

How Many People Might Benefit From Higher HSA Contribution Limits?

On July 11, 2018, the House Ways and Means Committee approved a number of health-related tax bills, including the *Increasing Access to Lower Premium Plans and Expanding Health Savings Accounts Act of 2018*. The Act, which would increase statutory limits on annual health savings account (HSA) contributions, was passed by the U.S. House of Representatives July 25, 2018.

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (MMA) allows individuals enrolled in high-deductible health plans meeting certain requirements to open and fund a health savings account (HSA), a tax-exempt trust or custodial account that is funded with contributions and assets 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. HSAs 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.

Currently, a worker with individual coverage is allowed to make an annual HSA contribution of \$3,450, while a worker with family coverage can contribute as much as \$6,900. These dollar limits include any employer contributions and are indexed for inflation. Individuals who have reached age 55 and are not yet enrolled in Medicare may make an additional \$1,000 catch-up contribution. The catch-up contribution is not currently indexed to inflation.

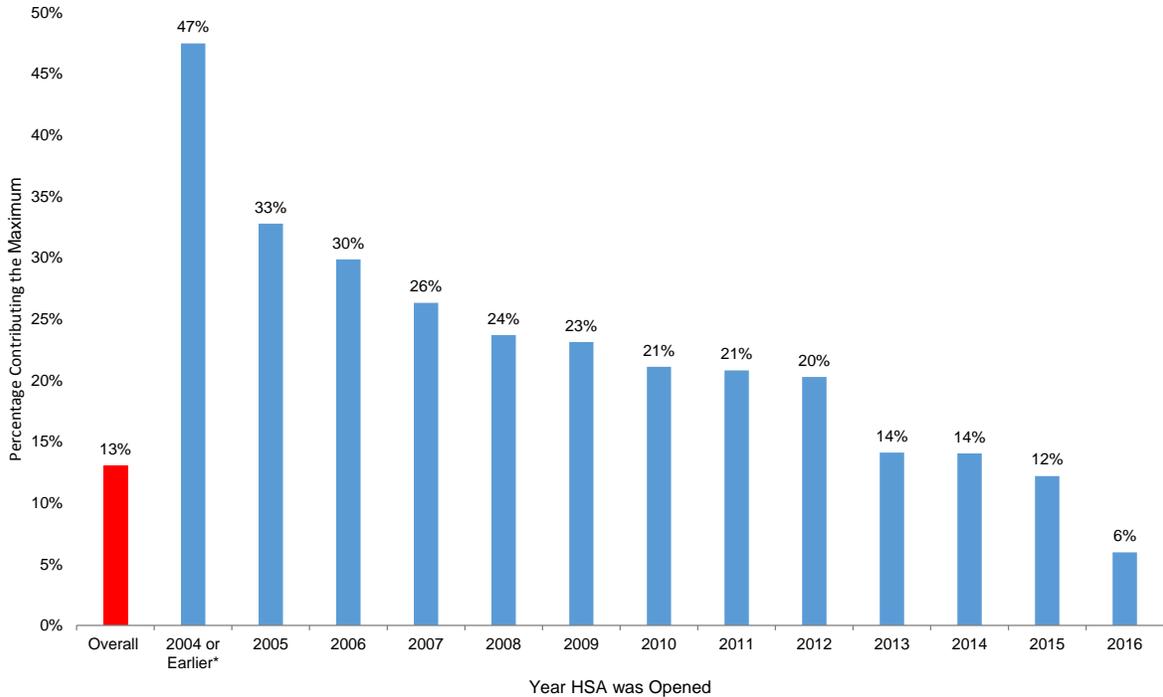
Among other things, the new legislation would increase statutory limits on annual contributions to HSAs so that contributions could equal annual out-of-pocket high-deductible plan maximums. These are currently \$6,550 for employee-only coverage and \$13,300 for family coverage.

Using data from the EBRI HSA Database, the Employee Benefit Research Institute has found that only 13 percent of account owners contributed the maximum in 2016 (Figure 1).

However, that relatively low percentage is driven by the fact that most HSAs are new. The longer someone has had an HSA, the more likely they are to contribute the maximum. Only 6 percent of the HSAs opened in 2016 received the maximum annual contribution, whereas 30 percent of the accounts opened a decade earlier, in 2006, received the maximum (Figure 1).¹

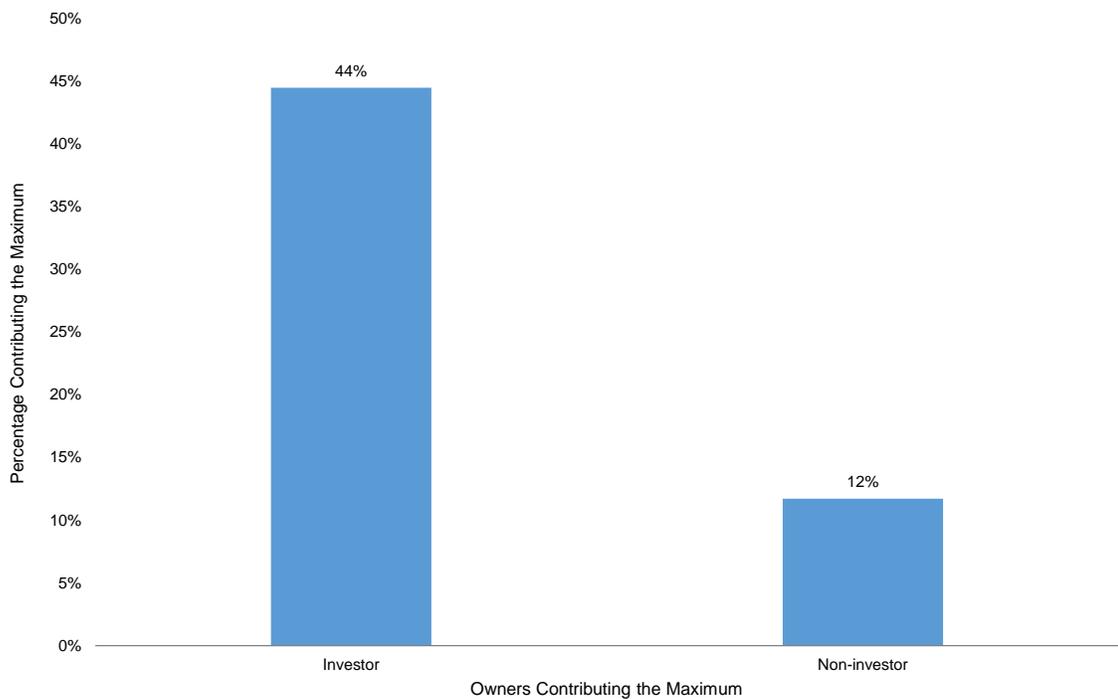
Contribution behavior is also highly correlated with investment behavior. Investors are much more likely to contribute the maximum than non-investors. Nearly one-half (44 percent) of HSAs with investments received the maximum annual contribution in 2016, whereas only 12 percent of HSAs without investments received the maximum contribution (Figure 2). Importantly, however, only 3 percent of accounts had investments other than cash in 2016.

Figure 1
HSA Account Owners Who Contributed the Maximum in 2016,
by Year Account was Opened



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

Figure 2
HSA Account Owner Investment Behavior, 2016



Source: Employee Benefit Research Institute (EBRI) HSA Database.

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 record-keepers and, therefore, represents the characteristics and activity of a broad range of HSA owners.

As of Dec. 31, 2016, the EBRI Database includes:

- 5.5 million health savings accounts.
- \$11.3 billion in assets.

The 2016 data covers 27 percent of the universe of HSAs and 31 percent of HSA assets.² Most HSAs in the EBRI HSA Database were initially opened within the past few years. Overall, 77 percent of the accounts were opened between 2013 and 2016.³

The Employee Benefit Research Institute is a private, nonpartisan, nonprofit research institute based in Washington, DC, that focuses on health, savings, retirement, and economic security issues. EBRI does not lobby and does not take policy positions. The work of EBRI is made possible by funding from its members and sponsors, which includes a broad range of public, private, for-profit and nonprofit organizations. For more information go to www.ebri.org or connect with us on [Twitter](#) or [LinkedIn](#).

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Endnotes

¹ Figure 1 includes accounts opened prior to 2006 with higher 2016 contribution levels; however, those shown as “2004 or earlier” include rollover amounts from Archer Medical Savings Accounts (MSAs) and therefore do not purely represent HSAs opened in that year.

² According to Devenir, there were over 20 million accounts holding \$37 billion in assets as of Dec. 31, 2016. See <http://www.devenir.com/wp-content/uploads/2016-Year-End-Devenir-HSA-Market-Research-Report-Executive-Summary-1.pdf>

³ More information about the EBRI HSA Database can be found in https://www.ebri.org/pdf/briefspdf/EBRI_IB_438_HSAs.19Sept17.pdf