholders who invest their balance in assets other than cash has steadily risen over the past decade.

Presence of Investments Other Than Cash, 2011–2021

Source: EBRI HSA Database.
Investments

- Brand new accounts are less likely to invest
  - Some HSA providers require accountholders to build up a certain balance before they’re allowed to invest
- Older accounts, meanwhile, are more likely to invest
  - Older accounts have higher average balances
  - These accountholders may feel more comfortable investing some portion of their balances in riskier assets

Presence of Investments Other Than Cash, by Year Account Was Opened, 2021

Source: EBRI HSA Database.
*Includes Archer Medical Savings Account (MSA) rollovers.
The Upshot – Real Talk on the Real Benefits of HSAs

• The average HSA has a relatively low balance, relatively low contributions, and relatively low rates of investing in assets other than cash

• In other words, accountholders are not necessarily taking full advantage of the tax benefits HSAs offer!

• However, our longitudinal analyses provide additional context for these findings

• The longer an accountholder has their HSA, the higher their balance, the higher their contributions, and they are more likely to invest their balances in assets other than cash
Policy Issues
Shaping the Future of HSAs

Roy Ramthun
April 25, 2023
HSAs Cover more than 1/3 of Privately Insured Americans

Source: Devenir, 2021 Demographic Survey

Where do HSAs go from here?

- Privately Insured Americans (Employer / Non-Group): 181,519,000
- Estimated HSA Covered Lives: 67,358,000
- Total HSAs: 32,515,000
Where do HSAs go from here?

The Disconnect: More View Health Savings Accounts (HSAs) as Investment Accounts Than Use Them This Way

A New Kind of Health Account

One of the biggest trends in health benefits is the movement to health savings accounts (HSAs) as eligible health plans. According to a recent survey, 24 percent of workers were offered an HSA-eligible health plan. However, a recent survey found that only 6 percent of those who were offered an HSA-eligible health plan actually enrolled in one. This suggests that there may be a disconnect between employees' preferences and their actual usage of HSAs. In this article, we explore the reasons behind this disconnect and offer suggestions for how employers can better utilize HSAs.

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Where do HSAs go from here?

**Policy options**

- Maintain status quo
- Expand HSAs
  - Modify eligibility rules
  - Increase contribution limits
- “Replace” HSAs (e.g., “health freedom accounts”)
- Create new versions of HSAs (e.g., “HOPE accounts”)
- Consolidate HSAs with other accounts (e.g., FSAs / HRAs)
- Eliminate HSAs
Health Care Costs in Retirement

- $295,000: 65 year-old couples retiring this year
- $650,000: 45 year-old couple retiring in 20 years
Medicare Misconception

Medicare covers 59%

Remaining costs 41%

Medicare premiums, deductibles, copays, coinsurance, LTC, etc.
Medicare Isn’t Free

Many seniors are shocked to learn this

People often forget monthly premiums for:
  - Part B
  - Part D
  - Supplemental insurance or Medicare Advantage plans

Others may need long-term care insurance
HSAs and Retirement Planning

- HSAs are not a substitute for traditional retirement plans but are complementary.

- A well-crafted retirement plan should include active consideration of placing some assets in the one account (an HSA) that offers all the benefits of a traditional or Roth account without the drawbacks of either.
My projected HSA Contribution Limits (2024)

- Singles - $4,150
- Families - $8,300
- Individuals 55 or older – add $1,000

NOTE: Married couples (both spouses age 55+) could contribute $10,300 to their HSAs
My projected HSA-Qualified Plan Requirements (2024)

- **Minimum Deductible**
  - Self-only coverage - $1,600
  - Family coverage - $3,200

- **Maximum Out-of-Pocket Limit**
  - Self-only coverage - $8,050
  - Family coverage - $16,100
Contact Info

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Employer & Consumer HSA Dynamics

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Big Picture: the Potential in Untapped HSAs Remains Significant

Total U.S. Individuals (2020 census): 332 million

U.S. individuals with private group plan (2020 census): 177 million

Employees at employers offering HDHPs with HSAs (2021): 85 million

Total HSAs (2021): 33.9 million

HSA savers/spenders

HSA investors (2021): 2.5 million

Source: Aite-Novarica Group
The Opportunity is Real and Measurable

Consumers & employers are currently missing out on billions of potential savings

- **$491B**
  - total OOP spending
  - 2021 US OOP healthcare spending by consumers
  - Source: Medical market research publisher Kalorama Information

- **$95B**
  - pre-tax spending
  - 2021 est. total FSA, HSA, HRA distributions industry-wide
  - Source: Aite-Novarica

- **$396B**
  - post-tax spending
  - 2021 OOP healthcare spending outside of FSAs, HSAs, HRAs

- **$119B**
  - lost consumer savings
  - assuming average Federal/state tax rate of 30%

- **$30B**
  - lost employer savings
  - assuming 7.65% FICA savings rate
Consumer & Employer Needs are Unique and Varied
Making meaningful change requires understanding of how these intersect

Accessibility

Affordability

Fluency

Resources

Expertise

Priorities
For Consumers, Personalization & Decision Support Are Key

To effect change, the HSA must support flexibility throughout the full consumer lifecycle

56% of account holders are spenders
Most HSA account holders still focused primarily on spending…and they need personalized tools to find care & compare costs to spend wisely

47% of investors choose a different investment account type when offered multiple options
When offered a clear choice, accountholder preference is varied, demonstrating a need for a wider & more personalized offering

39% of accountholders said they would be more likely to invest if provided an annual review of their balance
The consumer journey is not linear–and information that guides decisions must follow that lifecycle

Source: EBRI 2021 CEHCS Report, Alegeus platform data
For Employers, Plan Design & Enrollment Messaging Are Critical Drivers of Consumer Engagement

63% of HSA plans are seeded by the employer

This represents 26% of all HSA contributions – the rest is still contributed by individual employees

11% higher HSA adoption rate among employers who seed the HSA

Employer seeding makes a difference in addressing employee adoption concerns

49% of employers say they talk about the HSA mainly as a short-term savings tool

Elevating the accountholder message with real-world examples & proof points of the long-term value is critical

Source: SHRM 2022 employee benefits survey, Alegeus platform data
Evidence of the Long-Term Value of HSAs is Energizing & Exciting

6-7x
Average HSA investment balances are 6-7x higher than average cash balances

After almost 20 years in existence, the demonstrated value of HSA investments is powerful

60%
Millennials and Gen Z represent 60% of all investment accounts

Younger generations are becoming a major piece of the HSA market – and are thinking ahead for the long-term

32%
of all HSA AUM is invested

HSA investment AUM still comprises a significant portion of all AUM, despite investors only making up 8-10% on average of accountholders

Source: Alegeus platform data, Devenir 2022 year end report
Final Thoughts

1. To remove barriers to adoption & maximize HSA growth, we must recognize the unique needs of both consumers and employers.

2. Empowered consumer choice & strategic employer plan design make a measurable difference in adoption.

3. As HSAs mature, the long-term value is evident & energizing, driving innovation & creative solutions.
THANK YOU

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DISCUSSION
Upcoming Events

**May 11 — EBRI Policy Forum** — Featuring a morning keynote from Lisa Gomez, Assistant Secretary for the Employee Benefits Security Administration, U.S. Department of Labor

Please visit ebri.org for more information or contact info@ebri.org