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April 1, 2008

The Honorable Henry A. Waxman
Chairman
Committee on Oversight and Government Reform
House of Representatives

The Honorable Pete Stark
Chairman
Subcommittee on Health
Committee on Ways and Means
House of Representatives

Subject: *Health Savings Accounts: Participation Increased and Was More Common among Individuals with Higher Incomes*

With health care spending increasing in the United States, Congress enacted legislation effective in 2004 establishing tax advantaged health savings accounts (HSA) to be coupled with high-deductible health insurance plans.¹ HSA-eligible high-deductible health plans typically have lower premiums than traditional health plans and HSAs allow account holders to accumulate tax-free savings to pay for medical expenses.²

The novel structure of HSA-eligible plans coupled with HSAs has raised questions about who selects them and how they use the accounts. Proponents contend that the low premiums of HSA-eligible plans and the tax-free savings potential of HSAs appeal to many consumers, while the high deductibles encourage them to be more astute health care consumers. However, some critics are concerned that HSA-eligible plans may attract enrollees who seek lower premiums but lack the resources to contribute to an HSA, and wealthy enrollees who may seek to use the HSA primarily to accumulate tax-advantaged savings rather than pay for medical expenses.

¹HSA-related tax advantages were authorized by the Medicare Prescription Drug, Improvement and Modernization Act of 2003 for individuals covered by HSA-eligible health plans—plans that meet minimum deductibles and maximum out-of-pocket spending limits. Pub. L. No. 108-173, §1201, 117 Stat. 2066, 2469. Both employers and individuals may—but are not required to—contribute to HSAs, up to an annual limit.

²HSA contributions up to annual limits are exempt from income tax, and withdrawals for qualified medical expenses are not federally taxed. Contributions exceeding the limit are subject to federal tax. Withdrawals for nonqualified expenses are also subject to federal tax, and—if withdrawn before age 65—an additional tax penalty.

In a 2006 report, we described individuals' early experiences with HSA-eligible plans and HSAs and certain characteristics of HSA account holders.³ You asked us to update certain information from that report with more recently available data. For this report, we examined

1. participation in HSA-eligible high-deductible health plans and HSAs,
2. the income characteristics of HSA account holders, and
3. contributions made to and withdrawals made from HSAs.

To examine participation in HSA-eligible high-deductible health plans and HSAs, we analyzed industry data and Internal Revenue Service (IRS) data. We obtained estimates of the number of lives covered by HSA-eligible health plans from 2004 through 2007 from America's Health Insurance Plans (AHIP), a health insurance trade association. We analyzed 2004 and 2005 tax filer data from the IRS Statistics of Income (SOI) sample to estimate the number of individuals who reported HSA activity in those years.⁴ We reviewed various estimates of the number of HSAs in 2006 and 2007 that were reported in health care and financial industry publications.⁵ We used data from nationally representative surveys of HSA-eligible plan enrollees, conducted from 2005 through 2007, to examine the extent to which they opened HSAs.⁶ To examine the income characteristics of HSA account holders, we analyzed IRS tax data from the 2005 SOI sample. We compared the adjusted gross income (AGI) for tax filers who reported HSA activity with data for all other tax filers.⁷ To examine contributions made to and withdrawals made from HSAs, we examined IRS and employer survey data. We used IRS tax data from the 2005 SOI sample to examine HSA contributions and withdrawals in aggregate and by tax filers' AGI and age. We used data from nationally representative employer surveys conducted by Mercer and the Kaiser Family Foundation and Health Research Educational Trust from 2005 through 2007 to examine the extent to which employers contributed to their employees' HSAs.⁸

Important differences among the various estimates of participation in HSA-eligible plans and HSAs may limit or preclude their comparability. For example, AHIP estimates of HSA-eligible plan participation count all policy holders and dependents covered by an HSA-eligible health

³See GAO, *Consumer-Directed Health Plans: Early Enrollee Experiences with Health Savings Accounts and Eligible Health Plans*, [GAO-06-798](#) (Washington, D.C.: Aug. 9, 2006). A list of other related GAO products is included at the end of this report.

⁴The most recently available SOI data were from tax year 2005. We defined HSA activity for a given year as any reported contributions to or withdrawals from an HSA in that year. Contributions to HSAs included those made by individual tax filers or made on their behalf by their employers or other individuals, but did not include any funds that were transferred to an HSA from a medical savings account. Withdrawals did not include those made to avoid a tax penalty by removing contributions that were in excess of the allowable limits, or those made to transfer funds from one HSA to another.

⁵We also interviewed officials from the organizations that prepared the estimates—Atlantic Information Services, Financial Research Corporation, and Information Strategies Incorporated—however, we did not verify the reliability of the estimates.

⁶Blue Cross Blue Shield Association, CDHP Member Experience Surveys, 2005, 2006, and 2007.

⁷AGI is based on the combined income for joint filers and the individual income for single filers.

⁸We did not use IRS data to examine employer contributions to HSAs because the data reported as employer contributions include pre-tax contributions made by employees.

plan at a single point in time—regardless of whether the health plan is coupled with an HSA. In contrast, our estimates of tax filers reporting HSA activity are limited to filers between the ages of 19 and 64 reporting any HSA activity during an entire year and do not include dependents covered by the accounts.⁹ Therefore the rates of growth over time of these two sets of estimates are not directly comparable, and the estimates should not be compared to determine the extent to which individuals eligible to open an HSA have done so. In addition, our estimates of tax filers reporting HSA activity are not directly comparable to industry estimates of HSA prevalence. Industry estimates may overstate the number of individuals or families who have or use HSAs by including multiple accounts owned by the same individual. Industry estimates may also include accounts not reported to IRS and accounts carrying balances from prior years but not active in the current year. We reviewed the estimation, sampling, and survey methodologies of the survey and tax data we used; reviewed the data for reasonableness and consistency; and determined that the data were sufficiently reliable for our purposes. We performed our work from September 2007 through February 2008 in accordance with generally accepted government auditing standards.

Results in Brief

The number of individuals participating in HSA-eligible health plans and HSAs increased significantly between 2004 and 2007; however, in all years, many HSA-eligible plan enrollees did not open an HSA. The number of individuals covered by HSA-eligible plans increased significantly between September 2004 and January 2007—from about 438,000 to approximately 4.5 million, according to industry estimates. Despite the growth, these plans represented a small share of individuals with private health coverage—about 2 percent in 2006. The number of tax filers reporting HSA activity also increased, nearly tripling between 2004 and 2005, from about 120,000 to about 355,000. Industry estimates suggest continued growth in HSA participation in 2006 and 2007. Despite the growth in HSA participation, nationally representative survey estimates from 2005, 2006, and 2007 found that more than 40 percent of HSA-eligible health plan enrollees did not open an HSA.

Tax filers who reported HSA activity in 2005 had higher incomes on average than other tax filers. Among tax filers between the ages of 19 and 64, the average AGI for filers reporting HSA activity was about \$139,000 compared with about \$57,000 for all other filers. The income differences existed across all age groups.

The total value of all HSA contributions reported to IRS in 2005 was about twice that of withdrawals—\$754 million compared with \$366 million. Among all filers reporting HSA activity in 2005, average contributions were about \$2,100, compared to average withdrawals of about \$1,000. Survey estimates of the contributions employers made to employees' HSAs in 2007 varied. One employer survey reported average contributions for single coverage of \$626 among large employers, while another employer survey reported average contributions for single coverage of \$806 among small and large employers. More than a third of surveyed employers that offered HSA-eligible plans made no HSA contributions.

⁹Tax filers under age 19 and over age 64 were excluded because individuals who can be claimed as dependents and individuals enrolled in Medicare are not eligible to contribute to HSAs.

Background

Most Americans—about 202 million in 2006—receive health coverage through private health plans. Over the past several years, insurers have expanded their portfolio to include insurance plans with high deductibles, low premiums, and, generally, an associated savings account to pay for services up to the deductible. The plans are designed to reduce health care spending and encourage more consumer control. Beginning in 2004, insurers began to market HSA-eligible plans—high-deductible health plans that were eligible to be coupled with HSAs.

HSA-eligible health plans are required to meet certain statutory criteria, including minimum deductible amounts, which are higher than health plan deductibles on average, and maximum limits on enrollee out-of-pocket spending.¹⁰ These amounts are annually adjusted for cost-of-living increases.¹¹ HSA-eligible plans are sold either to an individual or through group plans, such as those offered by employers.

HSAs are tax-advantaged savings accounts established to pay for qualified medical expenses.¹² Individuals are eligible to open an HSA and contribute funds if they are enrolled in an HSA-eligible plan and have no other health coverage, with limited exceptions.¹³ Both employers and individuals may—but are not required to—contribute to HSAs, up to an annual limit. Individuals may claim a deduction on their federal income taxes for their HSA contributions not exceeding the limit, regardless of whether they itemize deductions or claim the standard deduction. Although HSA withdrawals for qualified medical expenses are not federally taxed, withdrawals for nonqualified expenses are subject to tax and, when withdrawn before age 65, an additional tax penalty.

Although annual HSA contributions are limited, unused balances may accumulate from year to year without limit and earn interest. HSAs are owned by the account holder and the accounts are portable—individuals may keep their accounts if they switch jobs or are no longer enrolled in an HSA-eligible health plan. An employer may partner with a financial institution, such as a bank or insurance company, to offer an HSA with the HSA-eligible plan; however, employees may choose to open accounts with other financial institutions.

Participation in HSA-Eligible Plans and HSAs Increased Significantly, but Many HSA-Eligible Plan Enrollees Did Not Open an HSA

Industry estimates indicate that the number of individuals covered by HSA-eligible health plans increased significantly between 2004 and 2007. HSA participation also increased between 2004 and 2005 with estimates of continued growth through 2007. Nevertheless, many HSA-eligible health plan enrollees have not opened HSAs.

¹⁰An out-of-pocket spending limit is the most an enrollee is required to pay toward the cost of covered services. The out-of-pocket spending limit includes deductibles and other payments, but not premiums.

¹¹The minimum deductible amount in 2007 was \$1,100 for single coverage and \$2,200 for family coverage. The maximum limit on enrollee out-of-pocket spending in 2007 was \$5,500 for single coverage and \$11,000 for family coverage.

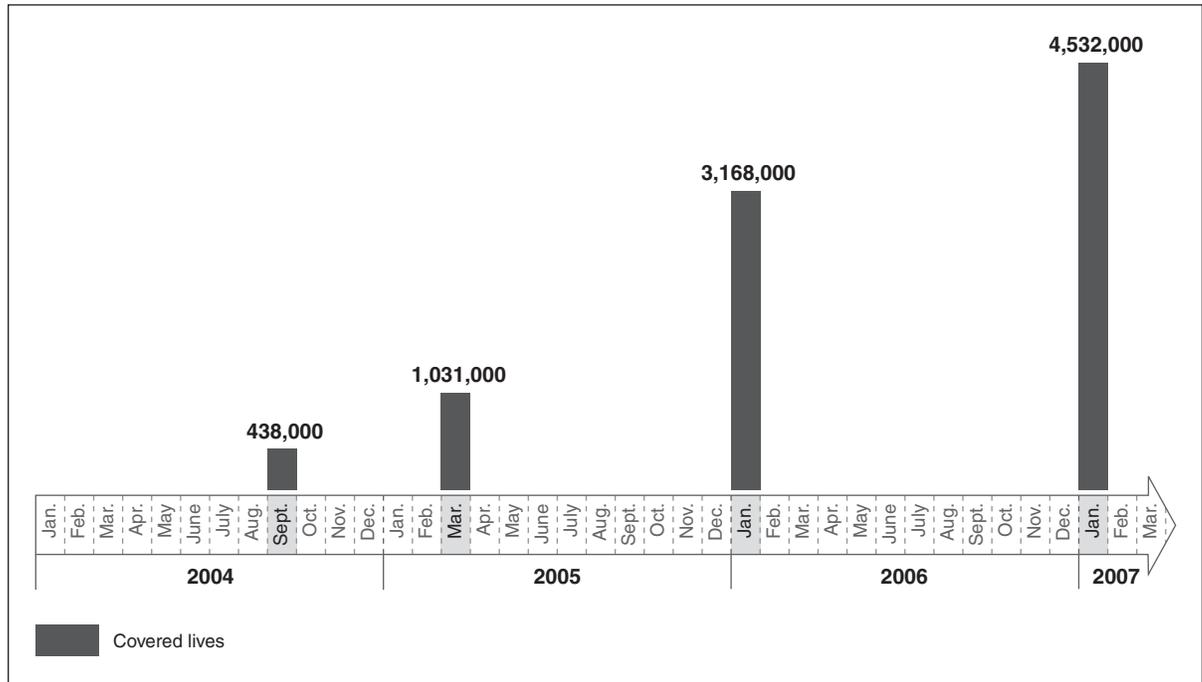
¹²Qualified medical expenses are generally identified under the Internal Revenue Code (26 U.S.C. § 213(d)).

¹³Limited coverage (including specific injury or accident, disability, dental care, or vision care) in addition to the HSA-eligible plan is permissible.

Participation in HSA-Eligible Health Plans Increased Significantly

Industry estimates indicate significant increases in the number of individuals covered by HSA-eligible health plans. For example, a series of insurance carrier surveys conducted by AHIP found that the number of lives covered by HSA-eligible plans increased significantly from about 438,000 in September of 2004 to an estimated 4.5 million in January 2007.¹⁴ (See fig. 1.) Despite the growth, HSA-eligible plan coverage represented only about 2 percent of individuals with private health coverage in 2006.¹⁵

Figure 1: Estimated Lives Covered by HSA-Eligible Plans, September 2004 to January 2007



Source: America's Health Insurance Plans.

Participation in HSAs Also Increased, but Many HSA-Eligible Health Plan Enrollees Did Not Open an HSA

Participation in HSAs also increased significantly between 2004 and 2007. IRS data show that the number of tax filers between the ages of 19 and 64 reporting HSA activity nearly tripled from about 120,000 in 2004 to about 355,000 in 2005. In addition, although industry estimates varied, all indicated continued growth in HSA participation in 2006 and 2007. For example,

¹⁴America's Health Insurance Plans, *January 2007 Census Shows 4.5 Million People Covered by HSA/High-Deductible Health Plans* (Washington, D.C.: Apr. 2007). The estimates included plans from the individual and group markets.

¹⁵GAO analysis of America's Health Insurance Plans' 2006 and 2007 estimates of lives covered by HSA-eligible health plans, and the U.S. Census Bureau's 2006 Current Population Survey estimate of lives covered by private health insurance.

one industry publication estimated that the number of HSAs managed by major financial institutions more than doubled between 2006 and 2007.¹⁶

Despite the growth in HSA participation, many HSA-eligible plan enrollees did not open an HSA. IRS data do not allow a direct comparison between HSA-eligible plan covered lives and individuals reporting HSA activity.¹⁷ However, nationally representative surveys conducted in 2005, 2006, and 2007 found that 42 percent to 49 percent of HSA-eligible plan enrollees reported that they had not opened an HSA. The surveys also found that 20 percent to 24 percent of respondents did not plan to open one. Reasons survey respondents cited for not planning to open an HSA included that they lacked information or knowledge about them, they could not afford them, and they did not believe they needed them.^{18,19} Similarly, industry representatives we spoke with told us that many HSA-eligible plan enrollees did not have an HSA. The representatives also said that they expect that there would always be some share of eligible consumers who would choose not to open an HSA.²⁰

HSA Account Holders Reported Higher Incomes than Other Tax Filers

Tax filers who reported HSA activity had higher incomes on average than other tax filers. Among tax filers between the ages of 19 and 64, the average adjusted gross income for those reporting HSA activity in 2005 was about \$139,000, compared with about \$57,000 for other filers. Income differences between HSA and other filers existed across all age groups. (See fig. 2.) Moreover, about 59 percent of HSA filers had AGIs of \$60,000 or more, compared with 26 percent of other tax filers. (See fig. 3.)²¹

¹⁶Atlantic Information Services, Inc., “Number of HSAs Doubles Over Past Year; Firms Now Hold Nearly \$2 Billion, ICDC Finds,” *Inside Consumer-Directed Health Care* (Mar. 9, 2007).

¹⁷Industry estimates of lives covered by HSA-eligible plans are not directly comparable to our estimates of tax filers reporting HSA activity. Industry estimates count all policy holders and dependents covered by a health plan eligible to be coupled with an HSA at a single point in time—regardless of whether the health plan is coupled with an HSA. Our estimates of tax filers reporting HSA activity were limited to filers between the ages of 19 and 64 reporting any HSA activity during an entire year and do not include any dependents also covered by the accounts.

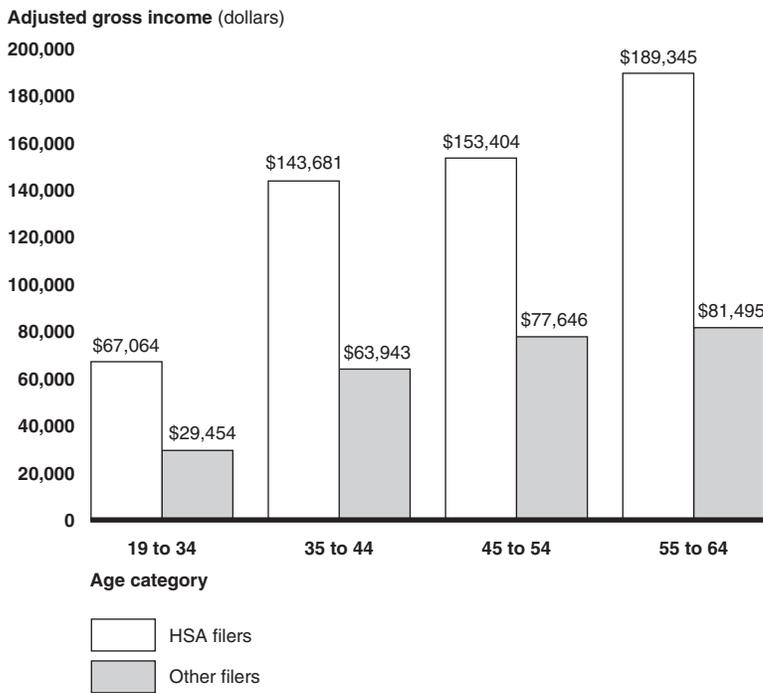
¹⁸Blue Cross Blue Shield Association, CDHP Member Experience Surveys, 2005, 2006, and 2007.

¹⁹We previously reported that, on the basis of an analysis of publicly available survey data and data obtained from IRS, roughly 45 percent of HSA-eligible plan enrollees in 2004 did not report contributions to an HSA (see [GAO-06-798](#)).

²⁰Industry representatives gave varying estimates of the share of HSA-eligible plan enrollees who did not open HSAs—ranging from about 9 percent to 60 percent.

²¹Other tax filers include both insured and uninsured individuals. The uninsured tend to have lower incomes than those with health insurance coverage.

Figure 2: Comparison of HSA and Other Tax Filers' Average Adjusted Gross Income by Age, 2005

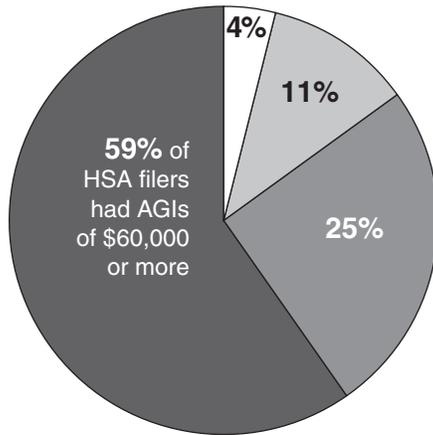


Source: GAO analysis of IRS data.

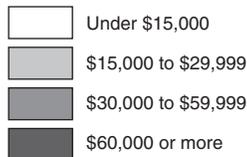
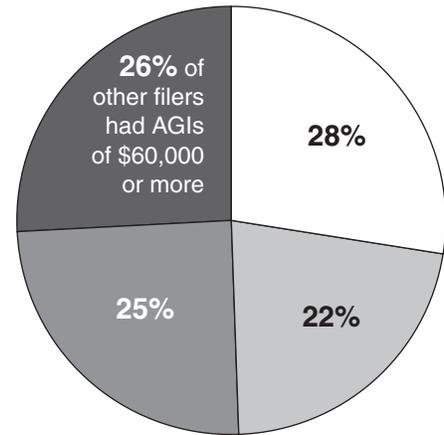
Notes: Analysis was limited to tax filers between the ages of 19 and 64. HSA filers included those reporting any contributions to or withdrawals from an HSA. Contributions include those made by individual tax filers or by employers or other individuals on their behalf, but do not include any funds that were transferred to an HSA from a medical savings account. Withdrawals did not include those made to avoid a tax penalty by removing contributions that were in excess of the allowable limits, or those made to transfer funds from one HSA to another. For returns of married couples filing jointly, returns were categorized based on the age of the primary tax filer, and the AGI included the combined AGIs of both filers.

Figure 3: Comparison of the Adjusted Gross Income Distribution of HSA and Other Tax Filers, 2005

HSA filers (percentage)



Other filers (percentage)



Source: GAO analysis of IRS data.

Notes: Analysis was limited to tax filers between the ages of 19 and 64. HSA filers included those reporting any contributions to or withdrawals from an HSA. Contributions include those made by individual tax filers or by employers or other individuals on their behalf, but do not include any funds that were transferred to an HSA from a medical savings account. Withdrawals did not include those made to avoid a tax penalty by removing contributions that were in excess of the allowable limits, or those made to transfer funds from one HSA to another. For returns of married couples filing jointly, the AGI included the combined AGIs of both filers.

HSA Contributions Exceeded Withdrawals

The total value of account holder and employer HSA contributions in 2005 was about twice that of account holder withdrawals. Among filers reporting HSA activity, the average value of contributions was about \$2,100 compared with the average withdrawal of about \$1,000. Average contributions and withdrawals generally increased with income and age.

Reported HSA Contributions Were about Twice Withdrawals

Tax filers' reported HSA contributions in 2005 totaled about \$754 million, including those made by account holders and employers. This was about twice the value of reported withdrawals—which totaled about \$366 million. Among all filers reporting HSA activity, the average HSA contribution was about \$2,100 and the average HSA withdrawal was about \$1,000. Among filers who reported HSA contributions in 2005, about 41 percent did not withdraw any HSA funds that year, while about 22 percent withdrew as much or more than

their reported contributions.²² About 93 percent of reported withdrawals were for qualified medical expenses.²³

Estimates of employer contributions to employees' HSAs vary. One annual employer survey reported an average employer contribution for single coverage of \$626 among large employers in 2007.²⁴ Another survey reported an average contribution for single coverage of \$806 among small and large employers in 2007.²⁵ Many employers that offered HSA-eligible plans did not contribute to their employees' HSAs. For example, a series of surveys reported that, in 2005, 2006, and 2007, more than a third of large employers offering HSA-eligible plans did not contribute to their employees' HSAs.²⁶ Another survey reported that 47 percent of small and large employers offering HSA-eligible plan coverage for families did not contribute to their employees' HSAs in 2007.²⁷

HSA Contributions and Withdrawals Generally Increased with Income and Age

HSA contributions and withdrawals reported by tax filers in 2005 generally increased with income. Average contributions ranged from about \$1,400 for filers reporting AGIs of under \$30,000 to about \$2,800 for filers with AGIs of \$100,000 or more. Average withdrawals ranged from about \$600 for filers reporting AGIs of under \$30,000 to about \$1,300 for filers reporting AGIs of \$100,000 or more. (See fig. 4.)

²²HSA withdrawals may exceed contributions in a given year if balances are carried over from prior years.

²³The remaining 7 percent of withdrawals were for nonqualified expenses, which are subject to tax and, if withdrawn before age 65, an additional tax penalty.

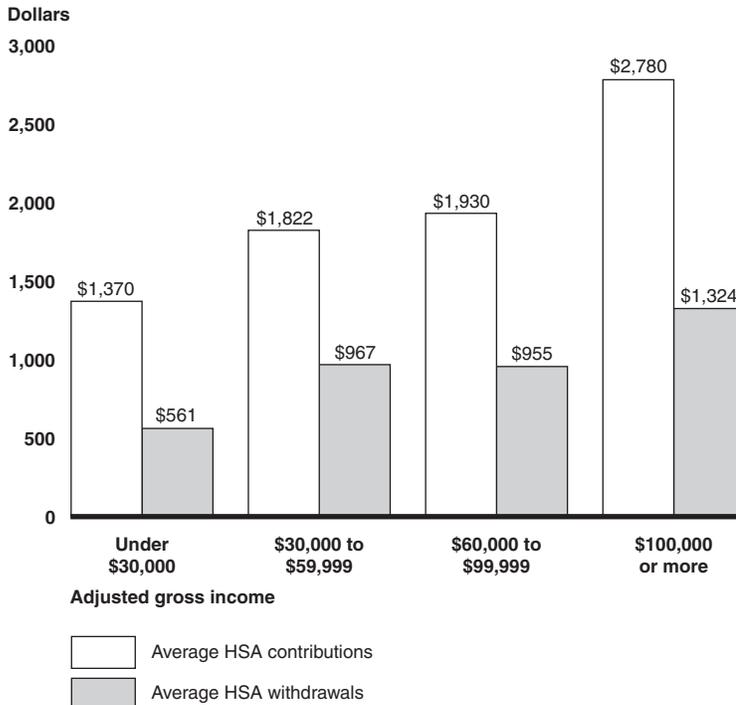
²⁴Mercer, "U.S. Employers' Health Benefit Cost Continues to Rise at Twice Inflation Rate, Mercer Survey Finds" (press release), *National Survey of Employer-Sponsored Health Plans* (New York, N.Y.: Nov. 19, 2007).

²⁵Kaiser Family Foundation and Health Research and Educational Trust, *Employer Health Benefits: 2007 Annual Survey* (Menlo Park, Calif., and Chicago, Ill.: 2007).

²⁶Mercer, *National Survey of Employer-Sponsored Health Plans*, 2005, 2006, and 2007.

²⁷Kaiser Family Foundation and Health Research and Educational Trust, *Employer Health Benefits: 2007 Annual Survey*.

Figure 4: Average HSA Contributions and Withdrawals by Income, 2005

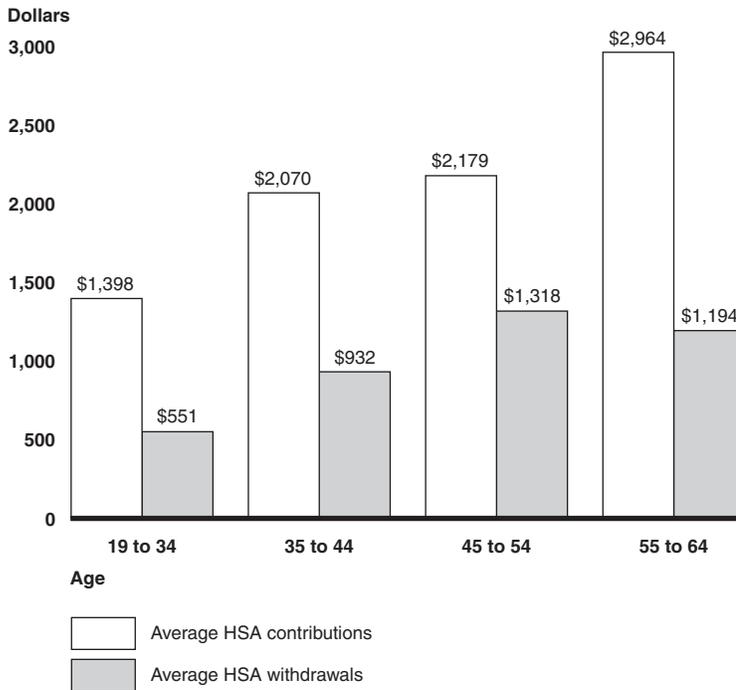


Source: GAO analysis of IRS data.

Notes: Analysis was limited to tax filers between the ages of 19 and 64. HSA filers included those reporting any contributions to or withdrawals from an HSA. Contributions include those made by individual tax filers or by employers or other individuals on their behalf, but do not include any funds that were transferred to an HSA from a medical savings account. Withdrawals did not include those made to avoid a tax penalty by removing contributions that were in excess of the allowable limits, or those made to transfer funds from one HSA to another. For returns of married couples filing jointly, the AGI included the combined AGIs of both filers.

Similarly, average contributions and withdrawals generally increased with age. Average contributions ranged from about \$1,400 for filers ages 19 to 34, to about \$3,000 for filers ages 55 to 64. Average withdrawals ranged from about \$600 for filers ages 19 to 34, to about \$1,200 for filers ages 55 to 64. (See fig. 5.)

Figure 5: Average HSA Contributions and Withdrawals by Age, 2005



Source: GAO analysis of IRS data.

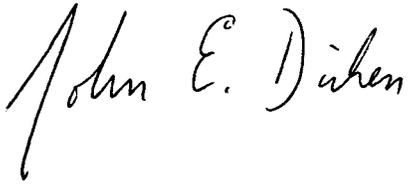
Notes: Analysis was limited to tax filers between the ages of 19 and 64. HSA filers included those reporting any contributions to or withdrawals from an HSA. Contributions include those made by individual tax filers or by employers or other individuals on their behalf, but do not include any funds that were transferred to an HSA from a medical savings account. Withdrawals did not include those made to avoid a tax penalty by removing contributions that were in excess of the allowable limits, or those made to transfer funds from one HSA to another. For returns of married couples filing jointly, the age refers to the age of the primary filer.

Agency Comments

We received technical comments on a draft of this report from the Department of the Treasury and from IRS, and incorporated these comments as appropriate.

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Congressional Relations and Public Affairs may be found on the last page of this report. Randy DiRosa, Assistant Director; Gerardine Brennan; John Mingus; Stephen Ulrich; and Margaret Weber were major contributors to this report.

A handwritten signature in black ink that reads "John E. Dicken". The signature is written in a cursive style with a large, stylized 'J' and 'D'.

John E. Dicken
Director, Health Care

Related GAO Products

Employer-Sponsored Health and Retirement Benefits: Efforts to Control Employer Costs and the Implications for Workers. [GAO-07-355](#). Washington, D.C.: March 30, 2007.

Health Savings Accounts: Early Enrollee Experiences with Accounts and Eligible Health Plans. [GAO-06-1133T](#). Washington, D.C.: September 26, 2006.

Consumer-Directed Health Plans: Early Enrollee Experiences with Health Savings Accounts and Eligible Health Plans. [GAO-06-798](#). Washington, D.C.: August 9, 2006.

Consumer-Directed Health Plans: Small but Growing Enrollment Fueled by Rising Cost of Health Care Coverage. [GAO-06-514](#). Washington, D.C.: April 28, 2006.

Federal Employees Health Benefits Program: First-Year Experience with High-Deductible Health Plans and Health Savings Accounts. [GAO-06-271](#). Washington, D.C.: January 31, 2006.

Federal Employees Health Benefits Program: Early Experience with a Consumer-Directed Health Plan. [GAO-06-143](#). Washington, D.C.: November 21, 2005.

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