



# Health Savings Accounts and Retirement Plans

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# Acknowledgements

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# Executive Summary

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## Introduction:

In early 2017, PSCA created a new committee to focus on Health Savings Accounts (HSAs) and how they intersect with defined contribution plans. The first task of the new committee was to create a snapshot survey to gauge where plan sponsors are with regard to HSAs and to assess plan sponsors' perceptions of the HSA's importance as a retirement savings vehicle. We received responses from 255 employers, 181 of whom sponsor an HSA-qualifying High Deductible Health Plan. The data is broken out by company size (total number of US employees). Due to the small number of plans in the 1-49 and 50-199 group, they have been combined into the 1-199 group for all except the demographic tables.

## Background:

HSAs were a creation of the Medicare Modernization Act of 2003.<sup>1</sup> HSA growth has been phenomenal. In 2004, one industry expert predicted, "25 years ago, no one had ever heard of 401(k), and 25 years from now, everyone will have a HSA."<sup>2</sup> Subsequent legislation contributed mightily to HSA growth (once the HSA maximum contributions were limited not by the deductible, but by the out-of-pocket expense maximum).<sup>3</sup> Health reform's employer mandate and Cadillac Tax prompted greater adoption of Health Savings Account-qualifying High Deductible Health Plans (HSA-HDHPs).<sup>4</sup> In 10 years, from 2006 to 2015, HSA assets grew from approximately \$1.7 Billion to approximately \$30.2 Billion (37.7 percent growth per year!).<sup>5</sup> While surveys showed enrollment in employer-sponsored HSA-HDHPs more than doubled in 10 years from 5 percent (2005) to 11 percent (2015), 6.2 million of the 22.5 million eligible for an HSA in 2015 failed to contribute (28 percent).<sup>6</sup>

## Summary of Findings:

### Benefits of the HSA

The majority (75.3 percent) of employers view the HSA as part of their retirement benefits strategy. Nearly 60 percent of employers believe HSAs should replace Flexible Spending Accounts (FSAs), and nearly three-fourths of employers think that HSAs should be open to all employees, not just those enrolled in a high-deductible health plan.

### Eligibility and Participation

About 80 percent of all employees are eligible to participate in the HSA, when offered by the employer. Nearly 60 percent of eligible employees participate in an HSA. The average HSA account balance was \$3,161.<sup>7</sup> A little more than 40 percent of plans indicate that 25 percent or fewer of their participants use up the entire HSA balance every year and an additional 35 percent of plans state that 26-50 percent of their participants use their entire balance every year. So, many respondents clearly perceive the HSA to be a vehicle for accumulating savings.

### Plan Design Features

More than 80 percent of employers contribute to the HSA, where two-thirds provide a set dollar amount based on the HDHP coverage tier. The majority of plans (40 percent) front-load contributions at the start of the year while 30 percent contribute each payday. More than half of employers pay HSA maintenance fees for active employees and 6 percent pay them for terminated employees. Only 21 percent of surveyed employers are concerned about fiduciary liability from sponsoring an HSA-HDHP.

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<sup>1</sup> Section 1201 of Pub.L. 108-173

<sup>2</sup> J. M. Towarnicky, The HSA in Your Future: Defined Contribution Retiree Medical Coverage, Benefits Quarterly, 4<sup>th</sup> Quarter 2016

<sup>3</sup> Tax Relief and Health Care Act of 2006, Pub.L. 109-432

<sup>4</sup> Patient Protection and Affordable Care Act of 2010, Pub.L. 111-148, Health Care and Education Reconciliation Act of 2010, Pub.L. 111-152

<sup>5</sup> Devinir

<sup>6</sup> Paul Fronstin, Anne Elmlinger, Findings from the 2015 EBRI/Greenwald & Associates Consumer Engagement in Health Care Survey, Issue Brief 421, December 2015

<sup>7</sup> Note that account balances vary significantly during a plan year.

## **Conclusion:**

Absent legislative action that would curtail HSA tax preferences, HSA accounts are popular employee benefit options and enjoy plan sponsor support and, for the foreseeable future, are here to stay. As HSA growth continues, look for PSCA to conduct HSA benchmarking surveys to track HSA trends, highlight HSA innovations and seek ways to support PSCA members with their utilization, education, and development.

The results highlight the enthusiasm and interest of PSCA members for HSAs . Those who responded see the flexibility of Health Savings Accounts as more than just a Flexible Spending Account with carry-over but as an additional vehicle to save for retirement needs.

The respondents were enthusiastic about HSAs in their current form with majorities making a contribution to the HSA and paying the administrative fees, but also recognizing the potential advantages of HSAs replacing FSAs and expanding availability.

# Demographics

**Table 1: Respondent Demographics by Employer Size (Number of Total Employees)**

	Plan Size (# of Participants)					
	1-49	50-199	200-999	1,000+	5,000+	All Plans
Number of Plans	27	60	80	51	37	255
Percentage of Plans	10.6%	23.5%	31.4%	20.0%	14.5%	100.0%

**Table 2: Respondents by Industry Type**

Industry	Number of Plans	Percentage of Plans
Construction	11	4.3%
Durable Goods Manufacturing	48	18.8%
Engineering	14	5.5%
Financial	48	18.8%
Healthcare	11	4.3%
Insurance	16	6.3%
Non-durable Goods Manufacturing	14	5.5%
Non-Profit Organization	13	5.1%
Real Estate	7	2.7%
Retail Trade	14	5.5%
Services	20	7.8%
Technology or Telecommunications	7	2.7%
Transportation	5	2.0%
Utility or Energy	6	2.4%
Wholesale Distribution	11	4.3%
Other	10	3.9%
Total	255	99.9%

**Table 3: Percentage of Respondents that Offer an HSA to Employees**

	Plan Size (Number of Total Employees)					
	1-49	50-199	200-999	1,000+	5,000+	All Plans
Percentage of Plans	59.3%	73.3%	67.5%	70.0%	88.9%	71.5%

\*30.6 percent of plans not currently offering an HSA plan to offer on in 2018.

**Table 4: Length of Time Employer Has Offered an HSA to Employees**

	Plan Size (Number of Total Employees)					
	1-49	50-199	200-999	1,000+	5,000+	All Plans
Less than 2 Years	6.3%	9.1%	13.2%	11.4%	12.5%	11.1%
2-5 Years	43.8%	38.6%	37.7%	40.0%	40.6%	39.4%
5-10 Years	43.8%	43.2%	37.7%	37.1%	40.6%	40.0%
More than 10 Years	6.3%	9.1%	11.3%	11.4%	6.3%	9.4%
Total	100.2%	100.0%	99.9%	99.9%	100.0%	99.9%

# Eligibility and Participation

Due to the small number of plans in the 1-49 and 50-199 group, they have been combined into the 1-199 group for the remainder of the analysis.

**Table 5: Percentage of Total Employees Eligible to Participate in the HSA Program**

	Plan Size (Number of Total Employees)				
	1-199	200-999	1,000+	5,000+	All Plans
Percentage of Employees	83.1%	83.0%	67.3%	71.9%	78.1%

**Table 6: Percentage of Eligible Employees That Participate in the HSA**

	Plan Size (Number of Total Employees)				
	1-199	200-999	1,000+	5,000+	All Plans
Percentage of Employees	71.7%	55.1%	48.6%	46.2%	57.5%

**Table 7: Average HSA Balance**

	Plan Size (Number of Total Employees)				
	1-199	200-999	1,000+	5,000+	All Plans
Average Account Balance	\$4,172	\$3,447	\$2,448	\$1,892	\$3,161
Median Account Balance	\$4,000	\$2,000	\$2,121	\$1,630	\$2,219

**Table 8: Percentage of Participants That Use Their Entire HSA Balance Every Year**

Percentage	Plan Size (Number of Total Employees)				
	1-199	200-999	1,000+	5,000+	All Plans
0 – 25%	56.3%	20.6%	41.4%	47.8%	42.5%
26 – 50%	27.1%	41.2%	44.8%	30.4%	35.1%
51 – 75%	14.6%	20.6%	10.3%	17.4%	15.7%
76 – 100%	2.1%	17.6%	3.4%	4.3%	6.7%
Total	100.1%	100.0%	99.9%	99.9%	100.0%

# Plan Design

**Table 9: Percentage of Employers that Contribute to the HSA**

	Plan Size (Number of Total Employees)				
	1-199	200-999	1,000+	5,000+	All Plans
Percentage of Plans	79.2%	86.8%	75.8%	80.6%	81.2%

**Table 10: Formula Used to Calculate the Employer Contribution to the HSA**

Formula	Plan Size (Number of Total Employees)				
	1-199	200-999	1,000+	5,000+	All Plans
Match Employee's Contribution.	0.0%	0.0%	8.0%	0.0%	1.5%
Set Dollar Amount per Employee	26.2%	28.3%	8.0%	18.2%	22.2%
Set Dollar Amount per HDHP Coverage Level	61.9%	65.2%	72.0%	77.3%	67.4%
Wellness Screening/Incentive	4.8%	4.3%	4.0%	4.5%	4.4%
Other	7.1%	2.2%	8.0%	0.0%	4.4%
Total	100.0%	100.0%	100.0%	100.0%	99.9%

**Table 11: Timing of Employer Contributions to the HSA**

Timing	Plan Size (Number of Total Employees)				
	1-199	200-999	1,000+	5,000+	All Plans
Front-Loaded (Made at the beginning of the year)	29.3%	26.7%	58.3%	56.0%	38.5%
Semi-Annually	12.2%	15.6%	4.2%	8.0%	11.1%
Quarterly	2.4%	17.8%	0.0%	4.0%	7.4%
Monthly	19.5%	4.4%	4.2%	12.0%	10.4%
Per Pay-Period	36.6%	33.3%	33.3%	12.0%	30.4%
Other	0.0%	2.2%	0.0%	8.0%	2.2%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

**Table 12: Percentage of Employers That Pay HSA Maintenance Fees**

Types of Employees	Plan Size (Number of Total Employees)				
	1-199	200-999	1,000+	5,000+	All Plans
Yes, for active employees only	35.8%	58.5%	75.8%	65.6%	56.1%
Yes, for both active and terminated employees	7.5%	7.5%	6.1%	3.1%	6.4%
None	56.6%	34.0%	18.2%	31.3%	37.4%
Total	99.9%	100.0%	100.1%	100.0%	99.9%



# Perceptions of HSAs

**Table 13: Percentage of Companies That Regard the HSA as Part of Their Retirement Benefits**

	Plan Size (Number of Total Employees)				
	1-199	200-999	1,000+	5,000+	All Plans
Yes	71.7%	77.4%	75.0%	78.1%	75.3%
No	17.0%	5.7%	15.6%	6.3%	11.2%
Unsure	11.3%	17.0%	9.4%	15.6%	13.5%
Total	100.0%	100.1%	100.0%	100.0%	100.0%

**Table 14: Importance of an Investment Component to the HSA**

	Plan Size (Number of Total Employees)				
	1-199	200-999	1,000+	5,000+	All Plans
Very important	30.2%	35.8%	29.0%	65.6%	38.5%
Important	24.5%	20.8%	38.7%	25.0%	26.0%
Moderately Important	28.3%	22.6%	29.0%	9.4%	23.1%
Limited Importance	9.4%	15.1%	3.2%	0.0%	8.3%
No importance	7.5%	5.7%	0.0%	0.0%	4.1%
Total	99.9%	100.0%	99.9%	100.0%	100.0%

**Table 15: Percentage of Employers That Think Flexible Spending Accounts (FSAs) Should be Replaced by HSAs**

	Plan Size (Number of Total Employees)				
	1-199	200-999	1,000+	5,000+	All Plans
Yes	58.5%	57.7%	57.6%	59.4%	58.2%
No	28.3%	13.5%	24.2%	15.6%	20.6%
Unsure	13.2%	28.8%	18.2%	25.0%	21.2%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

**Table 16: Percentage of Employers That Think All Employees Should be Eligible to Contribute to an HSA, Even if Not Enrolled in an HDHP**

	Plan Size (Number of Total Employees)				
	1-199	200-999	1,000+	5,000+	All Plans
Yes	75.9%	83.0%	66.7%	65.6%	74.4%
No	11.1%	9.4%	15.2%	9.4%	11.0%
Unsure	13.0%	7.5%	18.2%	25.0%	14.5%
Total	100.0%	99.9%	100.1%	100.0%	99.9%

**Table 17: Percentage of Employers That are Concerned About the Fiduciary Liability From Offering an HSA**

	Plan Size (Number of Total Employees)				
	1-199	200-999	1,000+	5,000+	All Plans
Yes	11.3%	20.8%	28.1%	31.0%	21.0%
No	88.7%	79.2%	71.9%	69.0%	79.0%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

# Appendix I – Questionnaire

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1. Do you offer a Health Savings Account (HSA) to employees?

Yes            No

a) If no, do you plan on offering one in 2018?

Yes (skip to end)            No (Skip to end)

b) If yes, for how many years have you offered an HSA?

Less than 2 Years

2-5 Years

5-10 Years

More than 10

c) If yes, how many employees participate in the HSA? \_\_\_\_\_

d) If yes, what is the average account balance in your HSA (alternatively, provide total plan assets and we will calculate) \_\_\_\_\_

e) What percentage of your employees use up their entire HSA balance each year.

0 – 25%

26 – 50%

51 – 75%

76 – 100%

## Contributions

2. Do you provide an employer contribution to employees' health savings account?

Yes No (skip to 4)

a) If yes, how do you determine the employer contribution amount?

- Set dollar amount per employee
- Set dollar amount per HDHP coverage level (i.e. single, family, etc.)
- Match of employee's contribution
- Other, please specify: \_\_\_\_\_

b) How much do you contribute as the employer toward each employee's HSA, on an annual basis?

- \$1 - \$250
- \$251 - \$500
- \$501 - \$750
- \$751 - \$1,000
- \$1,001 - \$1,250
- More than \$1,251

When are contributions made:

Front-loaded (Made at the beginning of the year).

Quarterly

Monthly

Per-pay-period

Other: \_\_\_\_\_

### Interaction with retirement planning

3. Do you see HSAs as part of a retirement solution?

Yes      No      Unsure

4. How important is it to have an investment component as part of the HSA?

Very important  
Important  
Moderately Important  
Limited Importance  
No importance

### Future of HSAs

5. Do you think health care flexible spending accounts should be eliminated and replaced by HSAs (remove the HDHP requirement)?

Yes      No

6. Should individuals who are not enrolled in high-deductible health plans be allowed to contribute to an HSA?

Yes      No

### Plan Administration

7. Are you concerned about the fiduciary liability of offering an HSA?

Yes      No      Unsure

8. Does your company cover the maintenance fees of the HSAs for employees?

Yes for Active EEs only

Yes for active and terminated employees

No

Other \_\_\_\_\_

### Demographics

1. Please select that category that most closely matches the industry of your company

Construction	Non-Profit Organization
Durable Goods Manufacturing	Retail Trade
Engineering	Services
Financial	Technology/Telecommunications
Healthcare	Transportation
Insurance/Real Estate	Tribal
Non-Durable Goods Manufacturing	Utility/Energy
	Wholesale Distribution Other

2. How many total US employees does your company have? \_\_\_\_\_

3. How many employees are eligible for the HSA plan? \_\_\_\_\_