

The Intersection of Health and Wealth: The Role of Health Savings Accounts (HSAs)



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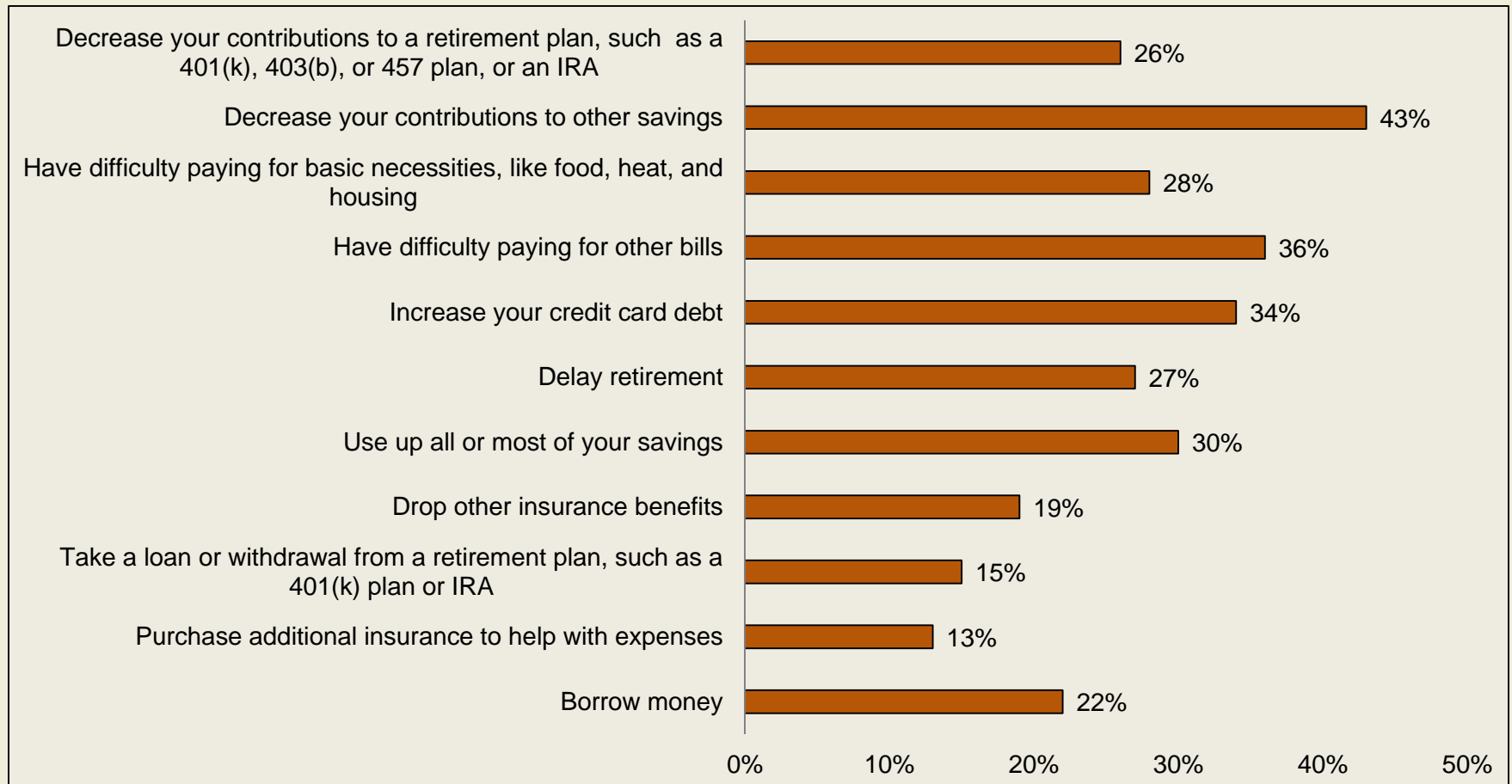
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The Intersection of Health and Wealth: The Role of Health Savings Accounts (HSAs)

EBRI-ERF POLICY FORUM #83
Retirement, Health and Financial Wellbeing

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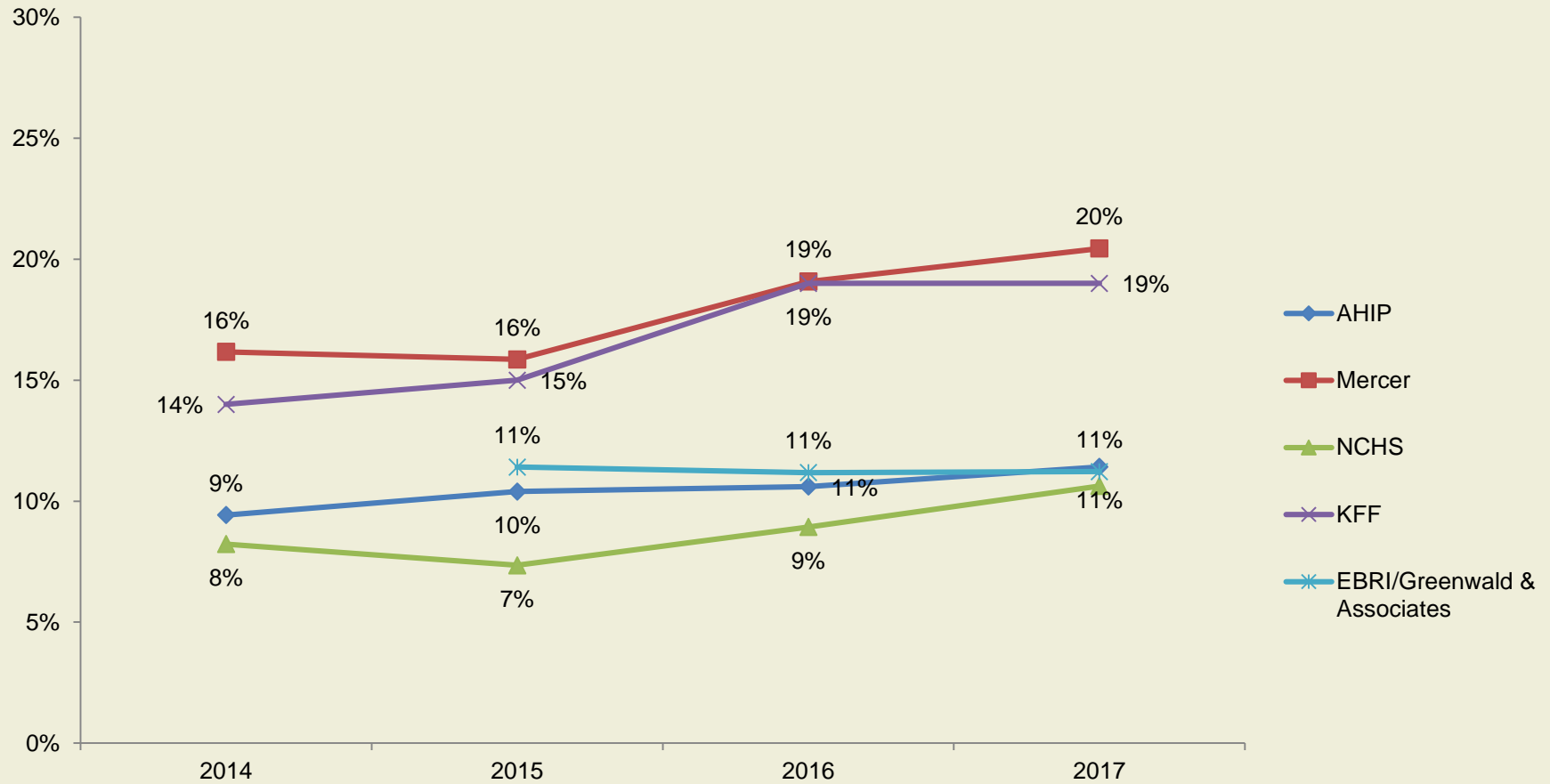
Financial Impact of Rising Health Care Costs



What is a Health Savings Account (HSA)?

- 2003 Medicare Modernization Act
- Triple tax advantage
 - Tax free contributions
 - Tax free accumulations
 - Tax free distributions for health care services, and certain health insurance premiums
- Contribution limits
 - \$3,450 – employee-only
 - \$6,900 – family coverage
 - \$1,000 – catch-up contribution for those ages 55+
- Qualified high-deductible health plan (HDHP)
 - Employee-only: minimum \$1,350 deductible, \$6,650 OOP max
 - Family coverage: minimum \$2,700 deductible, \$13,300 OOP max

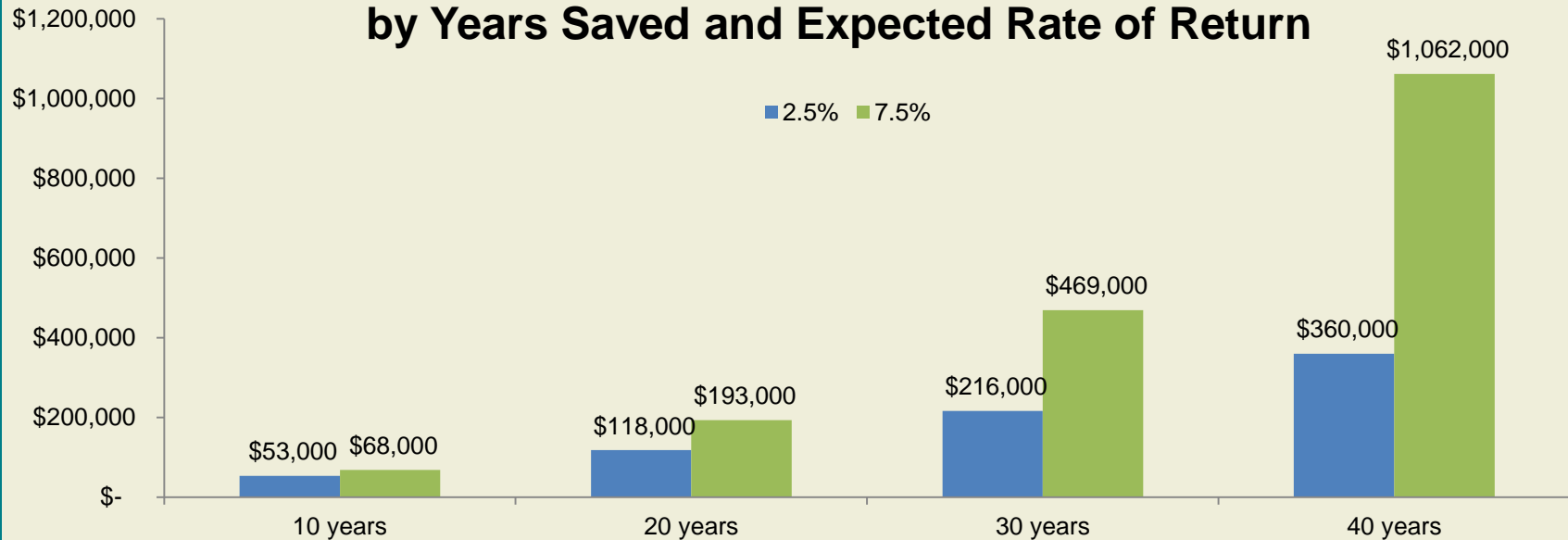
Percentage of Enrollees in HSA-Eligible Health Plans, 2014-2017



HSAs as a Retirement Savings Vehicle

- Pay for health care expenses in retirement
- Pay for past health care expenses once retired

**Potential Accumulated Savings in HSA,
by Years Saved and Expected Rate of Return**



Notes

Savings Medicare Beneficiaries Need for Health Expenses: Some Couples Could Need as Much as \$370,000, Up from \$350,000 in 2016

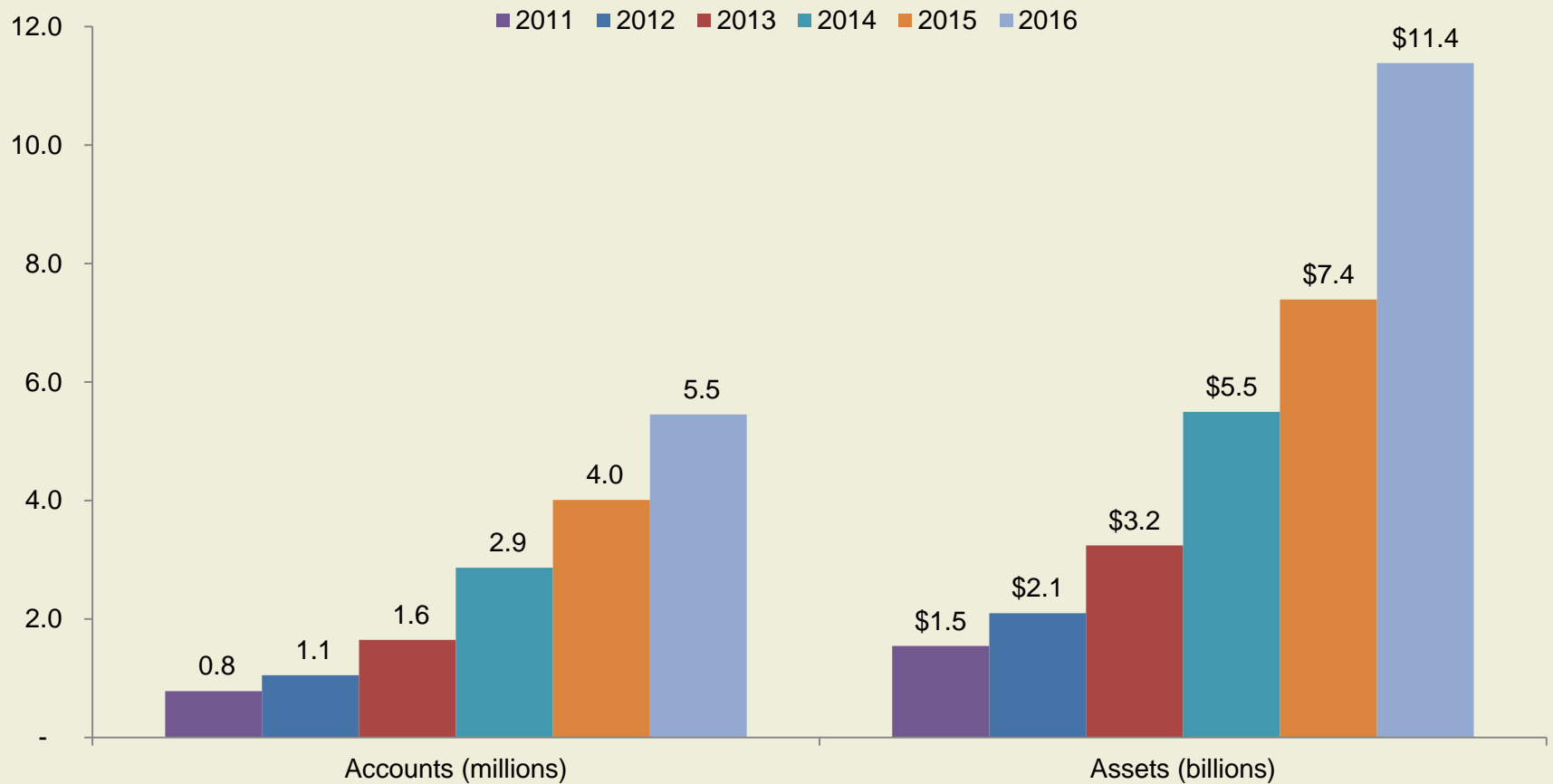
by Paul Fronstin, Ph.D., and Jack VanDerhei, Ph.D., Employee Benefit Research Institute

A T A G L A N C E

This *EBRI Notes* article examines the amount of savings Medicare beneficiaries are projected to need to cover program premiums, deductibles, and certain other health expenses in retirement. More specifically, for the purposes of this study, the health expenses for which savings are accumulated are premiums for Medicare Parts B and D, premiums for Medigap Plan F, and out-of-pocket spending for outpatient prescription drugs.

Data come from a variety of sources and are used in a Monte Carlo simulation model that simulated 100,000 observations, allowing for the uncertainty related to individual mortality and rates of return on assets in retirement.

EBRI HSA Database: Accounts and Assets, 2011-2016



EBRI HSA Database

Variables Collected

Beginning year balance

End of year balance

Individual contributions

Employer contributions

Distributions

Year and month account was opened and/or closed

Account owner age

Presence of investments

Balance in investments

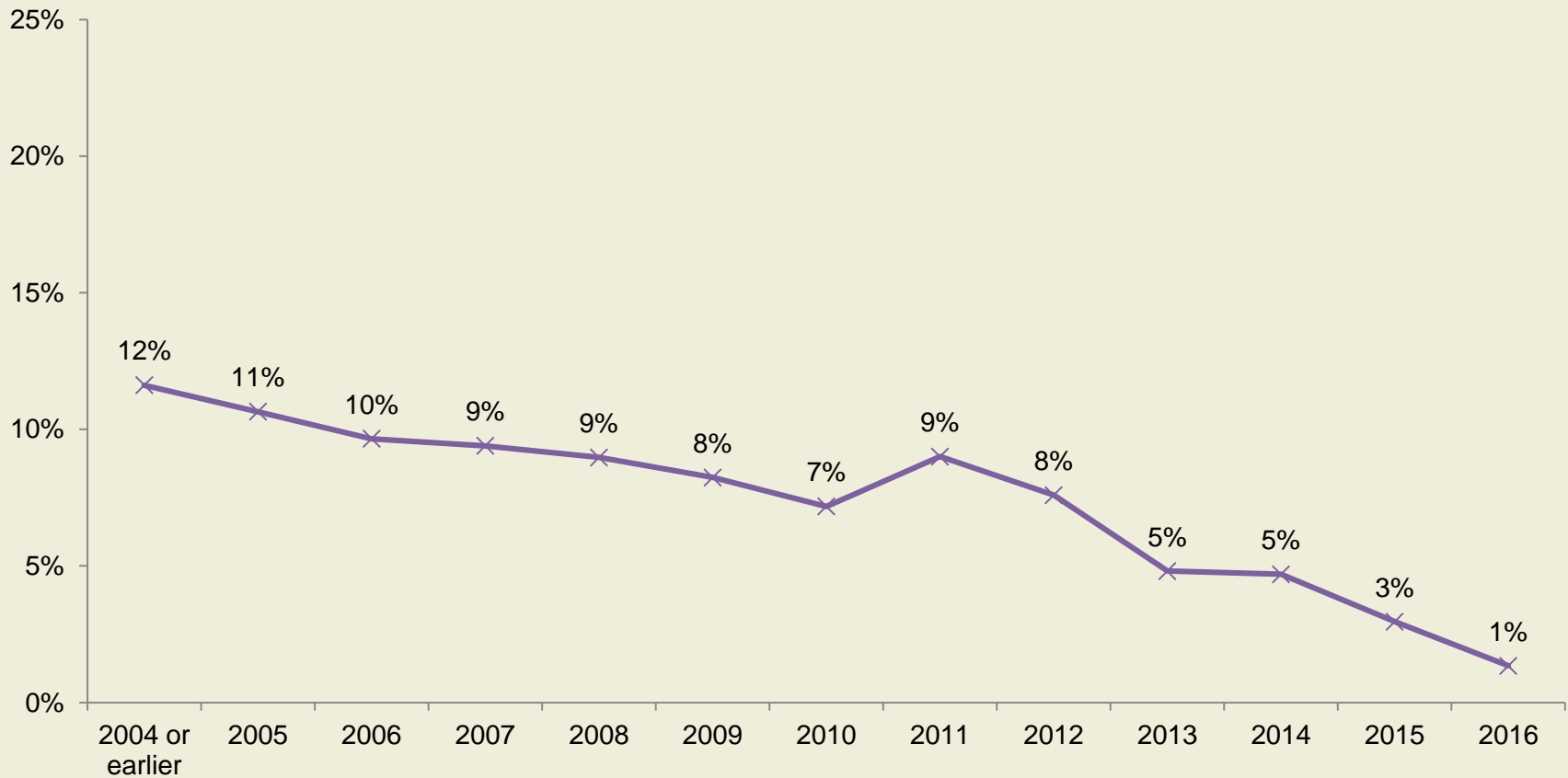
Transfers in and out of account

Zip code: geo-coded income, education and race

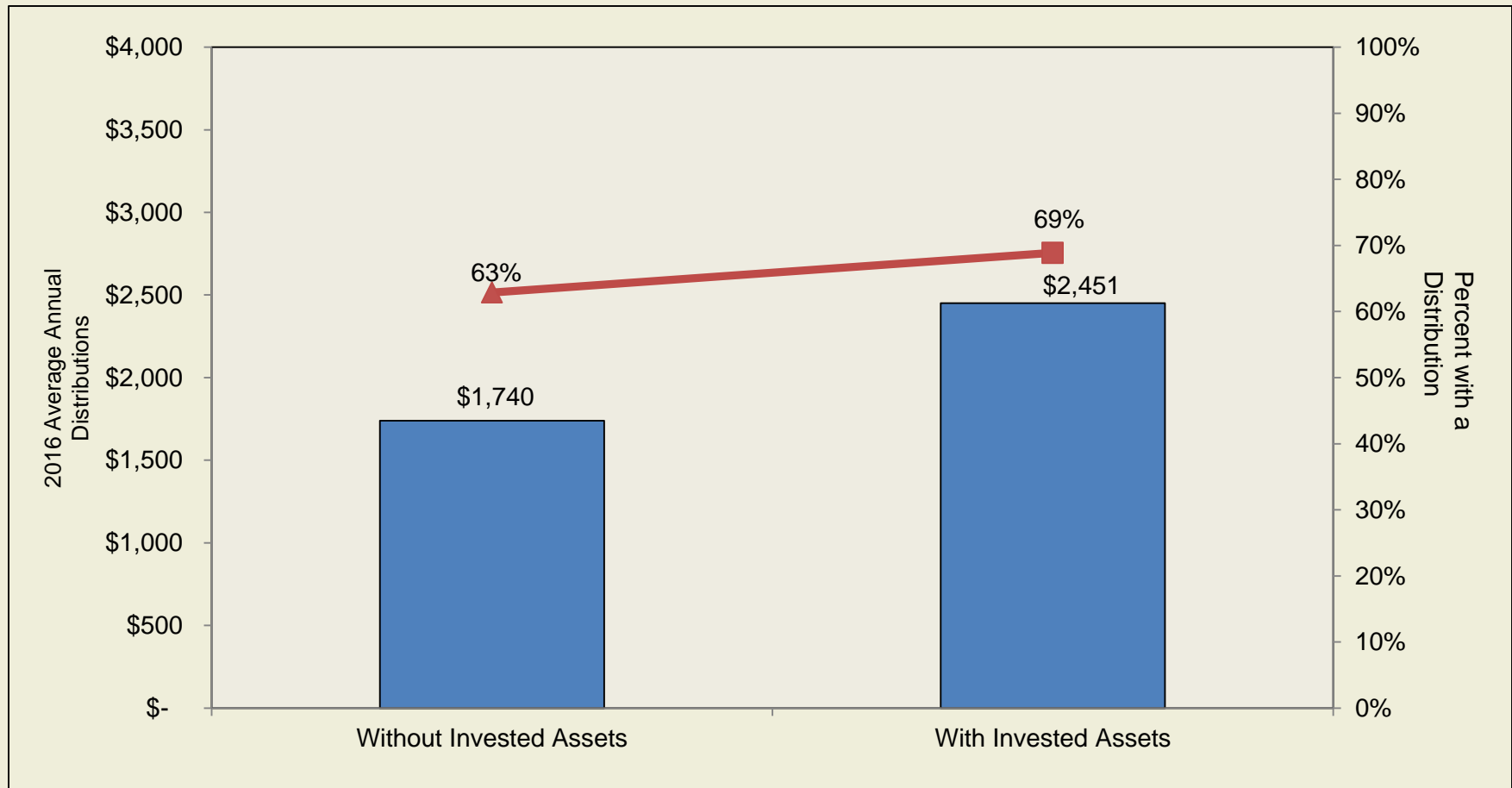
Annual Average Individual Contributions to HSA, by Year Account was Opened, 2016



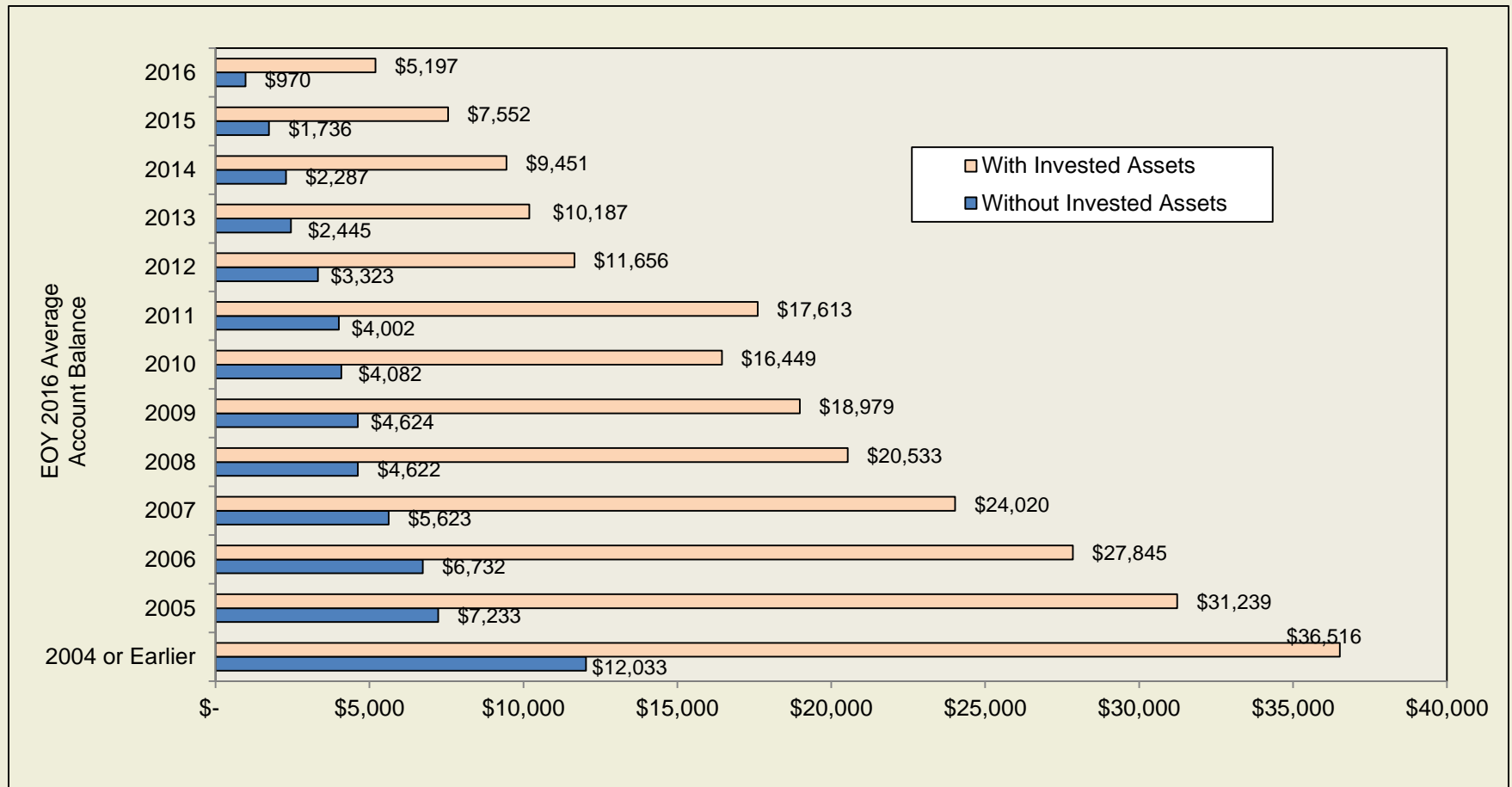
Are HSAs Being Used to Save for Retirement? Presence of Investments, by Year Account was Opened, 2016



Average Annual Distributions Among Accounts With Distributions and the Likelihood of Having a Distribution, by Presence of Invested Assets, 2016



Average End-of-Year Account Balance Among Accounts With Contributions and Invested Assets, by Year HSA Was Opened, 2016



Conclusions

- Rising health care costs affect other finances
- HSAs could be used as a retirement savings vehicle, but is limited by contribution caps
- HSAs are not sufficient to save for health care in retirement
- Individuals do not take full advantage of HSA features
- Over time, account owners move in the right direction.

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Observations and Questions

- Where are we in the evolution of HSAs as a health savings vehicle?
- Reasonable to believe HSAs can become a supplemental retirement savings vehicles?
- Are HSAs competing with other benefits for resources?
- Do employees have the information and skills to use HSAs and other benefits most efficiently and effectively?

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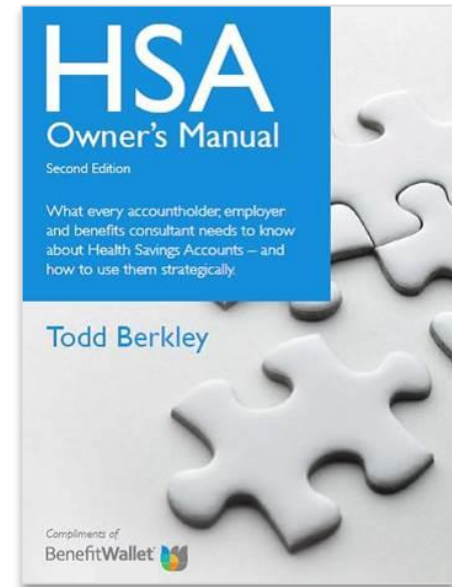
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Todd Berkley



Global Leader, BenefitWallet®
Conduent Human Resource Services

- Over 30 years experience in consumer banking, health care and investments
- Leading consultant, advocate, speaker and author in the HSA industry
- Currently Global Leader of BenefitWallet, a leader in HSA, FSA and HRA solutions
- Formerly President of HSA Consulting Services (2012-2015) – AskMrHSA.com
- Led Optum HSA Group (2005-2012); grew business from 50K to 1 million accounts
- Long-time member of American Bankers Association HSA Council



HSA Basics & Benefits

HSAs offer lots of perks including a triple-tax advantage:



Tax-Free Deposits

When made automatically through payroll deduction



Funds Never Expire

Your money rolls over year to year; no “use it or lose it”



Tax-Free Withdrawals

When spending on eligible health care expenses



Family Friendly

Use your HSA for yourself, spouse, and tax dependents



Tax-Free Earnings

On any interest and gains when investing your HSA



Fully Portable

You own your HSA; take it with you if you change jobs

HSA's Enhance Retirement Savings

HSA's are like a 401(k) or IRA on steroids but with more flexibility and fewer rules, especially for tax-free distributions.

	401(k) / IRA	HSA
Money grows tax-deferred	✓	✓
Contributions are tax-deductible (if eligible)	✓	✓
Penalty tax applies to withdrawals that do not follow IRS rules	10% tax to age 59½	20% tax to age 65
Use tax-free money at any age to pay for qualified medical expenses		✓
Before age 65, funds to pay for long-term care insurance, COBRA premiums and health insurance premiums while receiving unemployment	401(k) and IRA at 59½ subject to income tax	✓
After age 65, use funds to pay for health insurance premiums (except MediGap)	Available subject to income tax	✓
No required minimum distributions or means testing		✓

Customized Communications

Through BenefitWallet's exclusive Client Success Team, we provide strategic clients with customized communications strategies to drive results using:

Dedicated Support

BenefitWallet Account Managers partner with Communications to support the client's needs

Best Practices

Best practices for communications drive the best results for clients and employees



Custom Solutions

Custom communications create a stronger employee experience and greater engagement

Measurable Results

From HSA balances to engagement with tools and resources, we drive growth and results

Targeted Communications

BenefitWallet distributes targeted communications throughout the year to drive certain behaviors and increase participation and utilization with our members:

Trigger Marketing

- *Debit card used first time*
- *Log in to Member Portal*
- *Achieve investing threshold*
- *Age 55: catch-up contributions*
- *Age 65: eligibility for Medicare*

Segmented Messaging

- | | |
|------------------------|-------------------------|
| <i>Life stage:</i> | <i>Account persona:</i> |
| • <i>Young couples</i> | • <i>Inactive</i> |
| • <i>Millennials</i> | • <i>Low balance</i> |
| • <i>Families</i> | • <i>Investors</i> |
| • <i>Retirees</i> | • <i>Safety netters</i> |

