ARE HSA INVESTORS BORN OR MADE?

A Closer Look at HSA Investor Behavior

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EBRI EMPLOYEE BENEFIT RESEARCH INSTITUTE

SPEAKERS

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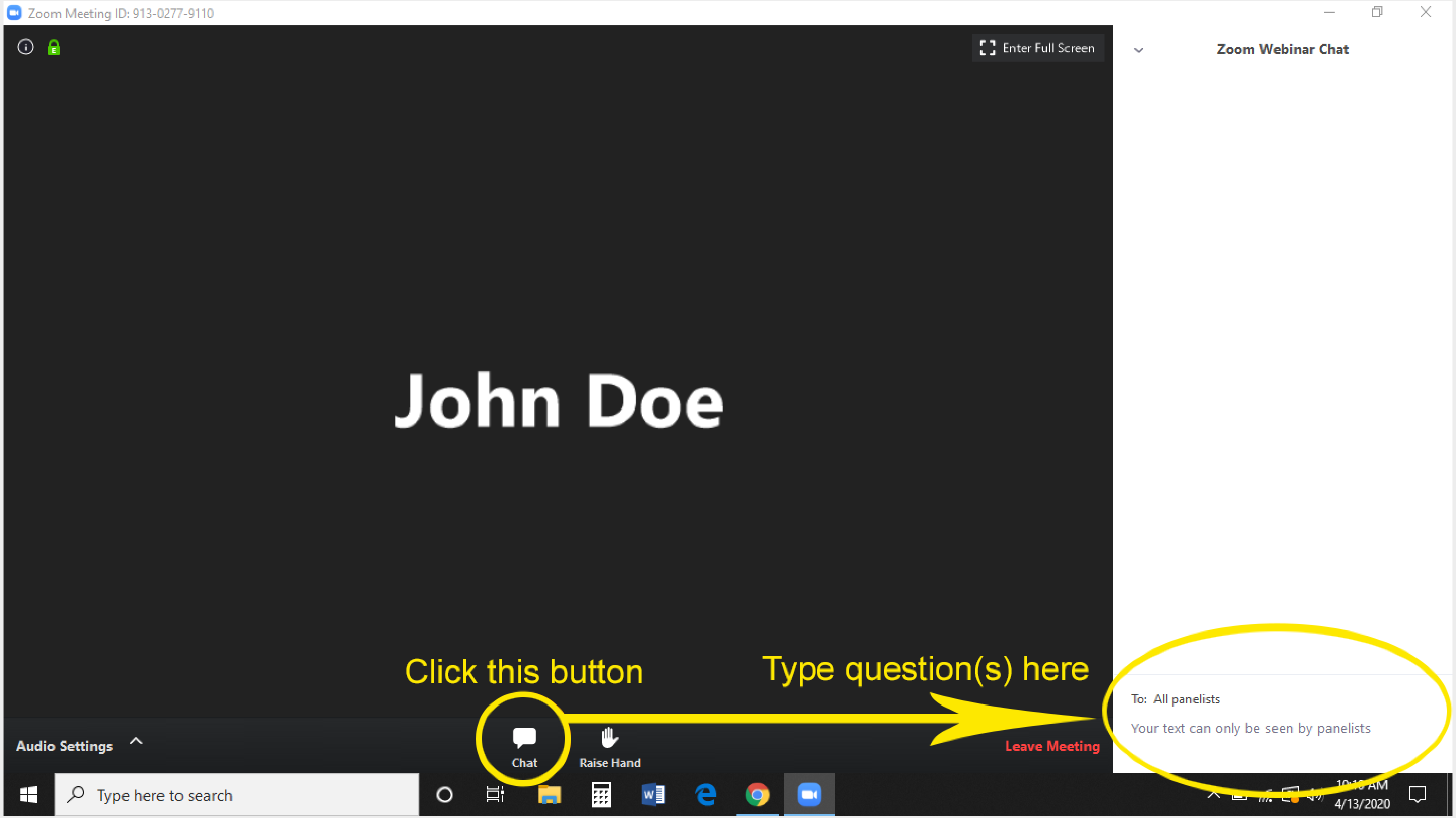
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ABOUT EBRI'S HSA DATABASE

The EBRI HSA Database is a large repository of account-level data on individual HSAs

The database is unique in that it includes data provided by a wide variety of account recordkeepers, so it is broadly representative of the HSA market as a whole

As of December 31, 2018, the EBRI HSA database contains:

- 9.9 million HSAs
- $22.8 billion in assets

This accounts for about 39% of all accounts, and 42% of all assets in HSAs

WHY INVEST HSAS?

HSAs offer unique tax benefits, but few account owners avail themselves of the opportunity to invest their balances

- Only 6% of the account owners in EBRI's HSA database invest some portion of their balance

Account owners can be much better off if they use their HSAs as a longer-term savings vehicle

- Paying for current medical expenses out of pocket and investing HSAs can result in a higher net worth at retirement
- Funds from HSAs can be withdrawn for previously incurred medical expenses. And, HSAs can be used to pay for Medicare premiums
- A couple in retirement can expect to face around $363,000 in health care costs

ARE HSA INVESTORS BORN OR MADE?

We observe that 63% of HSA owners who invest at least some portion of their balances do so immediately

- They invest their balances the same year that they open their account
- These HSA investors are ***born*** – they are driven to invest

That means 37% of HSA owners who invest their accounts wait a while before taking the plunge

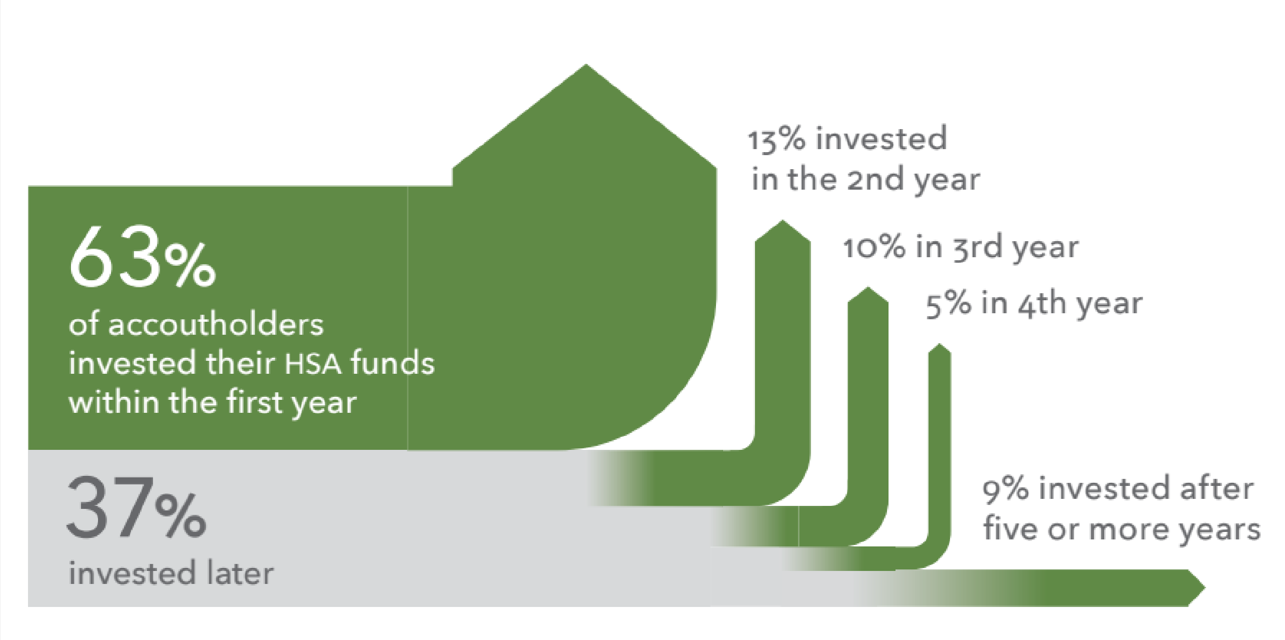
- They wait at least a year to start investing
- These HSA investors are ***made*** – they don't start out as investors, but eventually transition, perhaps due to external forces

WHAT DRIVES INVESTORS?

We focus our analysis on the HSA owners who begin investing *after* their first year – the investors who are **made**

Most HSA owners who don't invest their accounts right away transition to investing within three years

Though, some investors still take the plunge after 10+ years of ownership



WHAT DRIVES INVESTORS? SOME THEORIES

Some HSA owners might not invest right away; some providers require a threshold before they allow owners to open a brokerage account

Others might not invest right away if they feel like they can't cover an emergency expense; health insurance plan deductibles might serve as an implicit benchmark

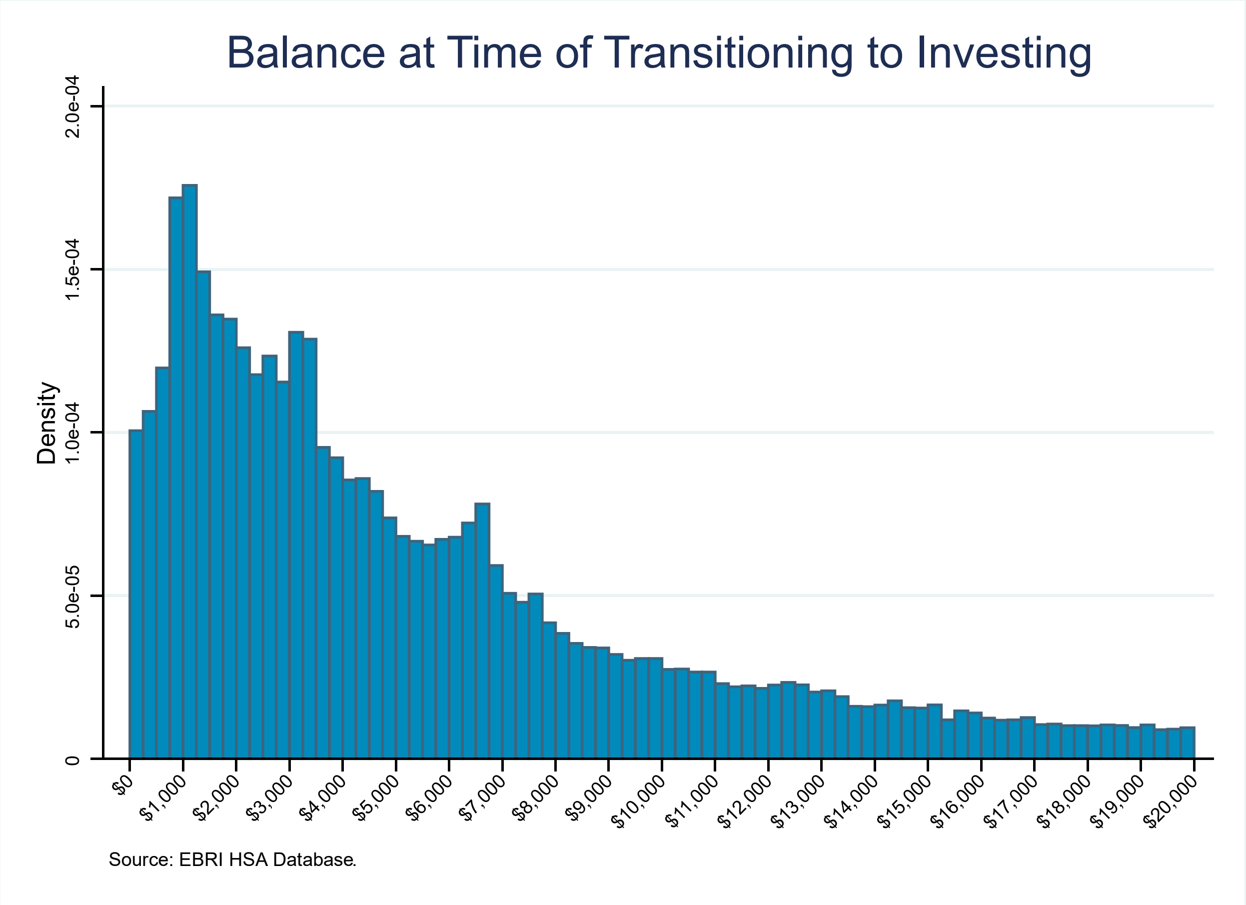
If this were the case, we would expect to see account balances clustered around these thresholds when HSA owners make the transition to investing

WHAT DRIVES INVESTORS? NOT TARGETED BALANCES

However, there isn't much evidence that deductibles act as a strong signal to account owners that they should have that much saved before investing

We notice peaks around $1,000, $3,000, and $6,000

However, there's a lot of variability in account balances when HSA owners decide to invest



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WHAT DRIVES INVESTORS? MORE THEORIES

The idea that deductibles systematically influence the decision to invest is compelling, and not disproven by the previous graphic

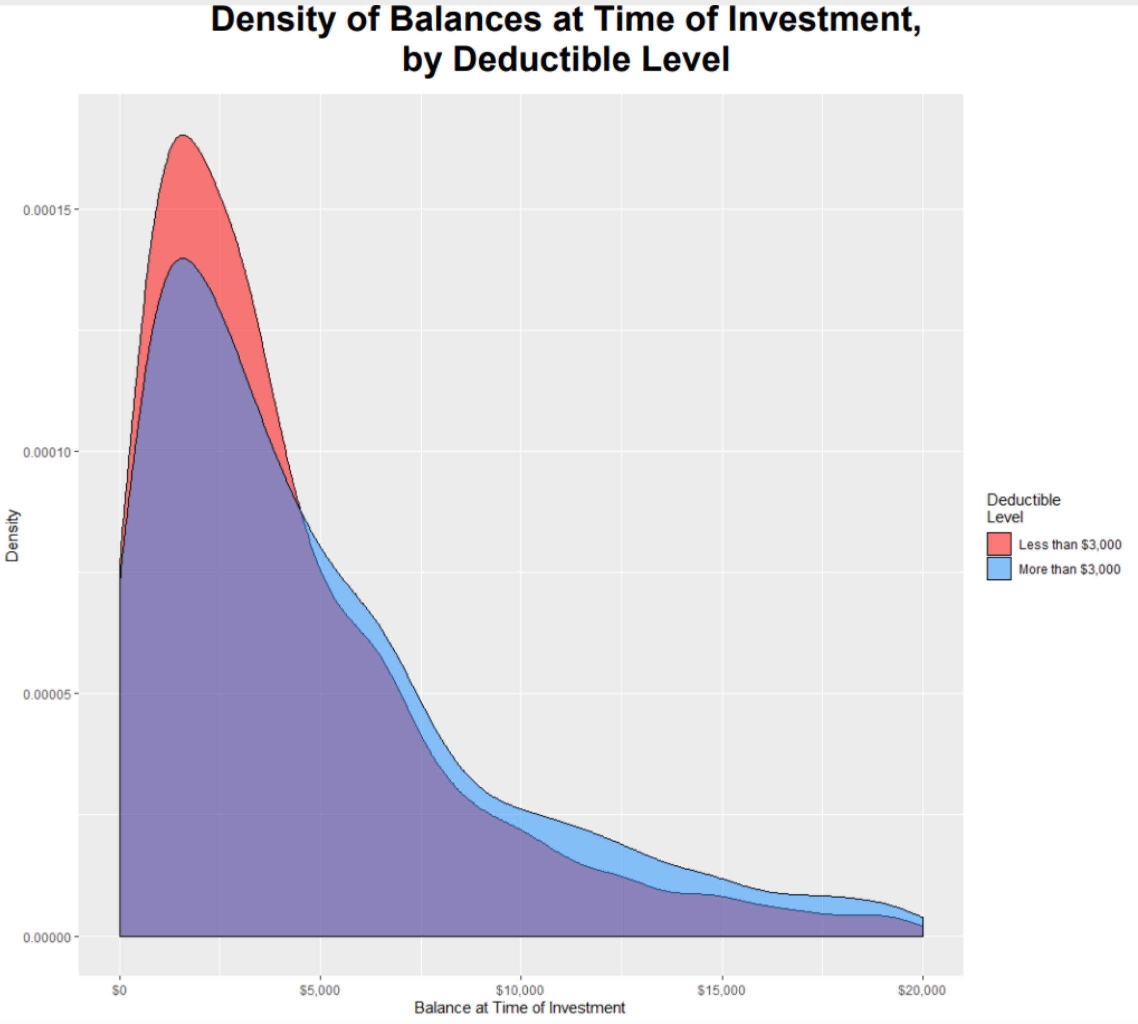
- A large deductible might dissuade someone from investing a relatively small account balance

Next, we look at HSA owners who transitioned to investing by deductible level – below and above $3,000 – to see if we find systematic patterns in account balances at the time of investing

WHAT DRIVES INVESTORS? NOT DEDUCTIBLES

We see some evidence that account owners with lower deductibles more frequently transition to investing at lower account balances than their counterparts with higher deductibles

Still, deductibles do not seem to be an impediment to accountholders investing their HSAs, nor do they seem to serve as a benchmark to accountholders that they should have that much saved before investing



Source: EBRI HSA Database.

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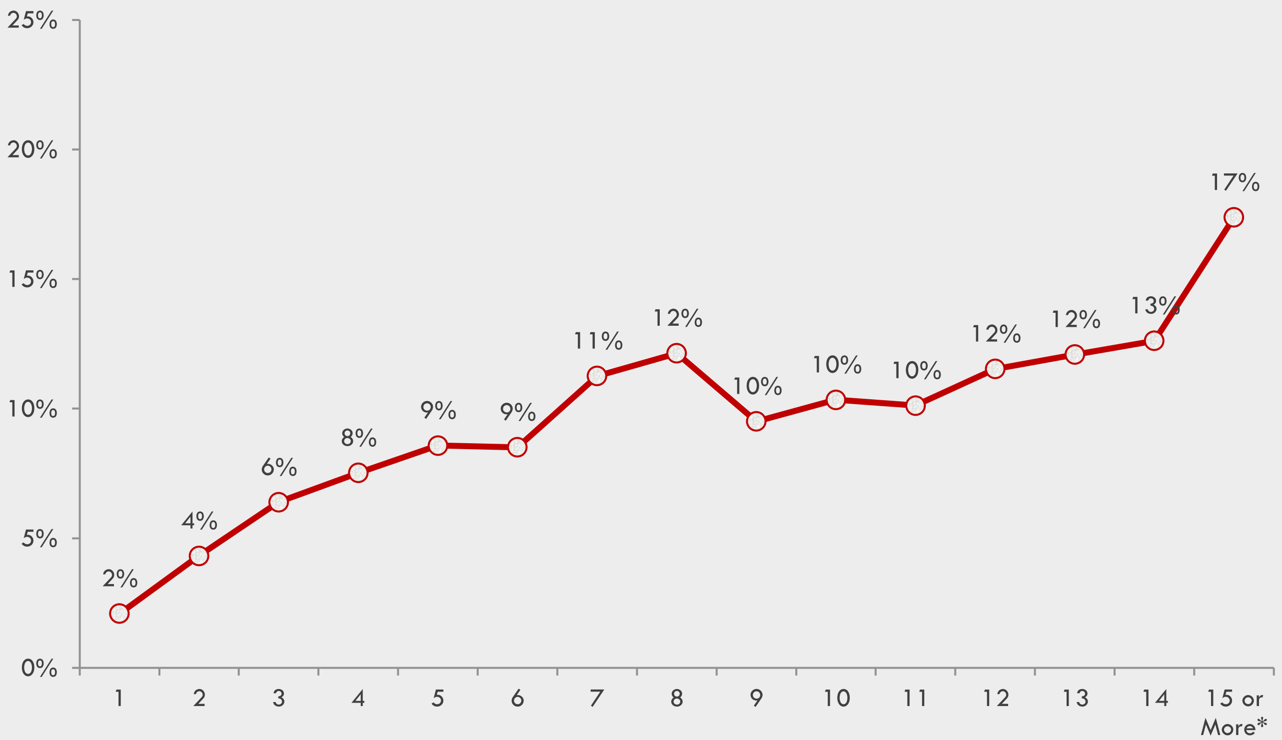
WHAT DRIVES INVESTORS? EVEN MORE THEORIES

Account tenure seems to be strongly correlated with the decision to invest

- Only 2% of accounts with one year of tenure have invested assets, rising to 17% for accounts with 15 or more years of tenure

Share of Accounts With Investments, by Years of Tenure



Source: EBRI HSA Database.
*Includes Archer Medical Savings Account (MSA) rollovers.

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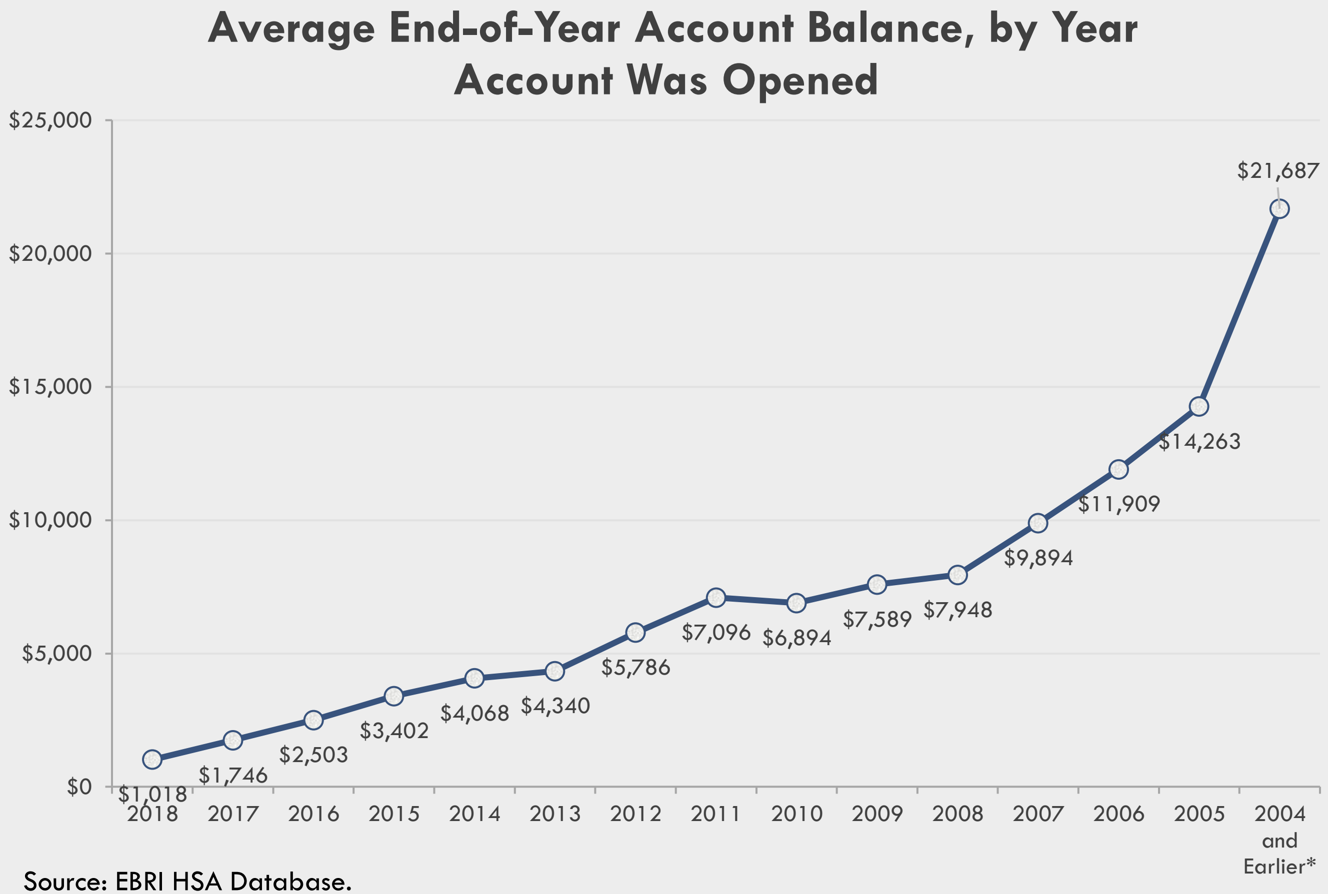
WHAT DRIVES INVESTORS? EVEN MORE THEORIES

And, account tenure is strongly associated with account balance

Older accounts tend to have higher balances

- New accounts in our database – those opened in 2018 – have an average balance of $1,018
- The oldest accounts in our database, which includes Archer MSA rollovers, have an average balance of more than $20,000



Source: EBRI HSA Database.
*Includes Archer Medical Savings Account (MSA) rollovers.

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WHAT DRIVES INVESTORS? EVEN MORE THEORIES

Account tenure seems to be strongly correlated with the decision to invest, and older accounts tend to have higher balances.

But, which has a stronger effect on the decision to invest?

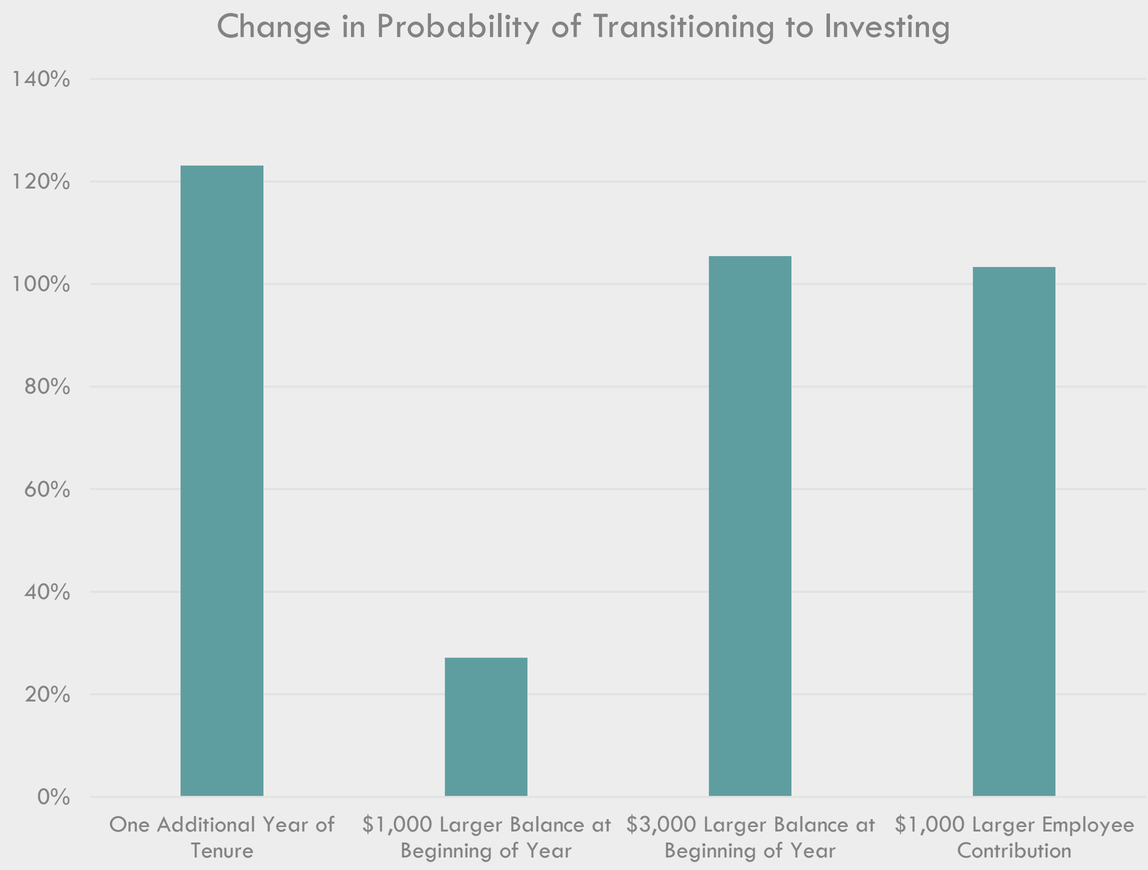
To answer that question, we built a logistic regression model

- This not only helps us determine which factors are associated with the decision to invest, but also quantifies their impact

WHAT DRIVES INVESTORS? TENURE AND BALANCE

Both account tenure and balance are associated with an increased likelihood to invest

Our analysis suggests that an additional year of account ownership is associated with a similar increase in the probability to transition to investing as an additional $3,250 in account balance



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THE UPSHOT

Most HSA owners who invest do so within the first year of account ownership

Of those who do not invest right away, the majority begin investing within the first three years after opening their accounts

Deductibles do not seem to act as a strong signal to HSA owners to save that much before investing

Account tenure and **account balance** are the factors that have the strongest association with the probability that we observe of them transitioning to investing

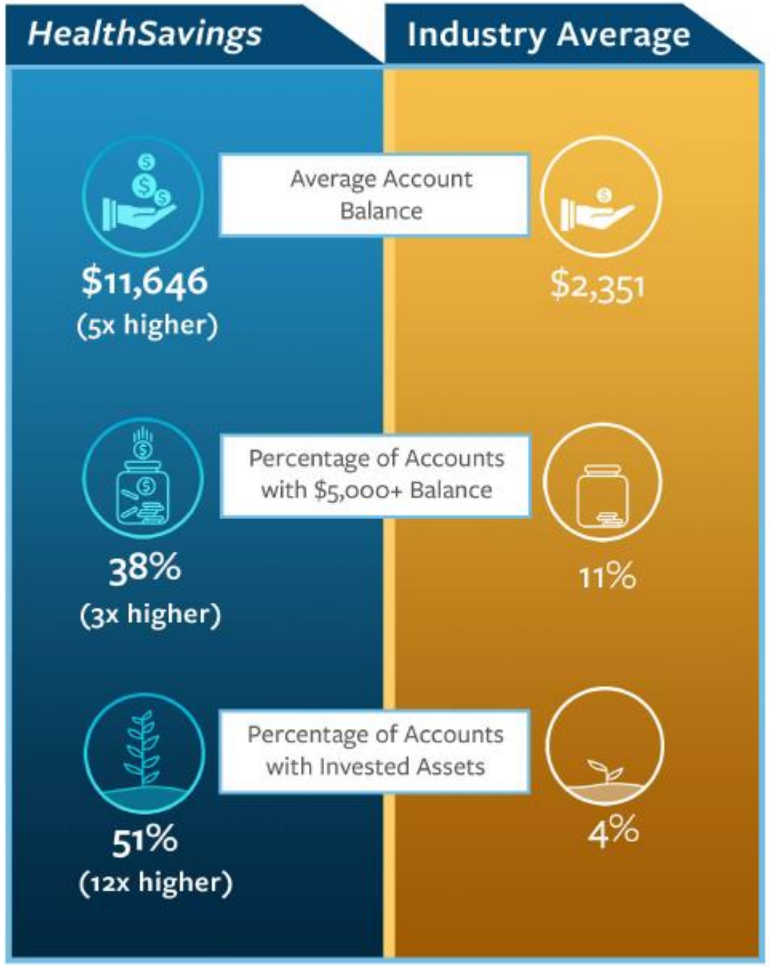
- An additional year of tenure is associated with a similar increase in the probability of transitioning to investing as an additional $3,250 in account balance

HealthSavings Overview

- Over **80,000** accounts and approaching **$1 billion** in administered health savings account (HSA) assets
- **5x higher** average account balance than industry average
- Since 2004, *HealthSavings* has championed HSAs as part of a **comprehensive retirement strategy**

"HSAs are the closest thing to a **free lunch** the federal government offers"

- John Kador, WealthManagement.com



Understanding the Cost of an HSA

Investment Fee

Administrative Fee

Opportunity Cost

You are losing money if your health savings account provider requires you to keep a minimum balance in a low-interest cash account before you can start investing*.

**The amount varies depending on your investment performance*

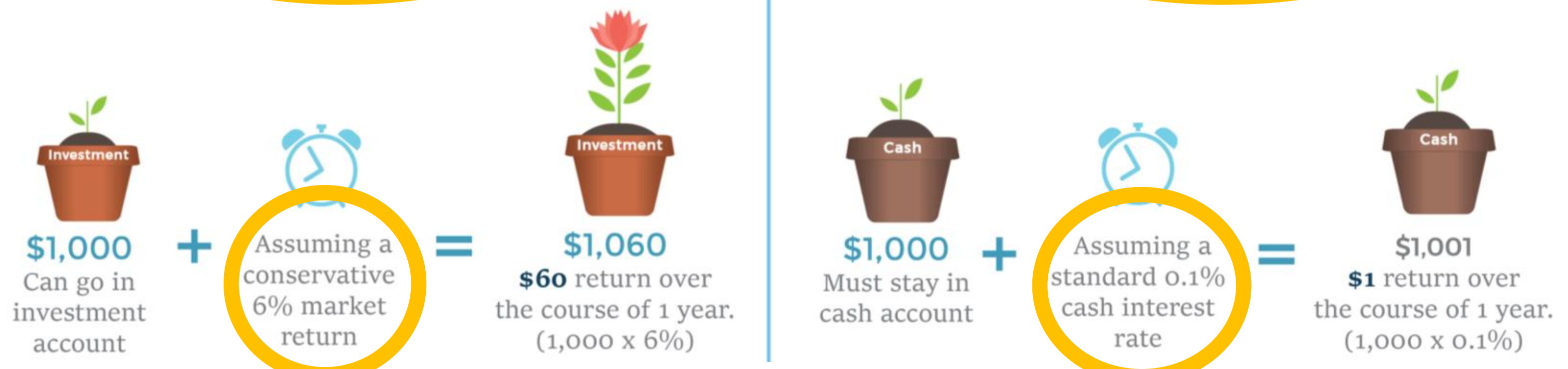
Expense Ratios

Expense ratios are fees that mutual fund companies charge to allow access into their managed funds. Expense ratios reduce funds’ assets, which then decrease investors’ returns.

HealthSavings Eliminates Opportunity Cost

Many HSA providers require account holders to keep a **minimum balance in their cash account** before they can invest additional funds. However, keeping funds in a low-interest cash account means account holders miss out on those funds' potential investment returns. This is known as **opportunity cost**.

HealthSavings (no minimum cash balance)	***Other HSA Provider*** (**$1,000** minimum cash balance)



None of *HealthSavings*' funds have investment thresholds or minimum balances

Diverse, Institutional Share Class Fund Lineup

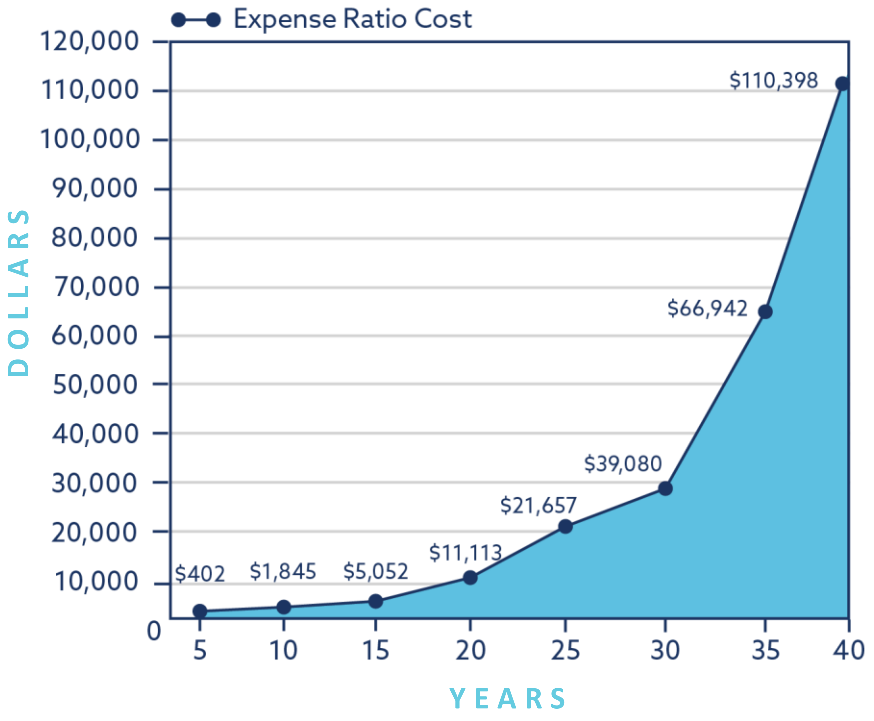
Investor Focus HSA

- Tight list of 42 funds from Vanguard and Dimensional that cover all core asset classes
- Expense ratios are 25bps for active and 10 bps for passive funds. Overall average expense ratio is 16bps
- Average weighted expense ratio is 11bps
- 50/50 balance between passive and active
- Average Morningstar ratings across funds is 3.96 stars

Expense Ratios: Silent Killers

By taking advantage of *HealthSavings*' lower expense ratios vs. the industry average, account holders can save as much as **$110,000** over the life of their accounts.

- Industry weighted average: **43 bps**
- Our weighted average: **11 bps (75% lower)**



This calculation shows expense ratio costs assuming a 40-year HSA investment starting at age 25 with maximum family contributions and applicable catch-up contributions each year, as well as a 6% annual return and 2% annual CPI increase.

Seamless, Easy Process

- During enrollment, employees choose their personas through a quick, simple selection process
- Once they’ve picked a persona, all highlighted features and future communication will be automatically tailored to them
- The educational resources they receive will also be tailored to best match their life stage and behavior

Q&A

ENGAGE WITH EBRI

Register for our upcoming webinars:

- May 19th: Key Findings of the 30th Annual Retirement Confidence Survey
- June 8th: Women in Retirement: Findings from the 30th Annual Retirement Confidence Survey

Register for the Virtual EBRI Policy Forum, June 29th – July 2nd

Topics include:

- *CARES Act: Implications for Retirement Security of American Workers – June 29*
- *The New Landscape: Covid-19 Impact on Defined Benefit Plans – June 30*
- *Coming out the Other Side of Covid-19: the Future of the Employer Based Health Care System – July 1*
- *Financial Wellness in Times of Crisis – July 2*

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