



HEALTH SAVINGS ACCOUNTS: Reaching Beyond Traditional Health Expenses

The cost of healthcare is higher in the United States than anywhere else in the world. As a result, consumers routinely face the problem of how to pay for their medical expenses. In 2018, Americans borrowed \$88 billion to pay for healthcare – as highlighted in the 2019 WEX Health report, *Paying for Healthcare in America* – and approximately 25% skipped medical treatment because of its high cost.

What then is an effective solution? A health savings account (HSA) can be hugely beneficial in managing healthcare expenses.

The use of HSAs is on the rise, according to Devenir, a company that provides investment solutions for HSAs. According to the 2019 Midyear Devenir HSA Market Survey, there are now over 26 million health savings accounts, holding \$61.7 billion in assets, a year-over-year increase of 12% for accounts and 20% for HSA assets for the period ending June 30, 2019. Devenir projects that, by the end of 2021, the HSA market will approach \$88 billion in HSA assets held by over 30 million accounts.¹

However, despite the fast growth of HSAs, many consumers are still confused about the details of these accounts. For example, many are surprised to learn that HSAs can be used to pay for items beyond traditional healthcare expenses, or that HSAs offer tax benefits. A more informed understanding can ease concerns that consumers face regarding their medical expenses.

High deductibles fuel the need for HSAs

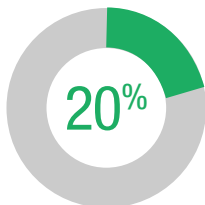
Health savings accounts were introduced in 2003, and HSA-qualified health plans were rolled out the following year. These plans save money on health insurance premiums, but they leave many Americans vulnerable to unexpected medical expenses. This is a challenge because more than half of Americans report they don't have enough money to cover a \$500 unexpected expense, according to a 2017 Bankrate survey.² HSAs are an effective savings tool to help people meet this challenge.

Many people who could have an HSA don't have one. The Centers for Disease Control and Prevention (CDC) reports that among adults ages 18-64 with employment-based health insurance, the percentage enrolled in an HDHP *without* an HSA increased from 10.6% in 2007 to 24.5% in 2017.³ This could be attributed to people not fully understanding the benefits of HSAs.

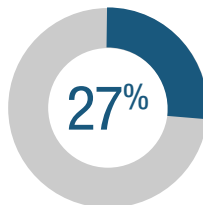
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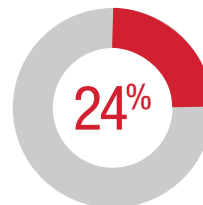
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of Americans feel financially secure



of workers report that their anxiety over healthcare expenses has grown worse since last year



of workers say forgoing healthcare services has impacted their productivity or engagement at work

WEX Health, *Paying for Healthcare in America: Challenges, Missed Opportunities & What We Can Do*, 2019 Report.

HOW HEALTH SAVINGS ACCOUNTS WORK

HSA's are often confused with flexible spending accounts (FSAs). One of the key differences is the "use it or lose it" proposition. An FSA limits the amount people can roll over from year to year. In contrast, an HSA is fully owned by the consumer. The money is always available and easily accessible with no permission needed.

HSA's also save people money. The contributions aren't subject to federal income taxes, and the interest earned on balances is tax-free. Distributions taken from the account to pay for qualifying medical expenses are also tax-free. The result is significant savings on healthcare expenses and other qualifying items over time.

HSA's can cover unexpected expenses

Many people don't appreciate how many different expenses can be paid with an HSA. There are many surprising ways to use the funds. Here are four key ways:

1 Cover unexpected items. In addition to medical expenses, HSA's cover dental, vision and prescription costs, as well as orthodontic expenses, contact lenses – even sunscreen. There are many ways to use the savings, even for people who consider themselves healthy and rarely visit the doctor.

2 Invest for the future. HSA funds can be invested. Use funds anytime for qualified medical costs, or leave them to grow for future expenses, including in retirement. In fact, according to the Devenir report, strong market tailwinds propelled HSA investment assets to an estimated \$13.3 billion at the end of June 2019, up 35% year-over-year. And, on average, investment account holders hold a total balance of \$15,982 in a deposit and investment account.

3 Plan for life events. Many of life's events are unexpected, but HSA funds can be used for those expenses that are planned. For example, "We're having a baby, and we know that we'll hit the deductible with all the hospital costs." Or, "My child is getting braces soon, so I'll start saving for that now."

4 Use it for anyone in your family. Even if you're enrolled in single coverage, you can use your HSA to pay for medical expenses for your family.

The value of starting small

Contributing to an HSA account can overwhelm those who are already on a tight budget. The key is to start small. A monthly contribution of as little as \$10 can add up over time and eventually cover the health insurance deductible and provide peace of mind.

Reducing costs is a major reason why employers switch to HSA-qualified plans in the first place. But instead of putting the full savings back into the company, they can elect to give a portion of that savings to employees through HSA contributions. Research shows that many companies are already doing this, and employer contributions have increased in recent years. According to the Devenir report, in 2019, the average employee contribution was \$1,121 – up from \$839 the previous year.

Providing empowerment

Life is full of unexpected expenses. HSA's are often described as a rainy day fund or a security blanket. An HSA empowers people to pay for unexpected costs and routine health-related items. The uses extend far beyond traditional medical costs, helping to save money and garner a feeling of financial security into the future. ■

Presented by



¹ <https://www.devenir.com/research/2019-midyear-devenir-hsa-research-report/>

² <https://www.cbsnews.com/news/most-americans-cant-afford-a-500-emergency-expense/>

³ <https://www.cdc.gov/nchs/data/databriefs/db317.pdf>