POINT OF VIEW

HEALTH SAVINGS ACCOUNTS

OVERVIEW

Health care costs continue to increase in America. Fidelity estimates that an average 65-year-old couple retiring today can expect to spend about $300,000 on health care and medical expenses during retirement.[1] 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 today.[2] This demand creates greater burden on policymakers to make it easier for people to manage their current health care costs and save for health care 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 help 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 most useful and available to more individuals and families managing 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 30 million individuals and families utilize an HSA for medical expenses.[3] HSAs are becoming more popular for U.S. workers across all income levels. Most HSA dollars are spent in pharmacies, on visits to doctors and on health services.[7] Employers encourage and support the use of the tool and many who offer an 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.

- Unspent HSA balances roll over year to year.
- For account holders enrolled in Medicare, HSAs can be used for general expenses with no penalty; however, account holders will have to pay income taxes on the expenses.
- HSAs can be used to pay for "qualified medical expenses" that are frequently not covered under employer benefit plans such as vision and dental, hearing aids, and nursing services.
- HSA balances can be invested in a variety of investment vehicles including mutual funds, stocks, and bonds.

HSAs are also 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 an HSA-eligible health plan and have an HSA.[4] HSA holders in the lower income bracket benefit disproportionately by participating in an HSA due to the potential for an employer contribution. While the employer contribution amount varies, the vast majority of Fidelity's plan sponsor clients pre-seed the HSA with a specific amount rather than matching on a 1:1 basis. This means that HSA holders who may not be able to contribute much to their account, will still reap the full benefits of the employer contribution.

The long-term value of an HSA can position a family for greater financial security, and Fidelity supports legislation that would expand access to these savings vehicles and allow for additional contributions so that families can save for the long-term.

Access

Currently, among other restrictions, HSAs are only available to people with an HSA-eligible health plan (and who are not enrolled in Medicare). HSA eligibility is currently restricted to certain High Deductible Health Plans (HDHPs), with a minimum deductible of $1,400 for individual coverage and $2,800 for family coverage in 2022. 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 an HSA.

We believe HSAs are an effective tool in lessening the burden of paying for health care now and combating future health care expenses in retirement. Our research shows that individuals with HSAs agree. 89% of HSA account owners report that they see its value, primarily to pay for health care.[5] People with an HSA are more likely to feel "somewhat" or "very" prepared for retirement, than those without an HSA[6] and are less likely to take an early distribution from a retirement account.[5]

Contribution limits

The Internal Revenue Service (IRS) determines annual contribution limits for HSAs—$3,650 for individual coverage and $7,300 for family coverage in 2022. These thresholds are too low for most account holders to cover their annual deductibles and 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 about $28,256 on health care each year.[7] Even if an individual contributes the maximum allowed amount 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.[8]

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.[9] 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. Many HSA owners spend their HSA money and do not have any portion of their HSA dollars invested. 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. Allowing Americans to save up to their annual out-of-pocket costs would represent progress toward stronger financial security. 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 an 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. Over the past few years, Fidelity has supported several bills that were introduced in Congress to make these changes.

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 an HSA.

Fidelity is a strong believer in the power of HSAs

As one of the leading service providers of Health Savings Accounts, with nearly 2 million individual HSA account holders representing more than $10.2 billion in assets, Fidelity understands the benefits of HSAs.[10] 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 continue to advocate for affordable health care options like HSAs and policy changes that empower Americans to take control of their health care expenses. Learn more about Fidelity's policy and advocacy efforts at:
https://www.fidelity.com/about-fidelity/public-policy

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Sources

1.Estimate based on a hypothetical opposite-gender couple retiring in 2021, 65-years-old, with life expectancies that align with Society of Actuaries' RP-2014 Healthy Annuitant rates projected with Mortality Improvements Scale MP-2020 as of 2021. 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 Cost 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.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. 2020 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. Fidelity Investments, Building Healthy Futures, September 2020.

6. 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.

7. Milliman, 2021 Milliman Medical Index, May 2021

8. Henry J Kaiser Family Foundation, 2019 Employer Health Benefits Survey

9. 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.

10. Fidelity record kept data of HSAs through January 31, 2021.