first dollar

REPORT

The Market Impact of Expanded HSA Eligibility

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Key findings

Here are our key findings in this report.

1

About 1 in 5 Americans are covered by today's HSA market

Within the past ten years, health savings accounts have grown year-over-year by 22.76% for total accounts and 16.82% for total funds. And in 2021, about one in five Americans were covered by an HSA.

2

Proposed legislation for expanding HSA eligibility

In the 117th Congress (2021-2022), sponsors from both parties and houses proposed bills to greatly expand HSA eligibility.

These bills proposed the following:

- Medicare recipients eligible to contribute to HSAs (50 million)
- The creation of child health savings accounts (almost 74 million minors)
- Universal HSA eligibility (at least 270 million additional people)

Key findings

3

HSAs, taxpayers, and households

If HSA eligibility was universal, all taxpayers and households could benefit from HSA access.

We found the following to be true:

- In 2019, there were about 19 HSAs for every 100 taxpayers.
- In 2021, there was about 1 HSA for every four households.

Note 1: The number of accounts does not equal the number of account holders, as an account holder can have multiple accounts.
Note 2: The latest IRS release of taxpayer data is from 2019.

4

Market Predictions

In our predictions section, we make six key predictions on what might happen if legislation expands HSA eligibility to universal access.

Our predictions are the following:

- FSAs will lose (and die) if everyone is eligible for an HSA.
- The employer market would grow the quickest with universal HSA eligibility.
- HSAs will become the new wealth-building tool.
- All benefit providers without an HSA product will be at a disadvantage.
- Traditional (or prepared) HSA providers will have an advantage.

HSA 101

"What's a health savings account?"

If you asked strangers this question, you'd likely see several shrugged shoulders and hear several answers, which is unfortunate because HSAs can do many things like tax-free saving, spending, and even investing for health care.

THE DEFINITION OF AN HSA

health savings account

[helth sey•vings *uh*•kount]

noun

A savings account that enables account holders to save and own tax-free funds that can be withdrawn tax-free for qualified medical expenses.

With an HSA, account holders can...	What's so special about HSAs?	What does this mean for people?
Own their HSA funds.	The account holder owns the funds in their health savings account—just like any other savings account.	If they change or lose their job, account holders still have access to their HSA funds.
Use their funds whenever.	There's no "use it or lose it" stipulation, as HSA funds carry over to the following year.	Their HSA funds will never be lost. In 2019, 44% of workers forfeited part or all of their FSA contributions.[1]
Pay fewer taxes.	HSA contributions, account growth (i.e., interest or investment), and withdrawals for qualified items are tax-free.	People can save tax-free money.
Invest their funds.	Similar to a 401k or IRA, HSA funds can be invested (tax-free).	Account holders can choose to invest their HSA funds to maximize their potential.

The three tax advantages of HSAs

HSAs provide account holders with three big tax advantages:

Contributions are tax-free.

Individuals can contribute pre-tax funds to their HSA, reducing their taxable income, or they can deduct post-tax contributions from their taxes.

Spend tax-free on qualified items.

Individuals can spend their HSA funds on eligible medical items tax-free.

HSA balances can grow tax-free.

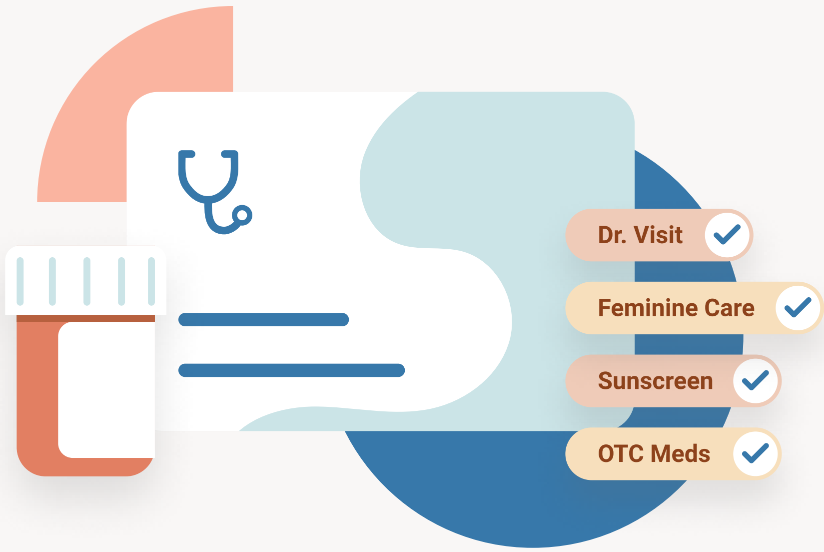
Account holders don't pay taxes on HSA growth, making it a great investing tool.

What's a "qualified medical expense"?

If someone is unfamiliar with HSAs, they're likely skeptical of the term "qualified medical expense."

Ok, what can I actually pay for with an HSA?

The Internal Revenue Service defines medical expenses as "the costs of diagnosis, cure, mitigation, treatment, or prevention of disease, and for the purpose of affecting any part or function of the body. These expenses include payments for legal medical services rendered by physicians, surgeons, dentists, and other medical practitioners. They include the costs of equipment, supplies, and diagnostic devices needed for these purposes."



There's a lot that can fall into this category! That includes contact lenses, doctor's visits, eyeglasses, hearing aids, lead-based paint removal, menstruation products, post-natal supplies, premiums, service animals, smoking cessation programs, sunscreen, transportation for medical care, wigs, etc. If it's for the account holder's health, it's likely covered.

Everyone spends money on health care.

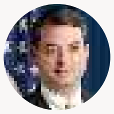
Even if someone has access to a subsidized health care program like Medicare or Medicaid, they still spend money on health care, like sunscreen or tampons. Or if they have health insurance with a lower deductible, they likely still spend money on copays and prescription drugs. With an HSA, account holders can pay for all health care expenses with tax-free funds.

HSA Eligibility Note: Current restrictions prohibit someone enrolled in Medicare or Medicaid from contributing to an HSA.

Datapoint

According to the Fidelity Retiree Health Care Cost estimate, the average 65-year-old retired couple may need to have approximately **$315,000 in savings** to cover health care expenses in retirement.[2]

"Health savings accounts can help every American set aside money for their future out-of-pocket health care expenses, even if they're only used as a 'rainy day' fund. With inflation running at record numbers, every bit helps."



Roy Ramthun, Founder and President of HSA Consulting Services

	HSA	FSA
Can anyone use it?	Only if you have a high-deductible health plan & meet certain criteria.	Only if your employer offers it.
Who contributes money into it?	You do, but your Employer may also contribute.	You do, but your employer may also contribute.
What happens to the money after the year is up?	It stays in the account until you use it.	You lose it (with a few exceptions).
What's the point?	To save pre-tax dollars for upcoming health expenses at any point in the future.	To save pre-tax dollars for upcoming health expenses this year.
What can I spend the money on?	IRS-approved medical/vision/dental expenses for participant and qualified dependents.	IRS-approved medical/vision/dental expenses for participant and qualified dependents.
Are there contribution limits?	2023 Tax Year Individuals - $3,850 Families - $7,750	$3,050 per year/per employer
What are the tax advantages?	• Contributions are tax-free. • Withdrawals for qualified medical expenses are tax-free. • Interest earned on the account balance is tax-free.	Contributions are tax-free.

The HSA market with today's restrictions.

Current HSA eligibility restrictions

Americans are only eligible to contribute to an HSA after meeting strict federal requirements. This section will explore what today's HSA market looks like under current eligibility restrictions.

To be eligible to contribute to an HSA, individuals must:

- Not be enrolled in Medicare.
- Not be claimed as a dependent on someone else's tax return.
- Be covered by a federally defined high-deductible health insurance plan (HDHP) on the first day of the month. For 2023, the IRS defines an HSA-qualified HDHP as a plan with the characteristics listed below.[3]

	Self	Family
Min. Deductible	$1,500	$3,000
Max. Out-of-Pocket	$7,500	$15,000

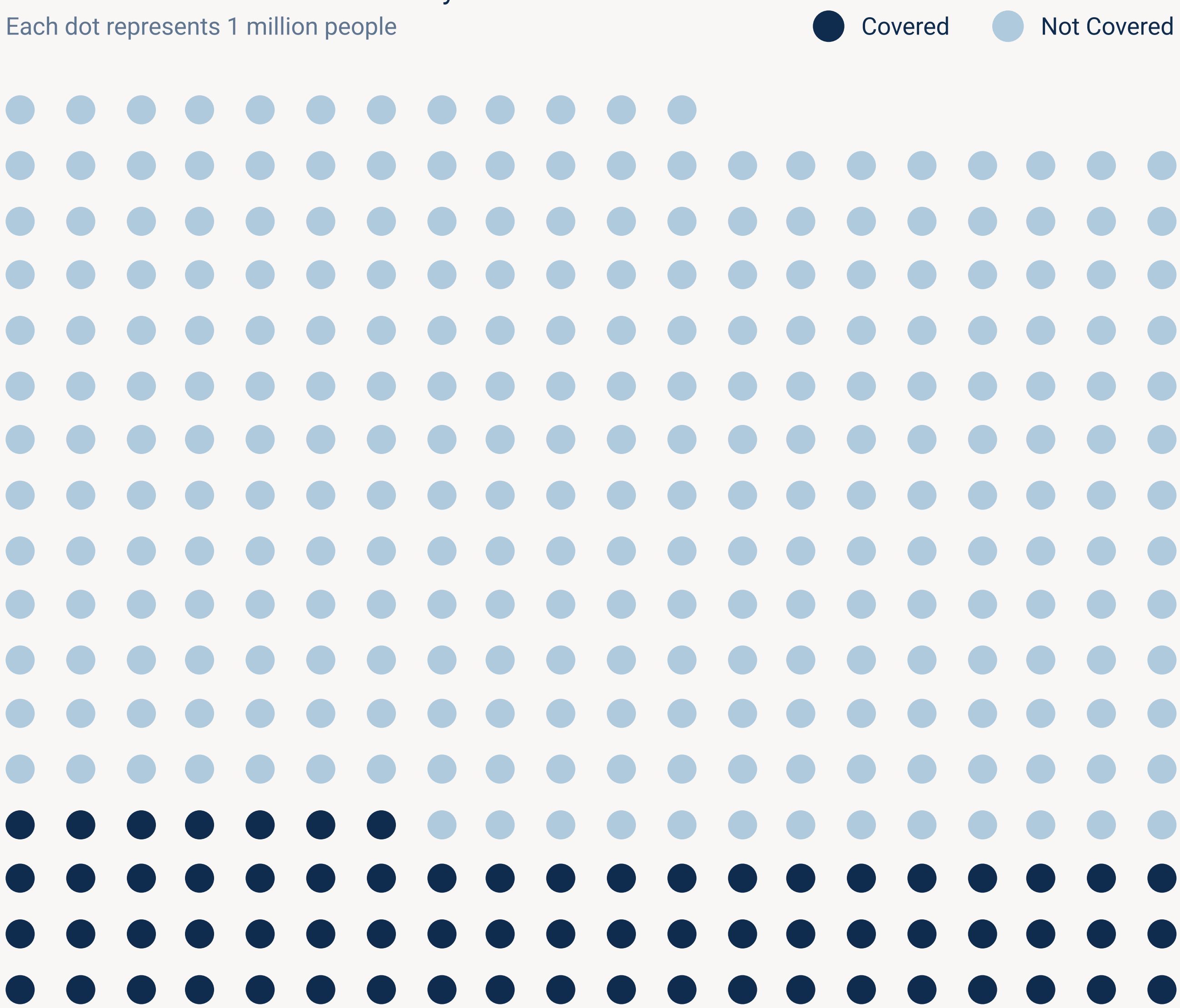
Today's HSA market

In 2021, 32 million HSAs* covered over 67 million people.**[4]

HSA Coverage

20% of Americans were covered by an HSA in 2021.[5]

Each dot represents 1 million people



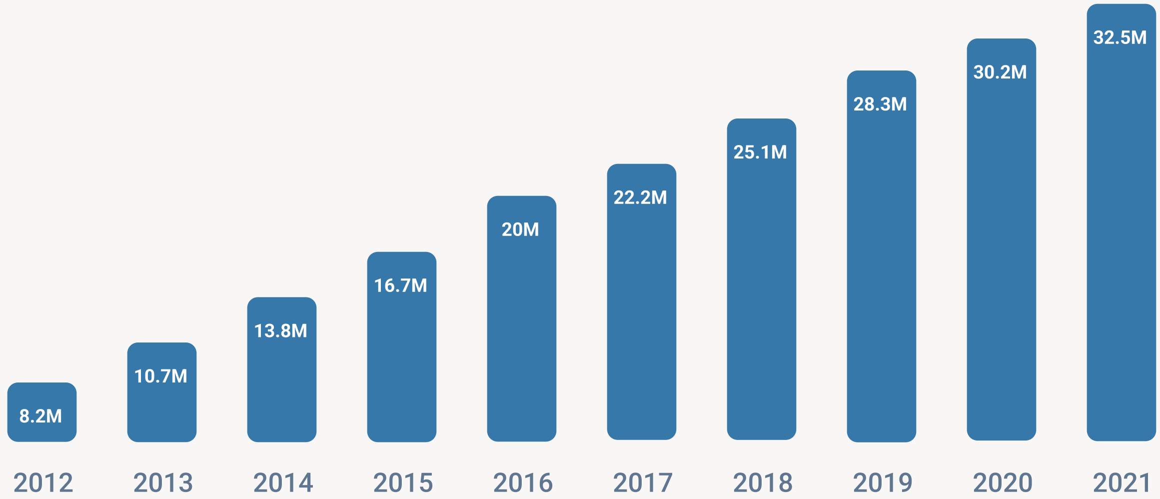
*People can have more than one HSA, so it's important not to equate the number of accounts to the number of account holders.

**Cover refers to anyone with access to the HSA funds, including account holders, eligible spouses, and eligible dependents.

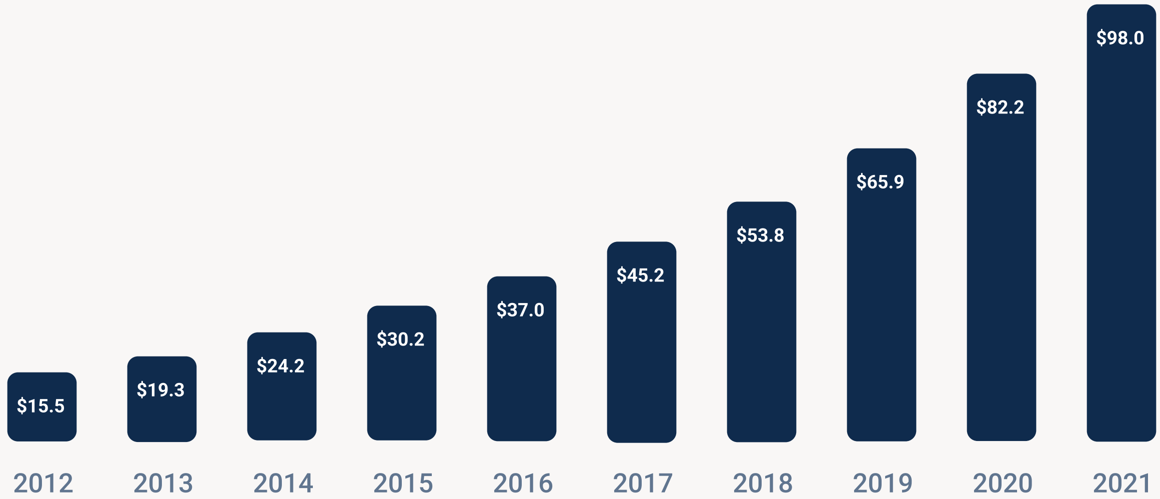
HSA growth in the past ten years

Since its introduction in 2004, Americans have increasingly adopted HSAs as a savings tool for their health care costs, resulting in an average of 22.76% YOY growth for total accounts and 16.82% YOY growth for total funds within the past decade.[6]

Total HSA Accounts



Total HSA Assets (in billions)



The HSA market without eligibility restrictions

In this section, we'll explore proposed legislation expanding HSA eligibility and how these potential rule changes may expand the HSA market.

Proposed legislation

In the 117th Congress (2021-2022), sponsors from both parties and houses proposed bills to expand HSA eligibility greatly.

These bills proposed the following:

1. Enabling Medicare recipients to contribute to HSAs
2. Eliminating the high-deductible health plan restriction for HSA contributions
3. Allowing the establishment of a child health savings accounts
4. Universal HSA eligibility

HSA growth: Medicare expansion

In 2021, over 50 million people received their health insurance coverage through Medicare.[7] Medicare is the federal health insurance program that serves people 65 and older, certain younger people with disabilities, and people with End-Stage Renal Disease. All Medicare recipients are currently ineligible to contribute to HSAs.

PROPOSED BILL

H.R.7435 - Health Savings for Seniors Act

Sponsor
Rep. Ami Bera [D-CA-7]

What it does
Permits a Medicare beneficiary to participate in and contribute to HSAs.

Market size
Under this proposed bill, over 50 million Medicare recipients would be eligible to contribute to an HSA.

Analysis
Older Americans cannot make tax-free contributions to an HSA during a period of life when they're more likely to experience higher healthcare costs. Expanding HSA contribution eligibility to Medicare recipients would immediately make an additional 50 million people eligible to take advantage of this tax-advantaged financial tool.

HSA growth: Child health savings accounts

Current eligibility restrictions prevent anyone claimed as a dependent on someone else's tax return from making contributions. Proposed legislation would allow for the establishment of child health savings accounts, similar to parents establishing savings accounts for their children.

PROPOSED BILL

H.R.6507 - Child Health Savings Account Act of 2022

Sponsor

Rep. Beth Van Duyne [R-TX-24]

What it does

This bill allows for the establishment of child health savings accounts for the benefit of the of a taxpayer's children. These accounts provide for a tax deduction for amounts paid in cash, up to $3,000 in a taxable year, by an individual taxpayer to such accounts.

Market size

Almost 74 million children would now be eligible for HSA contributions.[8]

Analysis

Minors must currently wait until 18 to benefit from HSAs—even if they're employed. This bill would greatly expand HSA eligibility.

HSA growth: Elimination of health plan restriction

Individuals must currently be covered by a federally defined high-deductible health insurance plan (HDHP) in order to make HSA contributions. While there's no available data on exactly how many people do or do not receive an HSA-qualified HDHP, we can estimate based on some math.

PROPOSED BILL

S.2099 - Health Savings Account Expansion Act of 2021

Sponsor

Sen. Ben Sasse [R-NE]

What it does

This bill permits individuals not enrolled in a high-deductible health plan to participate in HSAs. It also increases the allowable amount of the deduction for contributions to HSAs.

Market size

At least 270 million people are currently ineligible due to their health plan. This bill would significantly expand HSA contribution eligibility.

How we found 270 million people are ineligible for an HSA

We did the math, and made a (very conservative) estimate that over 270 million people in the U.S were ineligible for an HSA in 2021 because they were not covered by an HSA-qualified plan. Here's us showing our math.

1. Added together all recipients of government health care and uninsured populations as they do not receive an HSA-qualified health plan.[9]

   145,855,000[13] government healthcare or uninsured

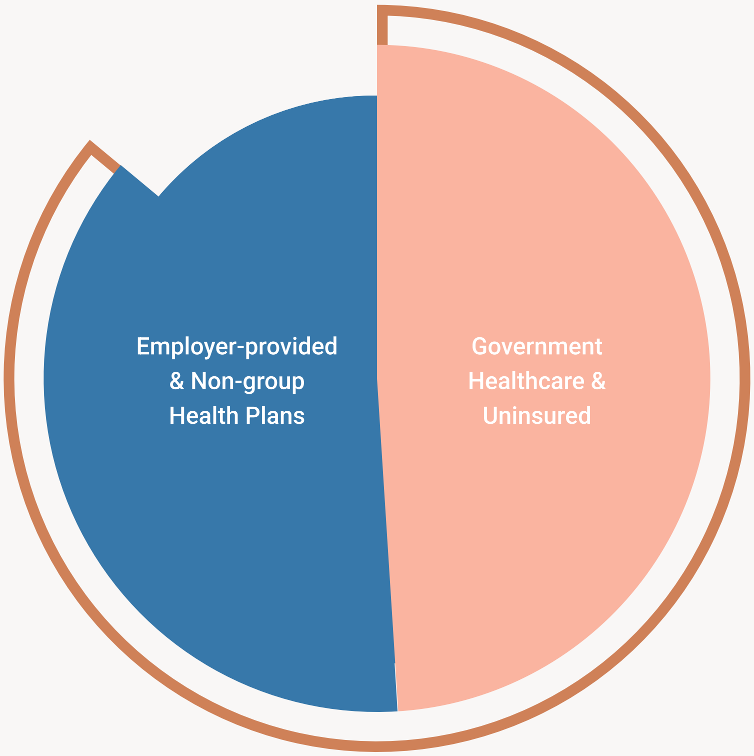
2. Apply KFF 2022 Employer's Health Benefit Survey findings. In their report, they found that **24%** of covered workers were enrolled in an HSA-Qualified HDHP. We can then estimate that **76%** of people receiving health benefits through their employer (164,251,600) were not eligible for an HSA, which equals 124,831,216. [10] [11]

   124,831,216 don't receive an HDHP from employer

2. Add those two sums.

   145,855,000 + 124,831,216 = **270,686,216 ineligible**

Breakdown of eligible vs. ineligible



Total US population in 2021
328,073,800

Employer-provided and non-group plans

182,218,800 people

Government health care & uninsured

145,855,000 people

Ineligible for an HSA

270,686,216 people

Math notes

We conservatively assumed that everyone receiving health insurance through the individual insurance (or non-group) marketplace has an HSA-qualified HDHP. Unfortunately, there's no existing data on the 17,967,200 population to help answer this question.[12]

HSAs, taxpayers, & households

In the earlier section, we reviewed how proposed legislation to expand HSA eligibility would expand access. In this section, we'll look at the current known number of HSAs and other population data:

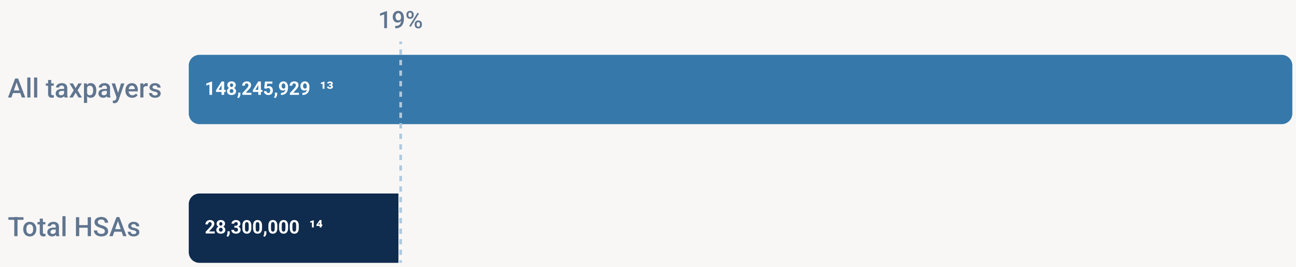
- *HSAs and taxpayers: How many taxpayers are there? HSAs?*
- *HSAs and households: How many households are there? HSAs?*

If eligibility was universal, all taxpayers and households would greatly benefit from HSA access. While not perfect, we can get a helpful visual of the great growth potential of the HSA market with universal HSA eligibility.

HSAs and taxpayers

One of the HSA's greatest features is its ability for account holders to contribute pre-tax funds for qualified medical expenses. And because everyone (no matter their plan) has health care expenses, every taxpayer could benefit by having an HSA.

HSAs to Taxpayers



In 2019, there were about 19 HSAs for every 100 taxpayers.

Taxpayers and HSA Analysis

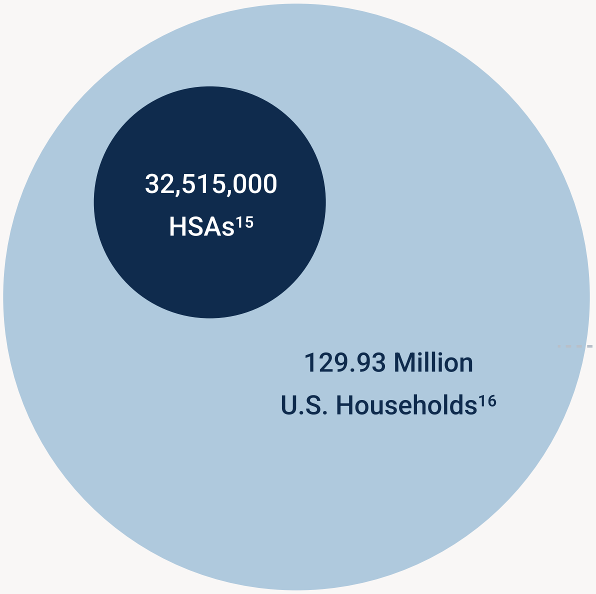
When reviewing this data, several precautions should be taken.

- **HSAs ≠ number of account holders.** Similar to a checking or savings account at the bank, individuals may have more than one HSA. For this reason, we cannot assume that the number of HSAs equals the number of account holders.
- **Not all taxpayers are equally incentivized.** High-income taxpayers are more incentivized to benefit from higher tax deductions and have more capacity for savings than low-income taxpayers.

Survey Note: The latest IRS release of taxpayer data is from 2019, so all data for this graphic (including the number of accounts) reflects this date.

HSAs and households

One household can benefit from access to an HSA, so let's examine the ratio of HSAs to U.S. households.



In 2021, there were about four households for every HSA.

Households and HSA Analysis

When reviewing this data, several precautions should be taken.

- **HSAs ≠ number of account holders.** Similar to the previous data, we should emphasize that the number of accounts does not equate to the number of account holders.
- **All households would benefit from HSA access.** But even if we did generously assume that accounts equaled households, that would mean about 75% of U.S. households do not currently have an HSA. Under universal HSA eligibility, all households would benefit.

“HSAs for All” predictions

How can financial institutions, health plans, and third-party administrators prepare for potential universal HSA eligibility? Here are some predictions for benefit providers.

Here are some predictions for benefit providers.

Prediction 1: FSAs will die.

In 2020, the Employee Benefit Research Institute FSA database had 1.9 million flexible spending accounts representing more than $2.34 billion in contributions.[17] While not representative of the total FSA market, that’s still a lot of funds!

But if everyone is eligible for an HSA, HSAs provide their account holders with more advantages than FSAs:

- **Account holders own their funds.** Because FSAs are not savings accounts, account holders lose access to their funds when they change jobs.
- **There’s no time limit on funds being used.** FSAs have a limited time period for funds to be used; HSAs do not.
- **HSA funds can be invested.** You cannot invest FSA funds.

Prediction 2: All benefit providers must offer an HSA.

It’s currently only logical for health plans who offer an HSA-qualified plan to offer an HSA. For example, a health plan that exclusively offers Medicare Advantage plans has no HSA-eligible members. But if everyone is eligible, it makes sense for Medicare Advantage plans (and all benefit providers) to offer HSAs.

Prediction 3: The employer market would grow the quickest with universal HSA eligibility.

Health savings accounts help account holders benefit from tax-advantaged savings for health care expenses. Currently, a large portion of employees (and their partners and dependents) who receive health care through their employer are unable to contribute to an HSA due to not having HSA-qualified HDHP. Since they are employed (receiving an income), it’s safe to assume that this population would quickly benefit from expanded HSA access.

Prediction 4: HSAs will become the new wealth-building tool.

People can only take advantage of the wealth-building benefits of a 401(k) plan if their employer offers them one. HSAs provide account holders with tax-free investing, and it’s not tied to an employer. With expanded HSA eligibility, more account holders will have access to the wealth-building benefits of HSAs, including many people who currently do not have access to a 401(k) plan.

Prediction 5: Benefit providers without an HSA product will be disadvantaged.

If everyone is eligible for an HSA, traditional benefit providers without an HSA offering would suddenly be at a huge disadvantage for two main reasons.

1. **Financial disadvantage.** They would not be able to make money on HSA balances (i.e., interest margin revenue), while many of their competitors would.
2. **Competitive disadvantage.** With HSAs providing tax cuts on health care expenses, employees (and thus their employers) would demand access to an HSA.

Prediction 6: Traditional HSA providers will have an advantage.

To state the obvious, anyone already able to offer an HSA would win. The addressable market for traditional HSA providers (e.g., banks) would exponentially increase, as would revenue. Anyone currently providing HSAs would be in a great position to win.

Lesson: Get ready.

Providing an HSA is already a great tool for increasing revenue and winning competitive deals, but it also puts benefit providers in a position to win if proposed legislation passes. Reach out to First Dollar today to learn more about how to be prepared!

About First Dollar

First Dollar is a technology company that builds healthcare benefits infrastructure. Our health wallet platform gives benefit providers the tools they need to launch tax-advantaged accounts, supplemental benefits, or whatever they dream up next. For more information, visit firstdollar.com or connect with us on Linkedin.

Endnotes

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Endnotes (continued)

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