

February 2019

# 2018 HSA SPEND REPORT

An Analysis of Consumer HSA Spending Patterns  
January - December 2018





# INTRODUCTION

You know the narrative -- healthcare is expensive. Healthcare spending is up year-over-year (3.9%)\*; with costs rising faster than the annual rate of inflation. This, combined with the rise of high deductible health plans (HDHPs)\*\* , puts pressure on the average American consumer to spend more of their savings on everyday health expenses.

What this conversation is missing is **what** and **where** Americans are spending this money. Are expenses dominated by high-cost medical events, like hospital stays? Or is it the combined effect of higher co-pays and out-of-pocket costs for health services and prescriptions?

Lively sampled HSA spend data from thousands of random, unique customers to better understand consumer habits when it comes to healthcare spending. This HSA Spend Report will outline where consumers spend their HSA funds, and compare that against data from the Center for Medicare and Medicaid Services to understand the similarities and differences between HSA spending and national healthcare spending.

## REPORT METHODOLOGY

Lively collected anonymous data from a randomly selected subset of users (15,000), who had an HSA account in 2018. This includes accounts with active contributions and ones without. To classify the types of health goods or services that were provided, HSA debit card spend data from January to December 2018 was categorized with Merchant Category Codes (MCCs). No demographic or personal information was provided or used to create these cohorts. As such, any demographic details are based on post-data collection analysis.

\*"NHE-Fact-Sheet." Edited by NHE, CMS.gov, Centers for Medicare & Medicaid Services, 6 Dec. 2018, [www.cms.gov/research-statistics-data-and-systems/statistics-trends-and-reports/nationalhealthexpenddata/nhe-fact-sheet.html](http://www.cms.gov/research-statistics-data-and-systems/statistics-trends-and-reports/nationalhealthexpenddata/nhe-fact-sheet.html).

\*\*"Health Savings Accounts and Consumer-Directed Health Plans Grow as Valuable Financial Planning Tools." AHIP, America's Health Insurance Plans, 17 Dec. 2018, [www.ahip.org/2017-survey-of-health-savings-accounts/](http://www.ahip.org/2017-survey-of-health-savings-accounts/).



# KEY FINDINGS

## **HSA funds are primarily being used to pay for rising household healthcare expenses.**

Personal household out-of-pocket healthcare expenses continue to increase and outpace inflation, causing these costs to grow each year as a percentage share of personal household expenses **(37%)\***.

## **Short-term costs limit long-term benefits.**

While HSAs have clear short and long-term tax advantages, rising healthcare costs are forcing HSA account holders to use more of their funds for expected expenses each year, rather than saving and investing them for later use.

## **Where did the money go?**

Physician and clinical services were the primary use of HSA funds in 2018 (41 percent), followed by prescription drugs (25 percent), then hospital expenses (7 percent).

\*"NHE-Fact-Sheet." Edited by NHE, CMS.gov, Centers for Medicare & Medicaid Services, 6 Dec. 2018, [www.cms.gov/research-statistics-data-and-systems/statistics-trends-and-reports/nationalhealthexpenddata/nhe-fact-sheet.html](https://www.cms.gov/research-statistics-data-and-systems/statistics-trends-and-reports/nationalhealthexpenddata/nhe-fact-sheet.html).



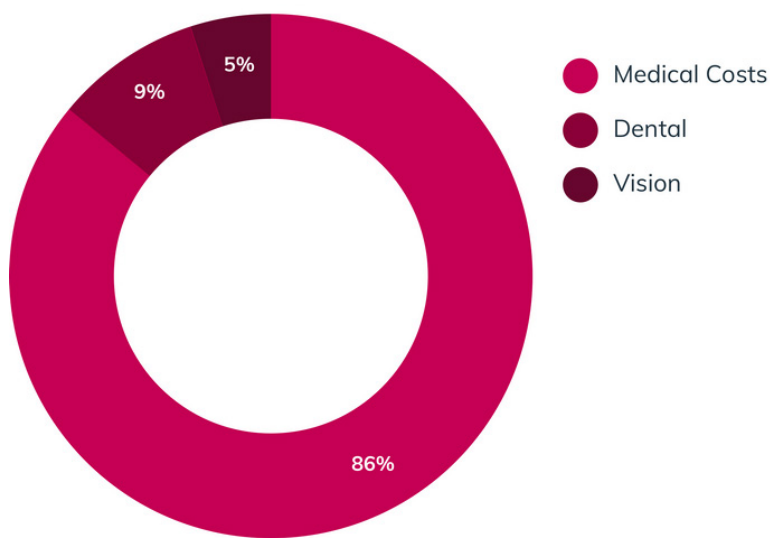
# HSA SPENDING OVERVIEW

HSAs can be split into three categories of account capabilities: savings, investments, and spending. The average HSA account holder will spend 96% of their annual contributions on qualified medical expenses. This excludes any year-over-year carry from their existing HSA savings or investments. This report breaks down the 96% spent annually -- and for simplicity's sake, will from here on out be assumed as 100%.

In 2018, Lively HSA funds were used for medical costs (86%), dental (9%), and vision costs (5%).

Surprisingly, these costs are focused around expected and typical healthcare costs -- such as preventative care and regular doctor visits -- rather than hospital visits.

## HSA Spend Breakdown



## NATIONAL HEALTHCARE SPENDING TRENDS

National healthcare spending in 2017 surpassed \$3.5 trillion, or \$10,739 per person, according to data released from the Centers for Medicare and Medicaid Services. At a growth rate of 3.9%, 2017 represented a slowdown in yearly healthcare spending increases, similar to the growth rate between 2008-2013 (after rising 4.8% in 2016 and 5.8% in 2015).





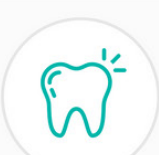

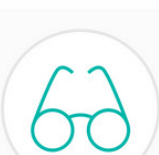
This rate is similar to the national healthcare costs per household, which grew at a rate of 3.8% (after rising 4.8% in 2016), driven primarily by a slower increase in out-of-pocket household expenses. At 37%, out-of-pocket expenses make up the largest share of national spending (increased by 2.6% in 2017, compared to an increase of 4.4% in 2016).

While increases in personal healthcare costs have slowed marginally in 2017, it should be noted they continue to outpace inflation (2.1% in 2017). The result is a continued increase in health costs as a percentage of personal expenses. Healthcare costs continue to squeeze American families as they are forced to reallocate funds from existing expenses to cover healthcare's larger share.



# HSA CONSUMER SPENDING HABITS

Our data set is categorized in the table below by HSA spending habits of consumers, broken into the types of health goods or services that were purchased by our HSA account holders.

	<b>Doctor Visits and Services</b> Medical Services and Health Practitioners Doctors	<b>41%</b> 21% 20%
	<b>Prescription Drugs</b>	<b>25%</b>
	<b>Hospital</b>	<b>7%</b>
	<b>Lab Work</b>	<b>4%</b>
	<b>Dental</b>	<b>9%</b>
	<b>Chiropractors</b>	<b>5%</b>
	<b>Vision and Eyewear</b> Optometrists and Ophthalmologists Optician, Optician Goods and Eyeglasses	<b>5%</b> 3% 2%
	<b>Other</b>	<b>4%</b>



# COMPARING HEALTH COSTS VS. HSA EXPENSES

How does HSA spend data compare to national healthcare spending? Let's look at the data.

## NATIONAL HEALTH EXPENDITURES, 2017

Categories	Spend Percentage
Hospital Care	33%
Physician and Clinical Services	20%
Retail Prescription Drugs	10%
Other Health, Residential & Personal Care Services	5%
Nursing Care Facilities & Continuing Care Retirement Communities	5%
Dental Services	4%
Home Health Care	3%
Other Professional Services	3%
Non-Durable Medical Products	2%
Medical Products	2%
Durable Medical Equipment	2%

## HSA CONSUMER SPENDING

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Hospital Care	7%
Lab Work	4%
Dental Services	9%
Chiropractors	5%
Vision and Eyewear	5%
Other (uncategorized)	4%

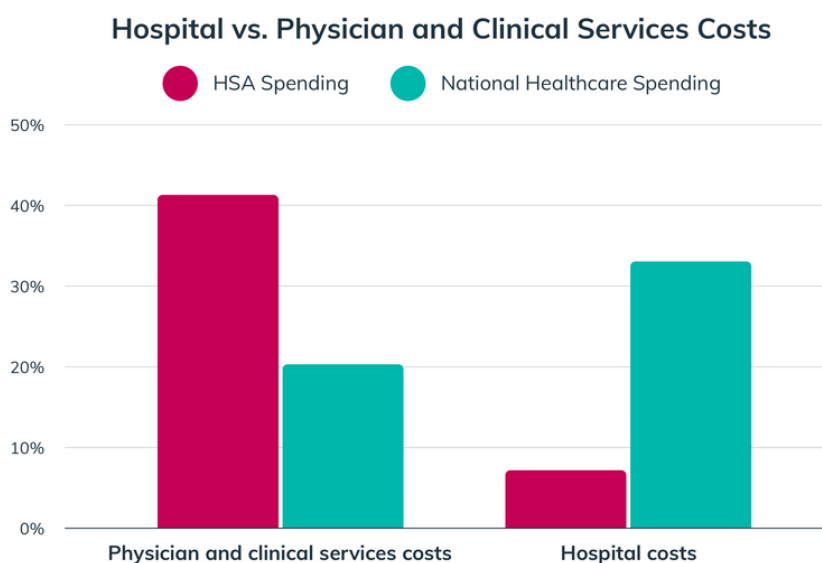
Source: The Centers for Medicare and Medicaid Services

Looking at the above National Health Expenditures table, the majority of personal healthcare expenses in 2017 were from hospital care (33%), physician and clinical services (20%), and prescription drugs (10%). The other expenses (37%) are scattered across medical, dental, home care, and medical equipment, among many others. Comparing the two charts shows clear discrepancies between HSA spending and overall healthcare spending. Let's examine a few of those expense variations.

## Hospital vs. Physician and Clinical Services Costs

Physician and clinical services costs were the primary use of HSA funds in 2018 (41%), followed by prescription drugs (25%), and then hospital expenses (7%).

The opposite is true when we look at national healthcare expenses. Hospital expenses drive the majority of expenses (33%), followed by physician and clinical services costs (20%), and then prescription drugs (10%).







What is driving the differences in spend here?

The variation across these expenses is easier to understand when comparing the demographic of an HSA user to the average American consumer. HSAs are a newer health savings tool, that originated in 2003. Combined with the fact that HSA eligibility excludes Medicare, HSA users represent a younger group when compared to all healthcare users and are less likely to need hospitalization.

## Dental Services

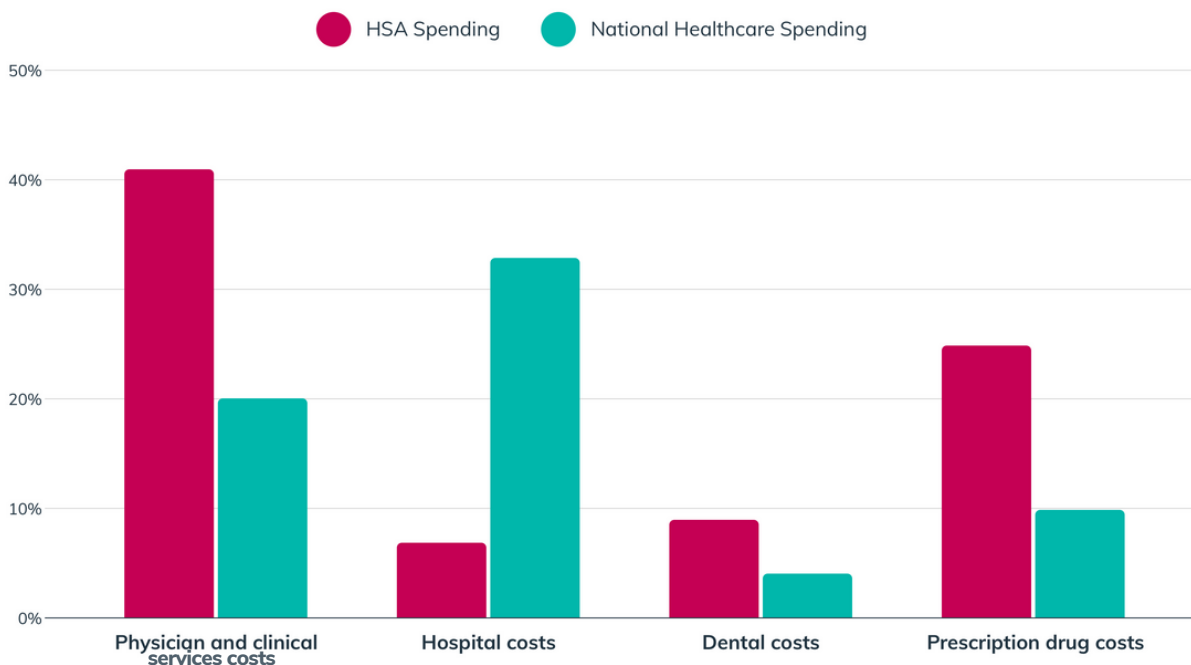
The average national spend on dental services per year is 4%, while the average HSA user spends more than double on dental work (9%). The key difference is the value HSAs provide for dental services, through pre-tax dollars. At Lively, we've worked hard to educate our users about this benefit, and as such they use their HSA for most dental-related expenses. This reduces their total out-of-pocket expenses vs. those of the average American.

## Prescription Drug Costs

HSA spend represents a larger percentage of prescription drug costs (25%) when compared to average healthcare expenses (10%). This is a 2.5x increase -- what is the root cause?

Prescription drug costs represent a very real and regular monthly out-of-pocket expense. This is true for both HSA and non-HSA account holders. The variation in spending is similar to the pattern for dental expenses: the tax-free cost savings of an HSA is likely increasing the spend of prescription drugs. Additionally, the convenience of using an HSA debit card to pull funds directly from your HSA may also contribute to the higher spend on prescriptions by HSA users. By using an HSA, consumers can increase their monthly healthcare spending without decreasing their personal savings.

### HSA Spending and National Healthcare Spending





# CONCLUSION

As 96% of HSA funds across all industry providers are spent yearly, it's clear that Americans are using HSAs to reduce their yearly health cost burden. The tax-free advantages of HSAs are a clear path to reduce short and long-term health costs, but rising year-over-year health expenses are limiting the long-term investments that HSA-eligible account holders can make.

Expanding HSA contribution limits, HSA eligible expenses, or the number of HSA eligible Americans would help further reduce the financial burden of healthcare costs -- while also leaving some funds left over for long-term savings. This is the only direct way to help Americans save and pay for the expected **\$280,000 in health costs\*** in retirement (per couple, on top of Medicare coverage).

Note: The primary differences between HSA spending and healthcare spending are based on two factors:

- The age of HSA accounts
- The age of HSA account holders

HSAs were created in 2003 to replace Medical Savings Accounts. As a result, the oldest accounts are only 15 years old (some are slightly older for MSAs that were rolled into HSAs). Active HSA contributors must be HSA-eligible, which excludes Medicare enrollees and older Americans. As a result, the majority of HSA spenders represent a lower age demographic than the rest of the healthcare spending demographic. This is why HSA spending is lower across categories like hospital care, which represents a larger percentage in overall healthcare spending.

\*"A Couple Retiring in 2018 Would Need an Estimated \$280,000 to Cover Health Care Costs in Retirement, Fidelity® Analysis Shows." Fidelity Investments, 19 Apr. 2018, [www.fidelity.com/about-fidelity/employer-services/a-couple-retiring-in-2018-would-need-estimated-280000](http://www.fidelity.com/about-fidelity/employer-services/a-couple-retiring-in-2018-would-need-estimated-280000).





# CONCLUSION

Over the last few years, HDHP growth has been driving HSA adoption. Enrollment in HSA-HDHPs increased by nearly 400% over a decade, from 4.5 million in 2007 to 21.8 million in 2017\*. The growth of HSAs will move HSA account demographics closer to the average American healthcare spender, which will decrease the gaps shown in the data above. We expect the use of HSAs to rise over the next 2-3 years and accelerate as HDHPs become a standard health insurance plan choice for Americans.

Education about HSAs is extremely important -- using the tax-free savings and spending IRS HSA allowances, Americans can reduce their yearly health cost burdens, but only if those with a HDHP know how to take advantage of this benefit. Educating more HSA-eligible Americans of the tax-free value of an HSA has the potential to help reduce healthcare spending and increase healthcare savings.

Not only does this data tell us how Americans are spending on healthcare right now, it can help us anticipate future healthcare expenses.

As HSA users age, the 96% they currently spend on expected yearly costs won't begin to cover their larger, unexpected expenses. Therefore rising national healthcare costs, while significant, discount the expected acceleration of future healthcare costs as this younger population ages and major medical expenses impact their spending. As a result, healthcare spending will not just increase in the coming years, it will grow to unforeseen highs.

## About Lively

Lively is a modern Health Savings Account (HSA) platform for employers and individuals. Lively's user-centric solution creates an intuitive user experience allowing consumers to get the most out of their HSA. Lively HSAs work alongside HSA compatible plans to make healthcare easier for everyone. Founded by Alex Cyriac and Shobin Uralil, Lively is headquartered in San Francisco, CA.

\*"Health Savings Accounts and Consumer-Directed Health Plans Grow as Valuable Financial Planning Tools." AHIP, America's Health Insurance Plans, 17 Dec. 2018, [www.ahip.org/2017-survey-of-health-savings-accounts/](http://www.ahip.org/2017-survey-of-health-savings-accounts/).