

Notes

Investment Options and HSAs: Findings from the EBRI HSA Database, p. 2

A T A G L A N C E

Investment Options and HSAs: Findings from the EBRI HSA Database, by Paul Fronstin, Ph.D., Employee Benefit Research Institute

- In 2014, 6.4 percent of health savings account (HSA) owners in the EBRI HSA Database had used the investment option portion of the account.
- Forty-seven percent of the HSAs with investments were opened between 2005 and 2008, compared with 8 percent among HSAs without investments. Among HSA owners with investments, the average age was 48.5 in 2014, compared with 43 among HSA owners without investments.
- Individuals contributed \$2,636 annually on average when they had investments and \$1,224 when they did not have investments. Annual distributions for health care claims averaged \$1,777 from HSAs with investments, and \$1,293 from HSAs without investments.
- End-of-year account balances averaged \$10,261 among HSAs with investments, and \$1,709 in HSAs without them.

Investment Options and HSAs: Findings from the EBRI HSA Database

By Paul Fronstin, Ph.D., Employee Benefit Research Institute

Introduction

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (MMA) includes a provision that allows individuals enrolled in certain high-deductible health plans to open and fund a health savings account (HSA), effective Jan. 1, 2004. The ability of individuals to use HSAs as a savings vehicle for health care expenses in retirement has been a key selling point. HSAs provide account owners a triple tax-advantage: Contributions to an HSA reduce taxable income; earnings on the assets in the HSA build up tax free; and distributions from the HSA for qualified expenses are not subject to taxation.

Because of the triple tax-preference, some individuals might find using an HSA as a savings vehicle for health care expenses in retirement more advantageous from a tax perspective than saving in a 401(k) plan or other retirement savings plan. HSAs often have an investment-account option that allows account owners to invest in not just a money market account, but in mutual funds and other investment vehicles much like they would in a 401(k) plan. Some HSA owners may use the investment-account option as a means to increase savings for retirement, while others may be using it for shorter-term investing. It has been estimated that about 3 percent of HSA owners invest, and that HSA investments are likely to increase from an estimated \$3 billion in 2015 to \$40 billion in 2020.¹

Whether investing for retirement or the short term, there are trade-offs to consider. Individuals must consider whether shifting contributions from a 401(k) plan to an HSA means leaving employer-matching dollars on the table. In addition, in order to maximize the savings in an HSA to cover health care expenses in retirement, HSA owners need to pay the medical expenses they incur prior to retirement on an after-tax basis using money not contributed to their HSA. Many individuals may not have the means to both save in an HSA and pay their out-of-pocket health care expenses. Finally, the investment options in the HSA may not be the same as the investment options in a 401(k) plan. Note that HSA owners with investments always have the option of liquidating them in order to take a distribution for a health care claim. They can also take a lump-sum distribution at any time once investments have provided an acceptable return.

This paper examines data from the EBRI HSA Database to get a better understanding of who is using the investment-account option, and how account balances and contributions differ with respect to whether there is an open investment option in an HSA.

About the EBRI HSA Database

The EBRI HSA Database Project is a large representative repository of information about individual HSAs. As of Dec. 31, 2014, the EBRI database includes statistical information for:

- 2.9 million health savings accounts.
- \$5.0 billion in assets.

The 2014 EBRI HSA database covers 21 percent of the universe of HSAs and 21 percent of HSA assets.² The project 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.

When it comes to the availability of an investment-account option, the EBRI database contained about 1.2 million HSAs with \$2.7 billion in assets that had information as to whether an investment-account option was available in 2014. Nearly 78,000 of these HSAs (or 6.4 percent) had investments in their account.

In 2014, the nearly 78,000 HSAs with investments held \$795 million in assets, of which \$573 million (or 72 percent) were held in an investment option. Overall, the \$573 million in investment options represented 21 percent of the \$2.7 billion in assets in accounts where participation in an investment option could be tracked.

More information about HSAs and the EBRI HSA Database can be found in Fronstin (2015).

Year HSA was Opened

HSAs with investments are generally older than accounts that do not have investments. In other words, owners of older HSAs have a higher propensity to invest. The 2014 analysis showed that nearly one-half (47 percent) of the HSAs with investments were opened between 2005 and 2008, whereas 8 percent of HSAs without investments were opened between 2005 and 2008 (Figure 1). In contrast, 5 percent of HSAs with investments, and 28 percent of HSAs without investments were opened in 2014.

Age of HSA Owner

There are age differences between HSA owners with investments and those without. Among HSA owners with investments, the average age was 48.5 in 2014, compared with 43 among HSA owners without. The difference in the average age can be explained better by examining the age distribution of each group. HSA owners with investments are much less likely to be in the under-age-25 group and are much less likely to be in the 25–34 age group. In 2014, only 1 percent were under age 25, compared with 4 percent among HSA owners without investments, and 13 percent were ages 25–34, compared with 26 percent of individuals without investments (Figure 2). Both groups were about equally likely to be ages 35–44 and 45–54. Individuals with investments were more likely to be ages 55–64 and 65 or older than those without them.

These findings suggest that younger HSA owners are not seeing the long-term potential of the account, despite their longer time horizon for realizing a return.

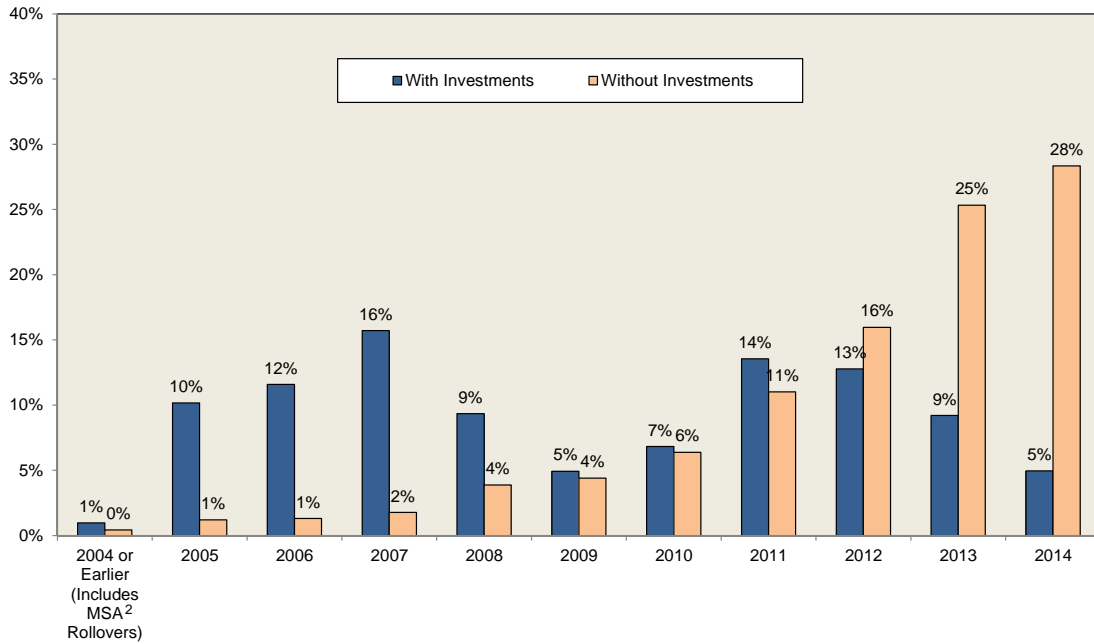
Contributions

Individuals with investments in their HSA make larger annual contributions than individuals without them. Similarly, HSAs with investments also have received higher annual employer contributions.

In 2014, individuals contributed \$2,636 annually on average when they had investments, and \$1,224 when they did not (Figure 3). Employers contributed \$586 annually on average when the HSA had investments, and \$519 when there were no investments. Individuals were slightly more likely to make a contribution (66 percent vs. 59 percent) when they had investments. Employers, however, were much less likely to make a contribution (39 percent vs. 52 percent) when there were investments.

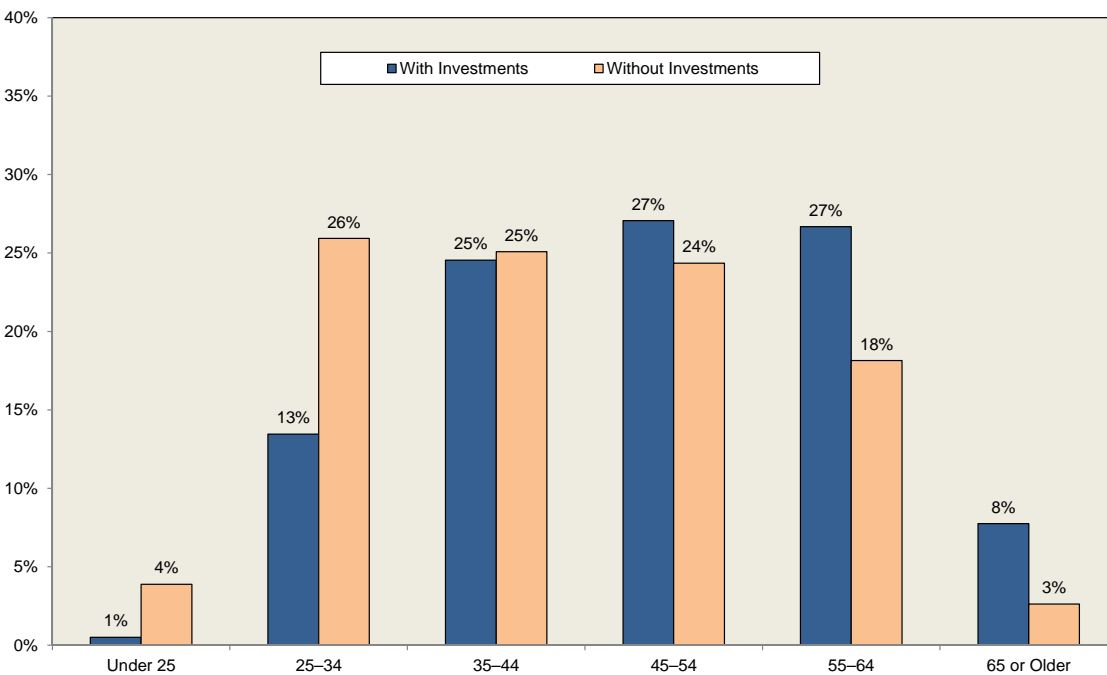
When examining the distribution of individual contributions, it is apparent that the average contribution is higher among individuals with investments. This may be because they are more likely than those without investments to contribute the statutory maximum, or because those who contribute the maximum are more likely to invest. Eleven percent of HSA owners with investments contributed \$6,550 or more in 2014, compared with 3 percent among HSA owners without investments (Figure 4). HSA owners with investments were also much more likely to contribute between \$2,000 and \$4,999 than those without investments.

Figure 1
**HSA¹ by Year Account Was Opened
 and Presence of Investments, 2014**



Source: EBRI HSA Database.
¹ Health savings accounts.
² Archer Medical Savings Account.

Figure 2
HSA* Owners, by Age and Presence of Investments, 2014



Source: EBRI HSA Database.
 * Health savings account.

Figure 3
Summary of Average Account Activity,
by Presence of Investments, 2014

	With Investments	Without Investments
Accounts With Contributions or Distributions		
Individual contributions	\$2,636	\$1,224
Employer contributions	586	519
Distributions for claims	1,777	1,293
End-of-year account balance	10,261	1,709
Percent of Accounts With Contributions or Distributions		
Individual contributions	66%	59%
Employer contributions	39	52
Distributions for claims	65	65

Source: EBRI HSA Database.

The difference in average employer contributions can be explained by the fact that individuals with investments are more likely than those without them to not receive any employer contribution. Just over 60 percent of HSA owners with investments did not receive an employer contribution in 2014, compared with 48 percent among HSA owners without investments (Figure 5).

The distribution of combined individual and employer contributions can be seen in Figure 6 and is driven by the finding that HSA owners with investments are more likely to contribute the statutory maximum than individuals without them.

Distributions

While contributions are higher in HSAs with investments, suggesting that account owners are using their HSA either as a retirement savings vehicle or a long-term savings strategy, distributions for health care claims are also higher in HSAs with investments. In 2014, annual distributions averaged \$1,777 from HSAs with investments, and \$1,293 from HSAs without investments (Figure 3). However, HSA owners with investments were no more or less likely than those without them to take a distribution for a health care claim.

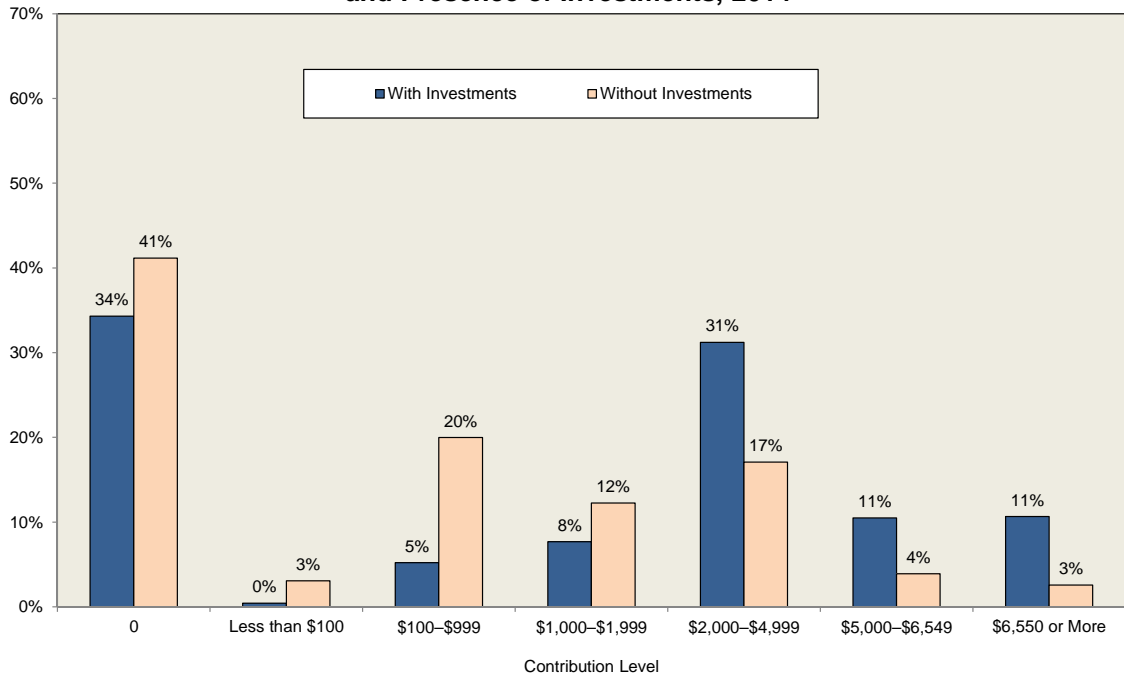
Among individuals taking a distribution for a health care claim, distributions averaged \$2,735 from HSAs with investments, and \$1,981 from HSAs without them in 2014 (Figure 7).

End-of Year Account Balances

Average end-of-year account balances are much higher in HSAs with investments than in HSAs that do not have investments. In 2014, end-of-year account balances averaged \$10,261 among HSAs with investments, and \$1,709 in HSAs without them (Figure 3). Differences in the year in which the account was opened explained some of the difference in account balances. As shown in Figure 8, HSAs with investments were much older than accounts that did not have investments, so their owners had more years to make contributions. However, even when controlling for the year that the HSA was opened, average end-of-year balances in HSAs with investments outpaced those without investments (Figure 8).

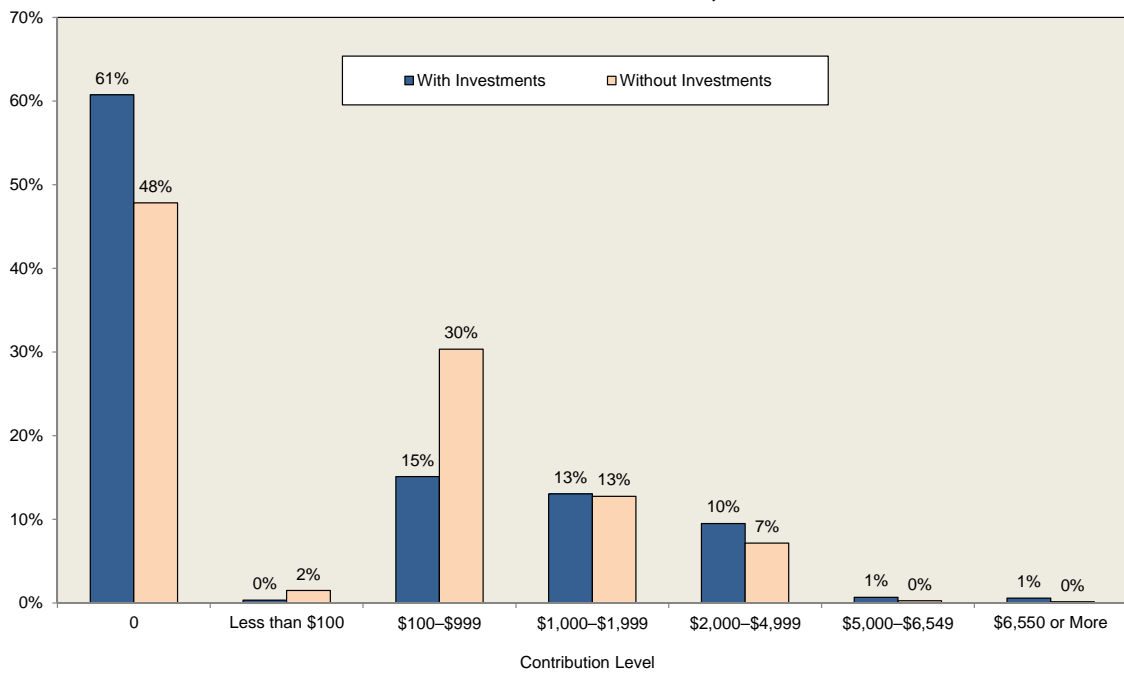
The distribution of average end-of-year account balances showed that while 37 percent of HSAs with investments had a balance of \$10,000 or more at the end of 2014, only 4 percent of HSAs without investments had such a balance (Figure 9).

Figure 4
HSAs,* by Level of Individual Contributions
and Presence of Investments, 2014



Source: EBRI HSA Database.
 * Health saving accounts.

Figure 5
HSAs,* by Level of Employer Contributions
and Presence of Investments, 2014



Source: EBRI HSA Database.
 * Health savings accounts.

Conclusion

This study examines data from the EBRI HSA Database. It focuses on the 1.2 million accounts in the EBRI database that have information on the presence of an investment option. Overall, 6.4 percent of HSAs have investments. HSAs with investments are older; the owners of such accounts are older; balances are higher; and individual contributions are higher. Distributions for health care claims are higher in HSAs with investments.

These findings may indicate that HSA owners with investments are maximizing its use for saving, spending, and investing. However, they may not truly be using it as a retirement savings vehicle, as the propensity to take a distribution for a health care claim is the same whether or not an investment option is being used. Given the availability of investment options and the triple tax-advantage of HSAs, future research will examine whether HSA owners are moving contributions from 401(k) plans into HSAs.

References

Berkley, Todd. *The Coming HSA Investment Wave*. White Paper, Minnetonka, MN: HSA Consulting Services, LLC, 2015.

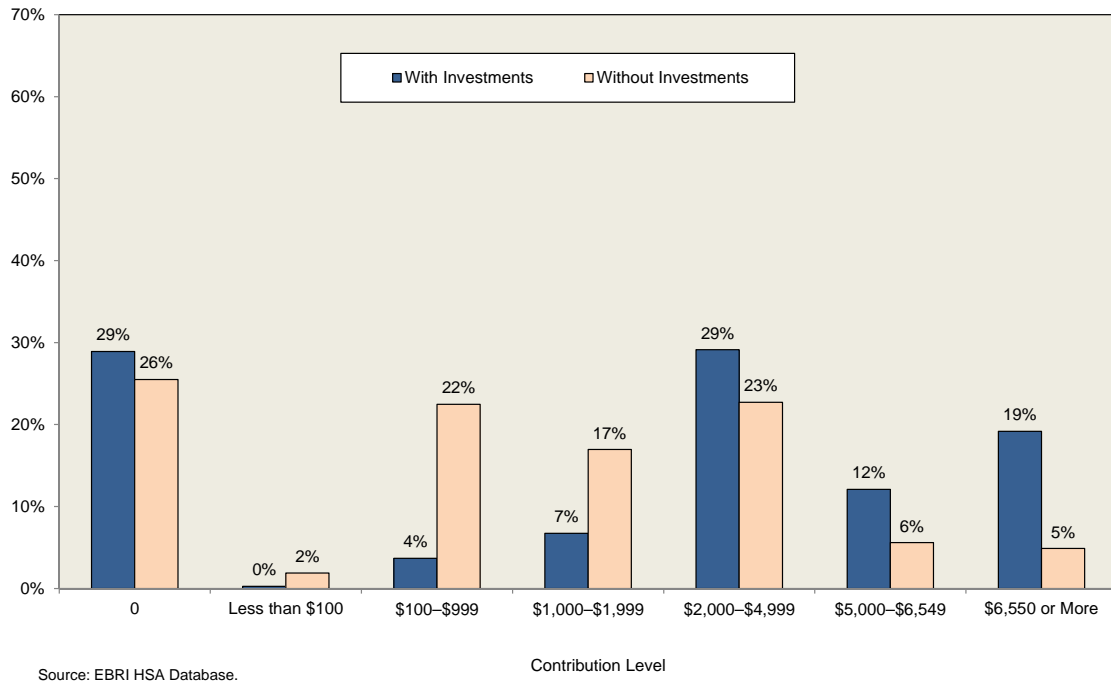
Fronstin, Paul. "Health Savings Account Balances, Contributions, Distributions, and Other Vital Statistics, 2014: Estimates from the EBRI HSA Database." *EBRI Issue Brief no. 416* (Employee Benefit Research Institute, July 2015).

Endnotes

¹ See <http://www.devenir.com/research/2014-year-end-devenir-hsa-market-research-report/> and Berkley (2015).

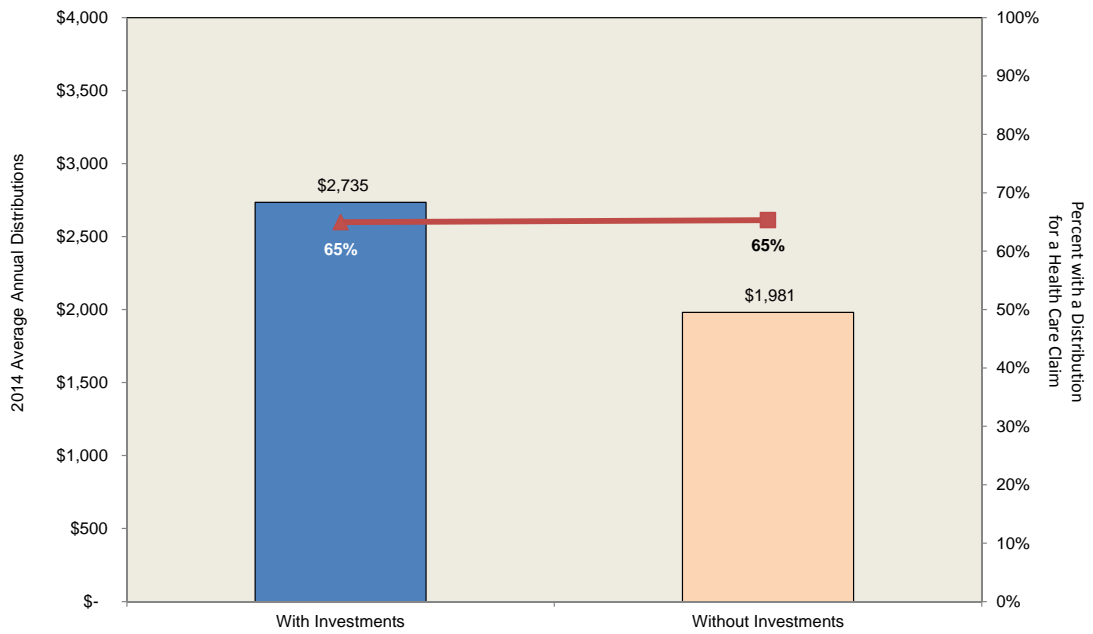
² According to Devenir, there were 13.8 million accounts holding \$24.2 billion in assets as of Dec. 31, 2014. See <http://www.devenir.com/research/2014-year-end-devenir-hsa-market-research-report/>

Figure 6
HSAs,* by Level of Total Contributions
and Presence of Investments, 2014



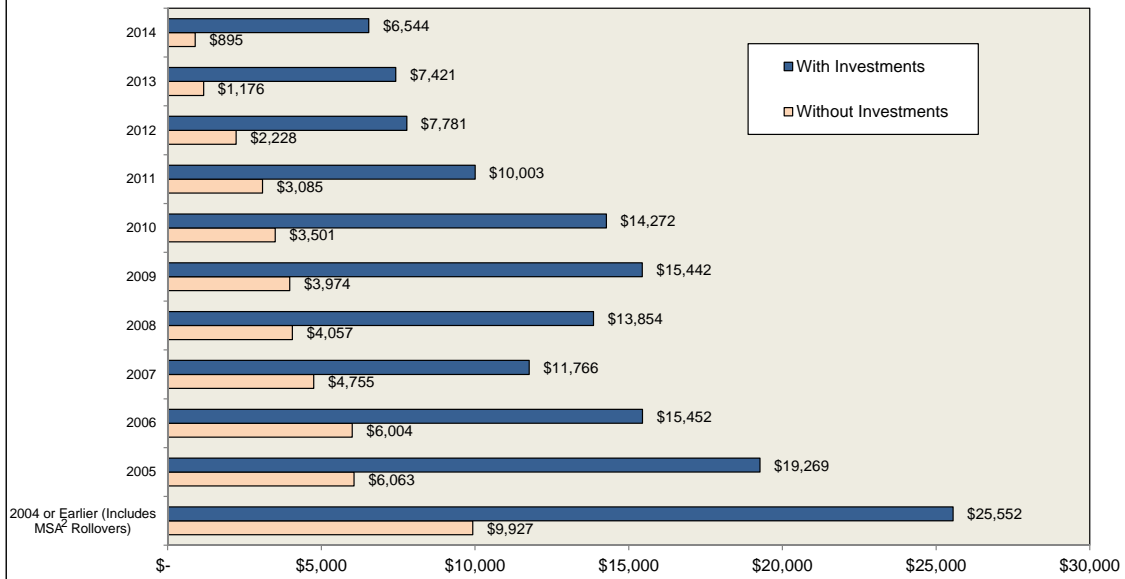
Source: EBRI HSA Database.
 * Health savings accounts.

Figure 7
Average Annual Distributions Among Accounts With Claims
and the Likelihood of Having a Distribution for a Health
Care Claim, by Presence of Investments, 2014



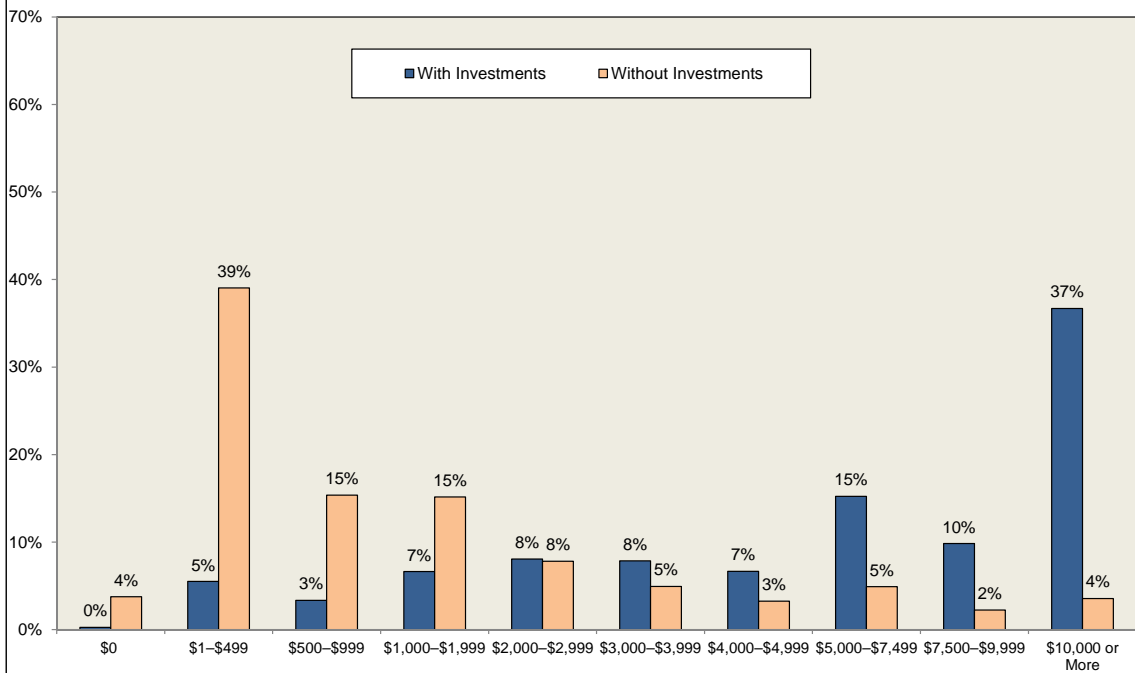
Source: EBRI HSA Database.

Figure 8
Average End-of-Year Account Balance Among Accounts
With Contributions and Presence of Investments,
by Year HSA¹ Was Opened, 2014



Source: EBRI HSA Database.
¹ Health savings account.
² Archer Medical Savings Account.

Figure 9
Average End-of-Year Account Balance,
by Presence of Investments, 2014



Source: EBRI HSA Database.

Statement of Ownership

United States Postal Service Statement of Ownership, Management, and Circulation

Publication Title: **EBRI Employee Benefit Research Institute Notes.**

Publication Number: **1085-4452**

1) Filing Date: **08/15/2015.** 2) Issue Frequency: **Monthly.** 3) Number of Issues Published Annually: **12.** 4) Annual Subscription Price: **\$199** per year or is included as part of a membership subscription. 5) Complete Mailing Address of Known Office of Publication: (Not printer): **Employee Benefit Research Institute (EBRI), 1100 13th Street NW, Suite 878, Washington, DC 20005.** 6) Complete Mailing Address of Headquarters or General Business Office of Publisher (Not printer): **Employee Benefit Research Institute (EBRI), 1100 13th Street NW, Suite 878, Washington, DC 20005.** 7) Full Names and Complete Mailing Addresses of Publisher, Editor, and Managing Editor (Do not leave blank): Publisher, **Employee Benefit Research Institute – Education and Research Fund, 1100 13th Street NW, Suite 878, Washington, DC 20005.** Editor, **Dallas L. Salisbury, Employee Benefit Research Institute – Education and Research Fund, 1100 13th Street NW, Suite 878, Washington, DC 20005.** Managing Editor, **Stephen Blakely, Employee Benefit Research Institute – Education and Research Fund, 1100 13th Street NW, Suite 878, Washington, DC 20005.** 8) Owner: Full Name: **Employee Benefit Research Institute – Education and Research Fund.** 9) Known Bondholders, Mortgagees, and Other Security Holders Owning or Holding 1 Percent or More of Total Amount of Bonds, Mortgages or Other Securities: **None.** 10) Tax Status (For completion by nonprofit organizations authorized to mail at nonprofit rates) The purpose, function, and nonprofit status of this organization and the exempt status for federal income tax purposes: **Has not changed during preceding 12 months: 501(c)(3).** 11) Publication's name: **EBRI Employee Benefit Research Institute Notes.** 12) Issue Date for Circulation Data Below: **August 2015.** 13) Extent and Nature of Circulation: a. Total Number of Copies: Average No. Copies Each Issue During Preceding 12 Months: **393;** No. Copies of Single Issue Published Nearest to Filing Date: **393.** b. Paid and/or Requested Circulation (1) Paid/Requested Outside-County Mail Subscriptions Stated on Form 3526: Average No. Copies Each Issue During Preceding 12 Months: **253;** No. Copies of Single Issue Published Nearest to Filing Date: **253.** (2) Paid In-County Subscriptions Stated on Form 3526: Average No. Copies Each Issue During Preceding 12 Months: **46;** No. Copies of Single Issue Published Nearest to Filing Date: **46.** (3) Sales Through Dealers and Carriers, Street Vendors, Counter Sales, and Other Non-USPS Paid Distribution: Average No. Copies Each Issue During Preceding 12 Months: **0;** No. Copies of Single Issue Published Nearest to Filing Date: **0;** (4) Other Classes Mailed Through the USPS: Average No. Copies Each Issue During Preceding 12 Months: **0;** No. Copies of Single Issue Published Nearest to Filing Date: **0;** c. Total Paid and/or Requested Circulation [Sum of 15b. (1), (2), (3), and (4)]: Average No. Copies Each Issue During Preceding 12 Months: **299;** No. Copies of Single Issue Published Nearest to Filing Date: **299.** d. Free Distribution by Mail (Samples, complimentary, and other free): (1) Outside-County as Stated on Form 3526: Average No. Copies Each Issue During Preceding 12 Months: **35;** No. Copies of Single Issue Published Nearest to Filing Date: **35;** (2) In-County as Stated on Form 3526: Average No. Copies Each Issue During Preceding 12 Months: **9;** No. Copies of Single Issue Published Nearest to Filing Date: **9.** (3) Other Classes Mailed Through the USPS: Average No. Copies Each Issue During Preceding 12 Months: **0;** No. Copies of Single Issue Published Nearest to Filing Date: **0.** e. Free Distribution Outside the Mail (Carriers of other means): Average No. Copies Each Issue During Preceding 12 Months: **0;** No. Copies of Single Issue Published Nearest to Filing Date: **0.** f. Total Free Distribution [Sum of 15d. (1), (2), (3) and (4)]: Average No. Copies Each Issue During Preceding 12 Months: **44;** No. Copies of Single Issue Published Nearest to Filing Date: **44.** g. Total Distribution (Sum of 15c. And 15e.): Average No. Copies Each Issue During Preceding 12 Months: **343;** No. Copies of Single Issue Published Nearest to Filing Date: **343.** h. Copies not Distributed: Average No. Copies Each Issue During Preceding 12 Months: **50;** No. Copies of Single Issue Published Nearest to Filing Date: **50.** i. Total (Sum of 15f. And 15g.): Average No. Copies Each Issue During Preceding 12 Months: **393;** No. Copies of Single Issue Published Nearest to Filing Date: **393.** j. Percent Paid and/or Requested Circulation: Average No. Copies Each Issue During Preceding 12 Months: **87%;** No. Copies of Single Issue Published Nearest to Filing Date: **87%.** 16. Publication of Statement of Ownership Publication: Will be printed in the **August 2015** issue of this publication. 14) Signature and Title of Editor, Publisher, Business Manager, or Owner: **Dallas Salisbury, editor; Employee Benefit Research Institute, publisher; Stephen Blakely, managing editor.** Date: **08/15/2015.**

I certify that all information furnished on this form is true and complete: **Stephen Blakely, Editor and Director of Communications.** Date: **08/15/2015.**



Notes

EBRI Employee Benefit Research Institute Notes (ISSN 1085-4452) is published monthly by the Employee Benefit Research Institute, 1100 13th St. NW, Suite 878, Washington, DC 20005-4051, at \$300 per year or is included as part of a membership subscription. Periodicals postage rate paid in Washington, DC, and additional mailing offices. POSTMASTER: Send address changes to: *EBRI Notes*, 1100 13th St. NW, Suite 878, Washington, DC 20005-4051. Copyright 2015 by Employee Benefit Research Institute. All rights reserved, Vol. 36, no. 8.

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