The Honorable Lamar Alexander  
Chairman  
Committee on Health, Education, Labor and Pensions  
United States Senate  
428 Dirksen Senate Office Building  
Washington, D.C. 20510

March 1, 2019

Dear Chairman Alexander:

Fidelity appreciates the opportunity to share our insights on ways to reduce the cost of health care in the United States. We applaud the Committee’s focus on the unnecessarily high costs of health care and efforts to seek data and recommendations to solve one of the most important issues in our country. As one of the leading service providers for Health Savings Accounts (HSAs), Fidelity is committed to helping workers and their families save for current and future health care expenses. This letter outlines Fidelity’s recommendations to reduce the burden individuals, families, and employers face in paying for health care costs now and in the future.

**Overview**  
As health care costs continue to rise, both American families and their employers agree health care is a top concern. Almost 90% of employers consider the rising cost of health care to be a critical concern, and 26% of working Americans actually rank health care as the most critical issue facing us today.¹

Employers are moving away from offering HMO and PPO-style models to HSA-eligible health plans. Today, 90% of large employers offer at least one consumer directed health plan, which helps reduce employers’ costs, but these plans also offer individuals and families the benefit of a HSA.²

**Benefits of Health Savings Accounts (HSAs)**  
HSAs allow individuals and families to set aside money on a tax-advantaged basis to pay for current and future health expenses. Using a HSA offers numerous benefits:  
- Provides clarity as to which health expenses individuals and families are responsible for paying.  
- Empowers workers to better understand health costs and therefore, manage them better.  
- Unspent HSA balances roll over year-to-year.  
- Tax advantages: Contributions, earnings, and withdrawals (for qualified medical expenses) are free from federal taxation.  
- While the individual or family owns a HSA, their employer can provide contributions.³ At Fidelity, 85% of employers offering a HSA contribute to their employees’ accounts.

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³ Employee Benefit Research Institute, Employer and Worker Contributions to Health Reimbursement Arrangements and Health Savings Accounts, 2006–2014, March 2015. According to EBRI, as of 2017, 67% of employees reported their employer provided a contribution to their HSA. On average, employers contribute $608 annually to each employee’s HSA ($1,086 annually for employees with family coverage).
• HSAs can pay for “qualified medical expenses” that are frequently not covered under employer benefit plans such as vision and dental care, hearing aids, and nursing services.
• Premiums for HSA-eligible health plans are, on average, 12% cheaper than premiums for traditional health plans.¹
• For account holders aged 65 or over, HSA balances can be used toward general expenses.
• HSA balances can be invested in a variety of investment vehicles including mutual funds, stocks, and bonds.

Fidelity estimates that an average 65-year old couple that retired in 2018 will spend approximately $280,000 on health care during retirement.² Unfortunately, Americans continue to underestimate the out-of-pocket cost of health care during their retirement. However, in retirement, HSAs balances become even more valuable as a component of retirement financial planning:

• HSAs help bridge the gap to Medicare. For those who retire prior to age 65, they may still need health care coverage to help bridge the gap until becoming eligible for Medicare. Generally, HSAs cannot be used to pay private health insurance premiums, but there are two exceptions: paying for health care coverage purchased through an employer-sponsored plan under COBRA, and paying premiums while receiving unemployment compensation. These options are available at any age, but become especially useful if one decides or is forced to stop working before reaching age 65.
• HSAs can cover Medicare premiums. HSAs can pay certain Medicare expenses including premiums for Part B and Part D prescription-drug coverage, but not supplemental (Medigap) policy premiums. For retirees over age 65 who have employer-sponsored health coverage, a HSA can be used to pay a share of those costs, as well.
• HSAs can be used to cover part of the cost for a "tax-qualified" long-term care insurance policy. This benefit is available at any age, but the amount one can use increases as you age.

² Estimate based on a hypothetical couple retiring in 2018, 65-years-old, with life expectancies that align with Society of Actuaries’ RP-2014 Healthy Annuity rates with Mortality Improvements Scale MP-2016. Actual assets needed may be more or less depending on actual health status, area of residence, and longevity. Estimate is net of taxes: cost basis is assumed to equal market value. Estimate is calculated as the assets required today in a taxable account with an effective tax in retirement of 5%, an asset allocation of 30% equity, 50% bonds, and 20% cash, such that there is a 90% chance of being able to pay for healthcare expenses through life expectancy. The Fidelity Retiree Health Care Costs Estimate assumes individuals do not have employer-provided retiree health care coverage, but do qualify for the federal government’s insurance program, Original Medicare. The calculation takes into account cost-sharing provisions (such as deductibles and coinsurance) associated with Medicare Part A and Part B (inpatient and outpatient medical insurance). It also considers Medicare Part D (prescription drug coverage) premiums and out-of-pocket costs, as well as certain services excluded by Original Medicare. The estimate does not include other health-related expenses, such as over-the-counter medications, most dental services and long-term care.
HSAs Benefit Workers and Families Across All Income Levels

HSAs are becoming more popular for U.S. workers across all income levels. More than 50% of HSA holders with household incomes between $20,000 and $50,000 per year are enrolled in a HSA-eligible health plan and enrolled in a HSA.6

**Benefits of Investing**

The long-term value of a HSA can position a family for greater financial security. Though not all families will have this opportunity, if a family saves and invests the maximum annual contribution over a 30-year period, it will save nearly $1 million. The chart below shows this figure after 30 years of maxing out HSA savings opportunities and investing at an average hypothetical 7% annual rate of return.7

Families face numerous competing financial priorities, and many will not be able to invest the maximum contribution. Yet, HSAs are still a valuable savings tool and balances will grow over time. For instance, if a family contributes the maximum, but withdraws 50% of the money every year for real-time health expenses (but remains invested with the rest earning an annual 7% return), the savings are significant. In

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6 Based on Fidelity recordkept health and welfare data for 21 workplace investing clients as of May 2018.
7 Viewpoints: Five Ways HSAs Can Fortify Your Retirement, Fidelity Investments.
this hypothetical case, we see a family still has access to almost half a million dollars at the end of 30 years.8

Policy Recommendations to Improve HSAs

Despite the abundant benefits of HSAs, current policies limit the effectiveness of the vehicle in two ways:

Expanding Access

Currently, HSAs are only available to people with a HSA-eligible health plan (and who are not already enrolled in Medicare). HSA eligibility is currently restricted to certain High Deductible Health Plans (HDHPs), or health plans with a minimum deductible of $1,350 for individual coverage and $2,700 for family coverage.9 By restricting HSA eligibility to a narrow portion of U.S. health plans, tens of millions of Americans are excluded from managing their health care costs more effectively with a HSA.

To ensure more Americans have access to a HSA, we recommend policymakers ease eligibility rules. HSAs should not only be available to those enrolled in a HDHP, but rather HSA eligibility should be tied to a health plan’s actuarial value or another percentage of total average costs for a health plan’s covered benefits. In 2018, the U.S. House of Representatives passed H.R. 6311, the Increasing Access to Lower Premium Plans and Expanding Health Savings Accounts Act, which would allow health plans categorized as “Bronze” and “Catastrophic” under the Affordable Care Act to qualify as HSA-eligible. Fidelity supported this measure.

Contribution Limits

The Internal Revenue Service (IRS) determines annual contribution limits for HSAs—$3,500 for individuals and $7,000 for families for the 2019 plan year—and policymakers should consider increasing contribution limits to meet the maximum out-of-pocket (MOOP) costs under a health plan.

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8 Viewpoints: Five Ways HSAs Can Fortify Your Retirement, Fidelity Investments.
9 26 CFR 601.602: Tax forms and instructions.
The current thresholds are too low for most account holders to cover their deductibles and either pay for additional medical expenses or save for future expenses. In fact, the average family of four in the U.S (with employer-sponsored coverage) spends $26,944 on health care each year, with $11,685 out-of-pocket.\textsuperscript{10} Even if a family contributes the maximum allowed amount—$7,000—to their HSA each year, those contributions may only cover for a fraction of their total annual health care costs, and may not even cover their deductible. If contribution levels remain unchanged, families will remain unable to benefit from the unique saving and investing opportunities that HSAs were intended to offer.

Allowing Americans to save up to their annual out-of-pocket costs would represent progress toward stronger financial security. The \textit{Increasing Access to Lower Premium Plans and Expanding Health Savings Accounts Act} included a provision to increase annual contribution limits to the MOOP, which Fidelity supported, as well.

\textbf{Other Recommendations}

In addition to expanding access and increasing contribution limits, policymakers should consider the following HSA improvements:

- Promote automatic enrollment and automatic increase programs for HSAs. At Fidelity, defined contribution retirement plans with automatic enrollment have an 87\% participation rate, compared to plans that do not, which have a 52\% participation rate.\textsuperscript{11} These plan features have helped employees embrace a path toward better retirement security and should be considered as a strategy for HSAs, as well.
- Eliminate Flexible Savings Accounts (FSAs) in favor of HSAs. We believe HSAs are a more effective option for managing health care expenses. Unlike HSAs, FSAs do not allow money to roll over year-to-year or allow balances to be invested and grow.
- Allow spousal catch-up contributions to the same HSA. We believe that spouses aged 55+ should be allowed to provide a catch-up contribution to their partner’s HSA.
- Allow HSAs to cover over-the-counter medications, which are currently ineligible for HSA coverage.

Thank you for the opportunity to comment. We would be pleased to discuss these comments and to provide any additional information that you may find helpful.

Sincerely,

\[\underline{\text{James M. MacDonald}}\]
\[\textit{Head of Fidelity Health Care Group}\]

\textsuperscript{10} Milliman, 2017 Milliman Medical Index, May 2017.
\textsuperscript{11} Fidelity analysis of 22,400 corporate DC plans (including advisor-sold DC) and 15.3 million participants as of 12/31/2017.

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