Supporting Retirement and Medicare Benefits through Health Savings Account (HSAs)

National Conference of State Legislatures
Insurance Task Force

Chicago, Illinois
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HSA Value Proposition Unchanged

• Triple Tax Advantaged Vehicle
  1. Contributions are Deductible
  2. Account Balances Grow Un-taxed
  3. Health Care Distributions are Tax Free

• 2019 Contribution Maximum
  – Individual $3,500
  – Family $7,000

• Only HSA-eligible individuals may contribute
Requirements for HSA Eligibility

- Be covered by an HSA-qualified high deductible health plan (HDHP)
- Have no other coverage that is not “high-deductible coverage”
  - This includes Medicare, Medicaid, TRICARE, VA, Indian Health Service, health care flexible spending accounts (FSAs), etc.
- Not be claimed as a dependent on someone’s tax return (i.e., minor children cannot have their own HSA)
Requirements for an HSA-Qualified HDHP

- Minimum deductible (2019 same as 2018)
  - $1,350 (single coverage)
  - $2,700 (family coverage)

- The deductible must apply to all covered benefits from in-network providers
  - the only exception is “preventive care”
The Coming HSA Wave

Ø Approx. 65 million (43% of non-elderly) Americans already in an HDHP

Ø Of those, approx. 40% have an HSA

Ø More than 50% of the working population will be enrolled in HSAs by 2020
Participation Growing

HSA Participation by Age Group
Health savings account participation increased dramatically from 2017 to 2018, with 81 percent of eligible employees now enrolled in an HSA.

<table>
<thead>
<tr>
<th>Age Group</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Millennials</td>
<td>40%</td>
<td>76%</td>
</tr>
<tr>
<td>Generation X</td>
<td>53%</td>
<td>85%</td>
</tr>
<tr>
<td>Baby Boomers</td>
<td>53%</td>
<td>84%</td>
</tr>
<tr>
<td>Traditionalists</td>
<td>36%</td>
<td>51%</td>
</tr>
<tr>
<td>All employees</td>
<td>50%</td>
<td>81%</td>
</tr>
</tbody>
</table>

Source: Benefittfocus, American Bankers Association
In 2018, the average health savings account was funded up to about 58 percent of the 2018 contribution limit for both single- and family-coverage accounts.

**Single coverage**
- Employee contribution: $1,419
- Employer contribution: $578
- Total: $1,453

**Family coverage**
- Employee contribution: $2,881
- Employer contribution: $1,126
- Total: $2,893

Source: Benefitfocus.
HSA Growth Trajectory

Total HSA Assets (in billions)


Source: Estimates derived from 2018 Year-End Devenir HSA Market Survey, press releases, previous market research and market growth rates
Relative Tax Treatment of Different Products

- **HSA**
  - Money In: Not Taxed
  - Used for qualified medical expenses
  - Money Out: Not Taxed

- **IRA & 401(k)**
  - Money In: Not Taxed
  - Money Out: Taxed

- **ROTH**
  - Money In: Taxed
  - Money Out: Not Taxed
Maximizing Retirement Dollars

73% employees using an HSA & 401(k) save 73% more than those only using a 401(k); an average of 11.8% compared to 6.8%.

- HSA + 401(k) contribution: 8.9%, 401(k) contribution: 2.9%, $265,000 after 20 yrs
- 401(k) only: 6.8%, $187,000 after 20 yrs
- HSA only: 2.8%

A difference of $78,154

1: https://www.eight.com/health-solutions/health-solutions-hsa-401k-highlights

American Bankers Association
Matching Financial Needs to Products

The average American couple will need $296,000 to cover out-of-pocket healthcare costs in retirement. That is roughly 30% of their retirement spending.

Funds can be used on qualified medical expenses tax-free, and HSA savings last 68% longer in retirement.


Source: National Survey of Employer-Sponsored Health Plans - 2018. Withdrawing $5,000/year, starting at age 65, from a $50,000 balance. Assumes 7% annual return, 25% tax bracket, and that distributions are used for health-care expenses.

American Bankers Association
Medicare is a High Deductible Health Plan

According to Medicare.gov

- Average Out of Pocket Medical Costs per year
  - In good health: $7,850
  - Diabetes: $10,800
  - CHF: $12,012
  - Cancer: >$12,012
Legislative Priorities for 2019

HSA’s in Medicare
Allow working seniors to enroll in Medicare Part A and B and remain HSA eligible
Determine that all Medicare plans are HSA qualified
Allow contributions to Medicare Advantage MSA

Chronic Disease
Allow coverage of chronic disease medications prior to the deductible
Legislative Priorities for 2019

HSA’s with TRICARE, VA and Indian Health Services

Ø Allow participation in these programs and remain HSA eligible
Ø IHS Bill passed by voice vote in House last July
Legislative Priorities for 2019

The Fix It Bill

Ø Allow participation in employer medical clinics and retail health clinics
Ø Allow utilization of telemedicine and other healthcare innovations
Ø Align ACA and HSA OOP maximums
Ø Increase contributions to the OOP maximum
Ø Allow DPC arrangements to be HSA qualified
Ø Allow rollovers of FSA and HRA to HSA
Ø Protect HSA’s in bankruptcy
Ø Eliminate HSA contributions from the Excise Tax Calculation
Ø Healthcare Sharing Ministries
President’s 2019 Budget

Ø HSA’s for Working Seniors
Ø Allow contributions to Medicare Advantage MSA accounts
Ø Determines that all insurance plans with an Actuarial Value of 70 or less are HSA qualified
Role for State Legislatures

Ø Support Modernization of Medicare to accommodate Working Seniors
Ø Encourage Adoption of Account-Based Medicaid Strategies
Ø Encourage Coordination of State Insurance Mandates with IRS HSA Rules
ABA Training & Compliance Resources

- Compliance Resources
- Rules for HSA Eligibility and Account Function
- Certificate Course in HSA Program Rules

Health Savings Account (HSA) Expert Certificate
Earn Yours Today
ABA HSA Council

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