



Health Savings Accounts: A Growing Tool for Consumers

ISSUE BRIEF

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KEY TAKEAWAYS



Health Savings Accounts (HSA) give incentives to consumers to manage their own health care costs and save for future medical expenses.



HSAs allow consumers to pay for eligible medical expenses with pre-tax dollars.



An annual survey by AHIP shows use of HSAs has steadily increased over time, with over 20.2 million enrolled in HSA/HDHPs as of January 2016.

Background

Current law allows individuals and families to set aside funds in an HSA to pay for eligible health care expenses. HSAs are used in conjunction with qualified high-deductible health plans (HDHPs), which are health plans that provide comprehensive health coverage after an up-front deductible is met. An HSA account holder saves that money for health expenses they will incur in the future and does not pay taxes on the funds they set aside.

HSAs were authorized by the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 and were offered in the market beginning in January 2004. Since then, the number of consumers using HSAs to pay for qualified medical expenses has steadily grown. AHIP conducts an annual survey of health plans to track and report on HSA use. Results of the most recent census are included in this brief.

Empowering Consumerism to Bend the Cost Curve

HSA holders are required to have a plan with a high deductible because HSAs are intended to encourage consumers to shop for cost-effective services to meet their health care needs. Managing their HSA funds sensitizes consumers to the actual cost of health care and encourages them to look for lower cost service providers that can deliver quality care.

How HSAs Function

Individuals, family members and employers can make contributions to an HSA. There are specific rules for how much can be contributed to an HSA each year. For 2017, the contribution limits are \$3,400 for an individual HSA and \$6,750 for a family HSA. Individuals age 55 or older may make an additional “catch-up” contribution up to \$1,000. These contribution limits include any funds contributed by either an individual employee, family member or an employer.

There are financial benefits for the consumer to contributing to an HSA. The funds that an individual contributes to an HSA, up to the annual limits, are not included as part of that individual’s taxable income for that year, meaning income that would otherwise be taxed can be set aside tax-free to pay for qualified medical expenses

now or in the future. Funds that are not used in a particular year can be “rolled over” and grow with interest and/or investment, tax-free. Any distributions made to pay for qualified medical expenses once the deductible is met are also tax-free.

The actual HSA accounts are offered by “trustees” or “custodians” approved by the Internal Revenue Service (IRS) and typically include banks, investment companies, and insurance companies. Employers may make HSAs available to their employees as part of their group health plan offerings. Employers may also make contributions to their employees’ HSAs, and these employer HSA contributions are not subject to federal income tax or payroll taxes. The individual is considered the owner of the account and the funds within the account are portable, meaning that the employee may take the funds with them when they leave or change jobs.

There are additional considerations for state tax filings. Most states allow similar tax deductions on state tax filings, with three states (Alabama, California, and New Jersey) that do not.

What HSAs Can Be Used For

HSAs can be used to pay for qualified medical expenses not paid for by the HDHP. There are specific rules for the qualified HDHP deductible and out-of-pocket spending limit amounts. For

example, for 2017, an individual qualified HDHP must have a minimum deductible of no less than \$1,300 and out-of-pocket spending limits no greater than \$6,550. Family HDHPs in 2017 must have minimum deductibles of \$2,600 and out-of-pocket spending limits not exceeding \$13,100. These deductibles and out-of-pocket limits only apply to treatments and services provided by in-network healthcare providers – that is, those providers who participate in the health plan’s provider network. The cost of treatments and services received from providers who do not participate in the health plan’s network do not count towards the deductible and out-of-pocket spending limits. Additionally, under the Affordable Care Act, qualified HDHPs must provide first-dollar coverage for in-network preventive care services (e.g., immunizations, annual physicals, etc.) without cost-sharing.

Funds in an HSA can be used tax-free to pay for qualified medical, dental and vision expenses. These payments, or distributions, can be made for expenses defined in Section 213(d) of the Internal Revenue Code and include expenses such as:

- Amounts paid for doctors’ fees
- Over-the-counter supplies and equipment
- Other necessary medical services not paid for by insurance
- Retiree health expenses for individuals age 65 and over
- Medicare insurance premiums (not Medigap)
- Health insurance for the unemployed
- Continuation of coverage required by Federal law (i.e., COBRA)
- Qualified long-term care services and long-term care insurance

Funds may not be used for an over-the-counter medication unless it is prescribed by a licensed healthcare provider or insulin. Distributions made

for any other expense are subject to income tax and a 20 percent penalty.

AHIP’s Annual Survey Findings

As part of AHIP’s efforts to track health plan options offered in the marketplace, for the past 10 years, AHIP has collected data annually on HSAs. AHIP’s most recent survey on HSAs includes the following findings:

- As of January 2016, 59 plans offering HSA/HDHPs reported approximately 20.2 million HSA/HDHP enrollees, up from 19.7 million in 2015, or an annual increase of 2.5 percent.
- On average, plans participating in both the 2015 and 2016 surveys saw a net increase of 648,000 enrollees (3.4 percent).
- The majority of HSA/HDHP enrollees (35 percent) were ages 45-64, with 30 percent ages 25-44, 21 percent under 18, 11 percent ages 18-24, and 3 percent age 65 and older.
- Large group plans (firms with more than 50 employees) accounted for over 75 percent of all HSA/HDHP enrollment.

Additional detail on the survey findings can be found in AHIP’s [2016 Survey of Health Savings Account – High Deductible Health Plans](#), February 2017.

Policy Implications

As policymakers explore options for promoting affordable coverage and consumer control over their own health care, they should consider the benefits of HSAs and their role in the current health care system. Tax exempt HSAs, offered in conjunction with a HDHP, offer consumers a

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consumer-driven option. Moreover, annual survey data show that enrollment in HSA/HDHPs has grown steadily since they were originally offered to consumers in 2005.

Policymakers should consider proposals that increase the availability and flexibility of HSAs, such as allowing HSA distributions to be used for

over-the-counter drugs, allowing plans to exempt certain services from the HDHP deductible (such as prescription drugs to prevent the onset of a chronic condition), and increasing the annual HSA contribution limits. HSAs may also serve as an important mechanism to deliver excess tax credits as Congress considers health reforms for the individual market.

Related Topic

