



HEALTH SAVINGS ACCOUNTS: WHAT THE RESEARCH SHOWS

The appeal of contributing to a tax-free account designed to cover health care costs continues to gain traction, especially for certain savers.

How are health savings accounts (HSAs) faring? That's the subject Paul Fronstin examines in "Health Savings Accounts and Health Reimbursement Arrangements: Assets, Account Balances, and Rollovers, 2006-2009," which was published by the Employee Benefit Research Institute (EBRI) in June 2010.

To put Fronstin's research in perspective, some background on HSAs may be helpful. HSAs were introduced in 2004 to give people enrolled in high deductible health plans (HDHPs) a tax-advantaged way to cover their out-of-pocket health care expenses. Employees can contribute pretax income to an HSA and employers may contribute if they choose. Withdrawals are tax free if they're used to pay qualified medical expenses. (Health Reimbursement Arrangements (HRAs), in contrast, are employer-funded plans that reimburse workers for qualified medical expenses.)

Equally important, HSAs are a way to save for future health care needs. Any amount contributed in one year can be rolled over and used in later years. That's one significant difference from flexible spending accounts (FSAs), where pretax contributions must be used for qualified medical expenses within a 12 to 15 month window.

HSAS IN 2009

Fronstin reports that the number of HSAs has grown. In 2009, between 15 and 19 million people, or between 9% and 11% of the people with private (that is, nongovernment) health insurance, were covered by an HDHP, making them eligible for a HSA or HRA.

→ A QUICK LOOK

- In 2009, 5 million HSAs held assets of \$7 billion, up from 1.2 million accounts with \$835 million in assets in 2006.
- The average HSA account balance in 2009 was \$1,419.
- HSA account holders over 55 have the highest average balances.
- Cost-conscious behavior isn't necessarily an indicator of a higher account balance.

In 2009, there were 5 million HSA accounts, with \$7 billion in assets, up from 1.2 million accounts with \$835 million in assets in 2006. The average account balance was \$1,419 in 2009.

Part of the reason the average balance isn't higher is that most HSAs are invested in accessible but low-interest accounts, such as money market funds. In addition, annual contributions are capped. The maximum for one person was \$3,050 in 2009, increasing to \$6,150 for a family.

MAKING THE MOST OF HSAS

According to Fronstin, workers who seem to be benefiting most from an HSA, based on average account balances, include men, older participants, the better educated, the higher paid, and those whose employers make contributions of \$1,000 or more. In addition, he notes that the HDHP/HSA combination seems to be most popular with young people and people who are not married, based on enrollment where employers offers a choice of plans.

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VOL 1 NUMBER 13 AUGUST 2010

People over 55 tend to have larger account balances, averaging \$2,017 rather than \$1,419. Fronstin speculates that these higher values may result because older people are consciously saving money for their retirement health care needs rather than withdrawing to cover current costs.

Nevertheless, he describes these HSA savings as “far from sufficient” in providing the amounts retired people can expect to need for such expenses. While people 55 and over can make an extra annual catch-up contribution through age 64, the impact of these cash infusions was factored into the research.

Fronstin noted other factors that appear to affect account balances. For example, people with income over \$100,000 with HSAs have average account balances of \$1,766, opposed to the \$912 that's average for those earning less than \$50,000. In what may be a related comparison, those with graduate degrees have average balances of \$1,778 while those with just a high school diploma average \$1,279 in their accounts. The same explanation may be valid here as for savers approaching retirement — that is, the more affluent and better educated account holders are paying current expenses from their regular income to take advantage of untaxed growth in their HSAs.

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UNEXPECTED FINDINGS

Perhaps the most surprising finding in the study was that being a cost-conscious consumer seemed to have very little impact on the size of the participant's account balance.

The only behavior that was statistically significant showed that people who had developed a budget to manage their health care expenses had larger balances, by about \$300 dollars, than those who had not. None of eight other cost-conscious factors that were part of the survey had a positive impact on account balance size. In fact, participants who reported checking the rating of a doctor or hospital before using their services actually saved less.

When comparing amounts that HSA owners rolled over from year to year, however, Fronstin did find that discussing treatment costs and options with a doctor, using online cost-tracking tools, and asking for prescriptions for lower-cost drugs did have a positive impact on saving. But the numbers were relatively small, with those more diligently investigating medical costs averaging about \$200 more in their accounts than those who did not.

What the study doesn't cover is how many people enrolled in a HDHP don't take full advantage — or any advantage — of the opportunity to save with an HSA and, if they don't, why not.

Paul Fronstin, "Health Savings Accounts and Health Reimbursement Arrangements: Assets, Account Balances, and Rollovers, 2006-2009," EBRI Issue Brief, no. 343 June 2010. Survey was conducted with an online panel of Internet users who have agreed to participate in research surveys. In comparison with telephone surveys, this approach tends to under-represent minorities. More about the research design is available in the article's footnotes.