

Health Savings Accounts (HSAs)



Background

Health care costs continue to increase in America. Fidelity estimates that an average 65-year-old couple retiring today will spend about \$285,000 on health care during retirement¹. As health care costs 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 rank health care as the most critical issue facing us today². This demand creates greater burden on policymakers to make it easier for people to manage their current health care costs and save for healthcare costs in retirement. At the federal level, policymakers are evaluating potential reforms to the health care system, including a shift to consumer-driven health care options like Health Savings Accounts (HSAs).

Issue

Health Savings Accounts are a valuable tool, but to be most effective, policymakers should enhance and expand the accounts.

In the transition to consumer-driven health care, HSAs are a lever to reduce the burden of paying for health care and play a critical role in a comprehensive savings strategy. However, current policy must also change to make HSAs more useful and available to more individuals and families facing health care costs.

An HSA is an account that lets you set aside money on a tax-advantaged basis to pay for current and future qualified medical expenses. Since 2003, when Congress first authorized HSAs, they have grown in popularity as a valuable tool for individuals saving for health care expenses. Today, over 28 million individuals and families utilize a HSA for medical expenses³. 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.⁴ Employers encourage and support use of the tool: at Fidelity, 85% of employers offering a HSA contribute to their employees' account.

Users of HSAs tout the product's many benefits:

- Provides clarity as to which health expenses individuals and families are responsible for paying.
- Empowers workers to better understand health expenses and therefore, manage them better.
- Tax advantages: Contributions, earnings, and withdrawals (for qualified medical expenses) are free from federal taxation.⁶
- Unspent HSA balances roll over year to year.
- For account holders aged 65+, HSAs can be used for general expenses with no penalty; however, account holders will have to pay income taxes on the expenses.
- Premiums for HSA-eligible health plans are, on average, 12% cheaper than premiums for traditional health plans.⁵
- 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.
- HSA balances can be invested in a variety of investment vehicles including mutual funds, stocks, and bonds.



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

Access

Currently, HSAs are only available to people with a HSA-eligible health plan (and who are not enrolled in Medicare). HSA eligibility is currently restricted to certain High Deductible Health Plans (HDHPs), or health plans with a minimum deductible of \$1,400 for individual coverage and \$2,800 for family coverage. By restricting HSA eligibility to a narrow portion of U.S. health plans, millions of Americans are excluded from managing their health care costs more effectively with a HSA.

We believe HSAs are an effective lever to lessen the burden of paying for healthcare now and combat future healthcare expenses in retirement. Our research shows that individuals with HSAs agree. Eighty percent report overall satisfaction with their HSA and health plan.⁸ Additionally, people with an HSA are more likely to feel “somewhat” or “very” prepared for retirement, than those without an HSA.⁹

Contribution limits

The Internal Revenue Service (IRS) determines annual contribution limits for HSAs—\$3,550 for individuals and \$7,100 for families in 2020. These thresholds are too low for most account holders to cover their annual 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 \$28,653 on healthcare each year, with \$12,300 out-of-pocket.¹⁰ Even if a family contributes the maximum allowed amount—\$7,100—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. 57% of Americans with an HSA-eligible health plan have a deductible above \$4,000 and 20% have deductibles above \$6,000.¹¹

Additionally, treatment costs for common conditions and injuries are so high that a single medical event can drive families into debt. In 2017, the average price for treating a broken wrist was \$2,500, while a year’s treatment for chronic migraines was \$9,000.¹² Given that most families experience several medical events each year, treatment costs can quickly become overwhelming and harm financial security. HSAs were created to reduce families’ financial burden and enable savings, but families are bound by current contribution levels. In fact, only 7.7% of HSA owners have invested any portion of their HSA dollars.¹³ If contribution levels remain unchanged, families will remain unable to benefit from the unique saving and investing opportunities that HSAs were intended to offer.

Policy Landscape and Recommendations:

Changing Policy to Expand Access and Improve Use of HSAs

Policymakers should take the important step of increasing HSA contribution limits to meet maximum out-of-pocket (MOOP) costs (\$6,900 for individuals and \$13,800 for families). Allowing Americans to save up to their annual out-of-pocket costs would represent progress toward stronger financial security. In 2018, the House of Representatives passed H.R. 6311, the Increasing Access to Lower Premium Plans and Expanding Health Savings Accounts Act, which included a provision to increase annual HSA contribution limits to the MOOP. Fidelity supported this measure.

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



In addition to expanding access and increasing contribution limits, Fidelity is actively encouraging policymakers to consider the following concepts:

- **Promote automatic enrollment and automatic increase programs for HSAs.**
- **Allow Direct Primary Care (DPC) arrangements under HSA-eligible health plans.**
- **Allow spousal catch-up contributions to the same HSA.**
- **Decouple HSAs from HDHPs, so that more workers and families can benefit from a HSA.**

Fidelity is a strong believer in the power of HSAs

As one of the leading service providers for Health Savings Accounts, with 1,476,000 individual HSA account holders representing more than \$6.68 billion in assets, Fidelity understands the benefits of HSAs.¹⁵ Fidelity is a strong believer in HSAs and continues to broaden availability and enhance the capabilities these accounts offer to help employers and individuals more effectively manage health care expenses. Fidelity offers HSA-eligible health plans to our associates, among other options and also introduced a retail HSA to individuals who may not have access to an HSA through their employer. Fidelity is dedicated to helping employers and employees better understand the benefits of HSAs, both for current expenses and as a vehicle for retirement savings. We are committed to health care solutions and continue to research the intersection of health and financial wellness.

We continue to advocate for affordable healthcare options like HSAs and policy changes that empower Americans to take control of their healthcare expenses. Learn more about Fidelity's policy and advocacy efforts at <https://www.fidelity.com/about-fidelity/public-policy>

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The information provided herein is general in nature. It is not intended, nor should it be construed, as legal or tax advice. Because the administration of an HSA is a taxpayer responsibility, you are strongly encouraged to consult your tax advisor before opening an HSA. You are also encouraged to review information available from the Internal Revenue Service (IRS) for taxpayers, which can be found on the IRS website at [IRS.gov](https://www.irs.gov). You can find IRS Publication 969, *Health Savings Accounts and Other Tax-Favored Health Plans*, and IRS Publication 502, *Medical and Dental Expenses*, online, or you can call the IRS to request a copy of each at 800.829.3676.

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Sources

1. Estimate based on a hypothetical couple retiring in 2019, 65-years-old, with life expectancies that align with Society of Actuaries' RP-2014 Healthy Annuitant 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. 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.
2. The 2018 EBRI/Greenwald & Associates Health and Workplace Benefits Survey.
3. 2019 Year-End Devenir HSA Research Report
4. Based on Fidelity recordkept health and welfare data for 21 workplace investing clients as of May 2018.
5. Stephen Miller, Society For Human Resource Management, For 2018, Expect Steeper Health Plan Premium Increases, September 26, 2017
6. With respect to federal taxation only. Contributions, investment earnings, and distributions may or may not be subject to state taxation.
7. 2020 information
8. Online survey conducted among a demographically representative U.S. sample consisting of 5,133 adults, 18 years of age and older. Interviewing for this CARAVAN® Survey was completed Dec. 9–21, 2016, by ORC International, which is not affiliated with Fidelity Investments. A total of 1,309 respondents enrolled in an HSA-eligible health care plan were included in the analysis. The results of this survey may not be representative of all adults meeting the same criteria as those surveyed for this study.
9. Data represents insights from Fidelity Investments' survey on Bridging the Gap to Medicare. The online survey was conducted among a random sample of 2017 1,003 adults between the ages of 50 and 64 who had retired in the past three years. The survey was fielded in November 2017 by Greenwald and Associates Inc., an independent third-party research firm. The results of this survey may not be representative of all adults meeting the same criteria as those surveyed for this study.
10. Milliman, 2020 Milliman Medical Index, May 2020
11. Henry J Kaiser Family Foundation, 2019 Employer Health Benefits Survey.
12. Gooch, C. L., Pracht, E. and Borenstein, A. R. (2017), The Burden of Neurological Disease in the United States: A Summary Report and Call to Action.
13. Fidelity Investments, Building Healthy Futures, May 2018
14. Fidelity analysis of 22,400 corporate DC plans (including advisor-sold DC) and 15.3 million participants as of 12/31/2017.
15. Fidelity record kept data of HSAs through January 31, 2020

