

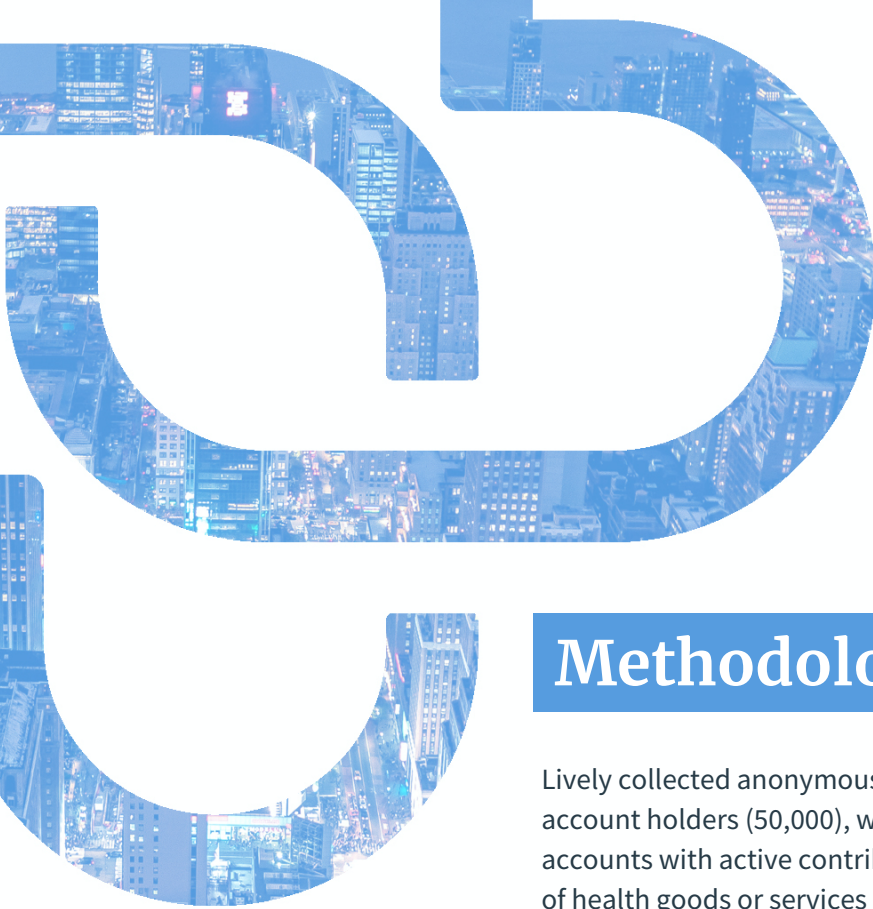
# HSA Spend Report

3rd Annual Report on the State of HSAs



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## Methodology

Lively collected anonymous data from a randomly selected subset of account holders (50,000), who had an HSA account in 2020. 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 2020 was categorized by 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.

This is our third annual HSA Spend Report.

## Overview

### An Abnormal Year in Healthcare... Except for Rising Costs

The COVID-19 pandemic has interrupted the predictability of healthcare service and spending. In 2020, over [20 million cases of COVID-19](#) were reported in the United States. The implications are far-reaching for households and the healthcare sector. Shelter-in-place and stay-at-home orders have caused industry stand-stills. An estimated 7.3 million workers and dependents lost employer-sponsored health insurance because of the [pandemic-induced recession](#). But even with so much uncertainty and change, one element remained steady in 2020 - rising healthcare costs.

**Insurers noted that COVID-19 would put both upward and downward pressure on health costs in 2021.**

Between 2019 and 2020, the average annual premiums for single and family coverage [increased by 4%](#). As usual, premium costs continue to rise faster than the annual rate of inflation. Driven by rising healthcare costs, employers are increasingly moving to high-deductible healthcare plans (HDHPs), and employee adoption is increasing. In fact, between 2007 and 2018 the percentage of people with private health insurance, under 65 and enrolled in an HDHP grew from [17.4% to 46%](#).

Businesses felt increased financial pressures and unprecedented uncertainty in 2020, while healthcare costs were on the rise. Insurers noted that COVID-19 would put both upward and downward pressure on health costs in 2021. The most common



factors that are expected to increase costs in 2021 are the continued cost of COVID-19 testing, the potential for widespread vaccination, and the rebounding of medical services delayed from 2020. This is balanced with the expectation many insurers expect healthcare utilization to remain lower than usual in 2021 as people observe [social distancing measures and avoid routine care](#). Even with a vaccine, exactly when life will get back to normal remains unclear and costs expectations are equally unknown.

### **Pandemic Spending Impact & Contactless Payment Trends**

COVID-19 impacted healthcare and HSA spending in 2020. Elective procedures and preventative care visits came to a halt between March and April. At the end of April, during the peak of the early pandemic, HSA spending became unpredictable. Many account holders reduced their spending, while others increased their spending.

The ways in which people paid for their healthcare also changed. When payment decisions were made, more individuals chose the most physically safe opportunity at the point of sale than in the past. This included choosing online versus in-store purchases, and completing doctor service visit transactions with a contactless card or mobile wallet. The pandemic has pushed more shoppers online, with e-commerce now accounting for [16.1% of all U.S. sales, up from 11.8% in Q1 2020](#). These payment trends extended to the healthcare sector, with more individuals choosing [online ordering and contactless or mobile payment](#) at essential services locations, such as pharmacies. We expect these trends to be the new baseline for transactions in 2021.



# Key Findings

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## Insights Into HSA Spending

### 1. COVID-19 impacted healthcare spending & costs

In March and April of 2020, COVID-19 halted healthcare spending for preventative and elective procedures. This was to prevent pandemic spread, but also to safeguard diminishing supplies of personal protective equipment for front-line workers. As stay-at-home orders lifted throughout the summer months, healthcare spending picked up, but slower than normal. This impacted HSA spending throughout the year. Doctors visit and services (-3%), hospital (-9%), lab work (-15%), and dental spending (-9%) all decreased in 2020. But there were also large spending increases for prescriptions (+32%) and chiropractic care (+20%). Costs for COVID-19 related prescription drugs increased between January and June 2020, and 2021 health insurance premium cost estimates were volatile.

### 2. HSAs are being used as designed, for regular and expected yearly medical expenses

The most obvious, yet important year-over-year reinforcement of this spend data, is that we can clearly see that HSA funds are continuing to be used as they were originally designed and intended. When expected medical, dental, and vision expenses are combined, over 71% of all HSA expenses are being used for expected yearly medical costs. Adding in prescription drug spending, that jumps to 84%. We would expect this distribution to climb even further, as yearly service-based medical costs continue to increase.

### 3. The cost (and share) of hospital care is increasing

Hospital care accounts for 31% of national healthcare spending, but only 13.6% of HSA spending. Doctor visits and services account for 48.7% of all HSA spending, but only 20% of national healthcare spending. Although national and HSA spending was down for hospital care, the decrease was proportional. COVID-19 caused an abnormal year in healthcare and decreased spending to this category. Once the pandemic is behind us we predict that the cost and share of hospital care will continue to increase. The reason? The average hospital stay [costs over \\$1,000 out-of-pocket](#). The average industry HSA spend per debit card transaction is [\\$106](#). While there are more doctor visits & services than hospital stays, the 10x difference in cost per experience accounts for the differences.

# Key Findings

## Insights Into HSA Spending

### 4. Prescription spending is dominated by national pharmacies, but ‘superstores’ gained market share

In-store purchases, led by the larger national pharmacies still dominate the market and capture the largest percentage of market share, with Walgreens leading the way—followed by CVS and RiteAid. However, the pandemic may have changed this consumer spending trend. Between 2019 (8%) and 2020 (13%), 63% more prescriptions were filled at ‘superstores’ like Walmart, Target, Costco, and Sam’s Club, where people were already shopping. This could have been spurred by convenience and reducing the potential of transmission by grouping shopping needs. Aligned with convenience and safety, we’re likely to see a trend in mobile purchases as consumers become more confident with online-first shopping.

### 5. HSA expenses mirror consumer trends

Out-of-pocket healthcare expenses account for 11% of all healthcare expenses nationally. This equates to 38% of all household spending (increased 4.6% in 2019 compared to growth of 3.8% in 2018). Combining this increase with health insurance market trends, like HDHP growth, we can expect HSA spending to more accurately showcase consumer health spending trends. The resulting impact will be more accountable healthcare spending data (from both a category and merchant perspective). This spending will not only align with consumer healthcare trends but also help predict future behaviors.



# **HSA Spending Overview**

# HSA Spending Overview

HSAs can be split into three categories of account capabilities: savings, investments, and spending. The average Lively HSA account holder will spend 47% of their annual contributions on qualified healthcare expenses (this excludes any year-over-year carryover from their existing HSA savings or investments). This correlates to lower healthcare spending across the industry, that we noted above. The silver lining here is that because HSA funds never expire, account holders will have access to a higher savings balance (than normal) and are better prepared for their healthcare costs next year.

How account holders use their funds (save, spend, or invest) is a reflection of the state of healthcare. With more account holders having a statistically significant increase in their end of year HSA balance in 2020, this will have a significant impact on HSA account activities in 2021. Whether that means increased HSA savings, spending or investing over the long-term, we will have to wait and see.

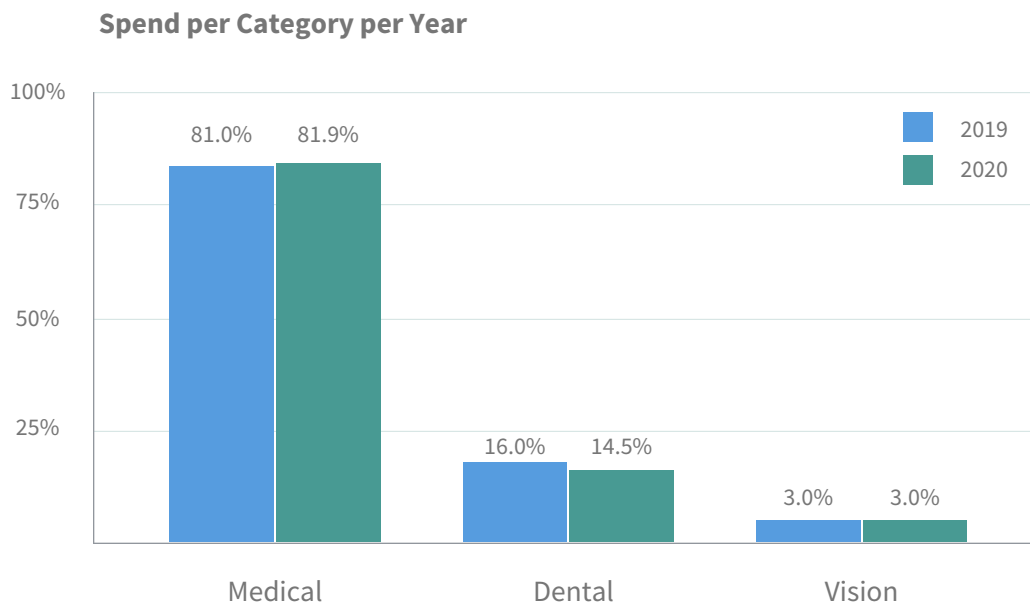
## Spend per Category (2020)

Medical	81.9%
Dental	14.5%
Vision	3.0%
Other	0.6%

In 2020, Lively HSA spending was used for medical costs (81.9%), dental (14.5%), and vision costs (3.0%). Surprisingly, these costs are focused around expected and typical healthcare costs – such as preventative care and regular doctor visits, rather than hospital visits.



# HSA Spending Overview



The average Lively HSA account holder averaged 8.5 spend transactions per year. This is well below the [average HSA account holder](#) (18 transactions per year), likely correlated to the higher than average debit card spend of Lively account holders and the lower yearly distribution of Lively accounts.

**The average Lively HSA account holder spent \$126 per transaction, \$20 above the average HSA account holder.**

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# **HSA Consumer Spending Habits**

# HSA Consumer Spending Habits

When it comes to HSA spending, two things matter: the average cost for regular and expected healthcare costs, such as trips to the doctor and the HSA account holder’s age. These mimic trends in the healthcare space.

## Consumer Spend per Category (2020)

Doctor Visits & Services	48.7%
Dental	14.5%
Hospital	13.6%
Prescription Drugs	13.2%
Chiropractor	3.0%
Vision & Eyewear	3.0%
Lab work	1.7%
Other	1.6%
Mental Health	0.3%

The most obvious, yet important, discovery of this spend data, is that we can clearly see that HSA funds are used as they were originally designed and intended, for expected routine yearly medical expenses. 86% of annual HSA spending is being used for expected costs and routine visits.

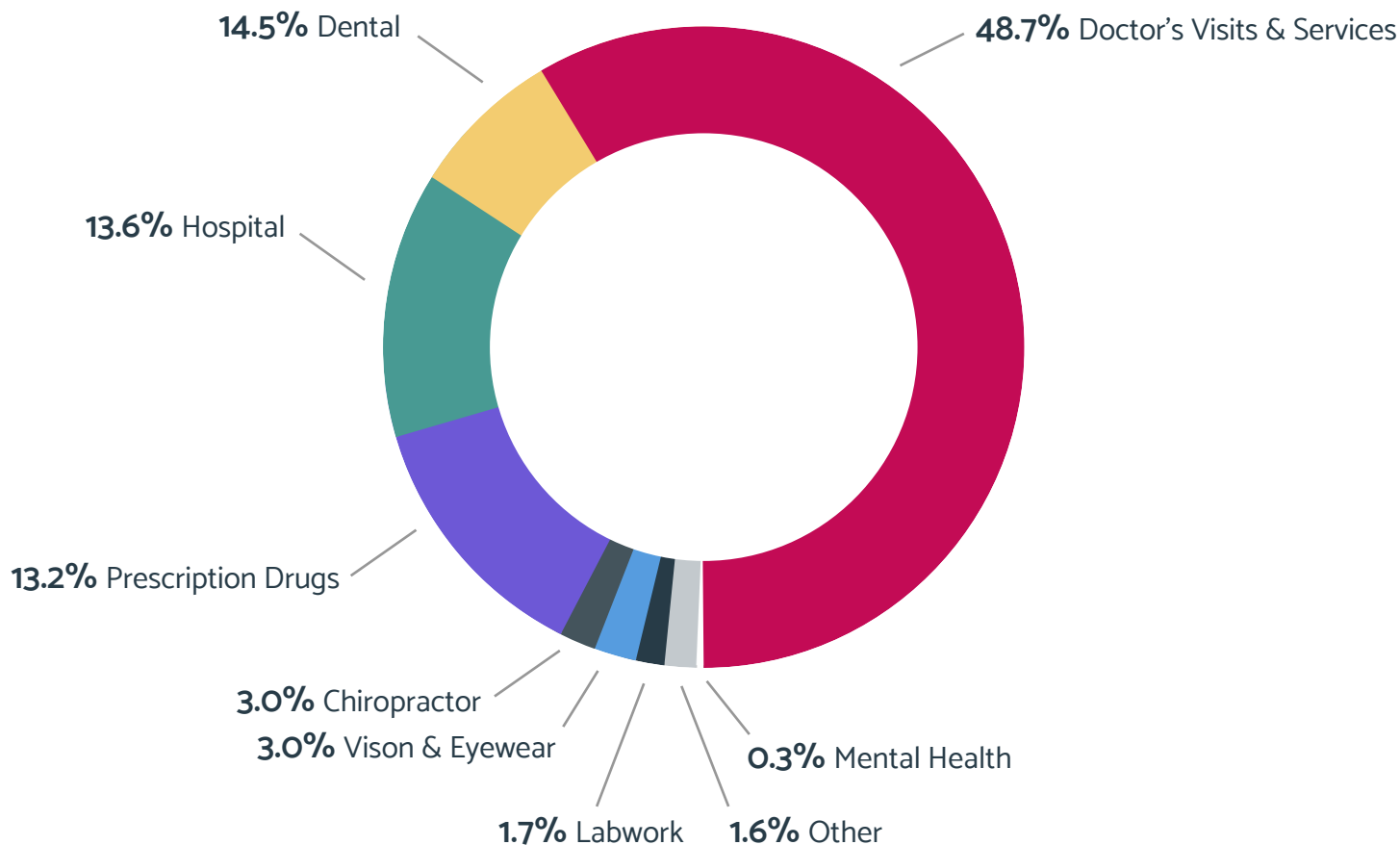
# HSA Consumer Spending Habits

Lively HSA account holders continue to use their HSAs, for regular and expected medical services. By doing so reducing their overall out-of-pocket healthcare spending when compared to Americans who don't have access to an HSA and the triple-tax savings that comes with it.

When expected medical, dental, and vision expenses are combined, over 71% of all HSA expenses are being used for yearly expenses. That jumps to 84% when adding prescription drug spending. We would expect this distribution to climb even further, as yearly service-based medical costs continue to increase.

**86% of annual HSA spending is being used for expected costs and routine visits.**

## Consumer Spending per Category (2020)





# **HSA Consumer Spending Habits**

**Year-Over-Year Changes**

## 2020 vs. 2019

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The largest percentage of change between 2019 and 2020 came from prescription drugs (+32%), chiropractic care (+20%), and lab work (-15%) spending. Other consumer spending habits that we tracked had between a -9% to 0% change.

### Doctor Visits & Services

Doctor visits and services spending decreased 3% from 50% in 2019 to 48.7% in 2020. Because HSAs are designed to be used for regular yearly healthcare expenses, doctor visits & services spending are at the top of the list. The slight decrease in spending can be attributed to doctor visits and service spending dropping nearly 60% by early April because of state and local governments restrictions on travel and nonessential services, delayed care, and other impacts [related to COVID-19](#). However, in non-pandemic times, doctor visits and service spending represents the most common HSA use case within the health spending landscape. We can expect an increase back toward 2019 levels in 2021, but this won't normalize again until 2022.

### Hospital Spending

Hospital spending decreased by 9% from 15% in 2019 to 13.6% in 2020. The decrease in hospital spending aligns with the cancelation or postponement of elective procedures in response to COVID-19. Hospital admissions fell by 31% in April 2020 and rebounded to 91% of predicted admissions by August 2020. The March to June 2020 decline in admissions has impacted [hospital spending](#). We can expect an increase back toward 2019 levels in 2021, but this won't normalize again until 2022.

### Lab Work Spending

Lab work spending decreased by 15% from 2% in 2019 to 1.7% in 2020. This is likely because of the reduction of doctor and hospital spending due to COVID-19. We can expect an increase back toward 2019 levels in 2021, but this won't normalize again until 2022.

### Dental Spending

Dental spending decreased 9% from 16% in 2019 to 14.5% in 2020. This is aligned with the estimated 38% national decrease in [dental care spending in 2020](#) caused by dental office closures in March and April 2020. The overall reduction of elective dental visits throughout the year and the loss of dental insurance may have also impacted dental spending. It will be interesting to see if in 2021 we see an increase in dental spending as HSA holders make up for lost appointments or delayed dental procedures.



## 2020 vs. 2019

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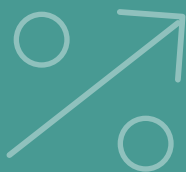
### Prescription Spending

Prescription spending increased 32% from 10% in 2019 to 13.2% in 2020. Prescription spending in 2020 was largely the result of reactive stockpiling due to the pandemic and price increases. The initial increase in spending was because of the filling or refilling prescriptions at the beginning of the pandemic, as recommended by the Centers for Disease Control and Prevention (CDC). Concerns over possible COVID-19 related shortages fueled the spike. Then, there were speculative treatments for COVID-19. Interest in chloroquine and hydroxychloroquine spiked in March based on public attention, causing a 125% spike in these prescriptions. Once the flurry of attention decreased, so did prescriptions. Increases to anti-anxiety, anti-depression and sleep medication orders also increased sharply as the length of stay-at-home orders increased. Finally, many individuals refilled prescriptions in advance of losing [employer-sponsored healthcare](#).

Pharmaceutical companies significantly increased drug costs for 245 drugs between January 20 and June 20, with more than 75% of the drugs impacted [directly pertaining to COVID-19](#). Among those that increased in price were anxiety and depression drugs such as Ativan, Lithobid, Paxil, and Spravato. Drug prices will continue to be a contributing factor to prescription drug spending percentages in 2021.

### Chiropractic Spending

Chiropractic spending increased 20% from 2.5% in 2019 to 3.0% in 2020. This can be attributed to COVID-19 causing an increase in sheltering in place and work from home conditions. These conditions have likely caused an increase in pain related to a sedentary lifestyle and poor work from home set-ups. Also, with increased knowledge of the opioid epidemic, non-drug approaches to pain relief, especially for back pain, are an increasingly popular option for people [looking for relief](#).



Chiropractic spending increased 20% from 2.5% in 2019 to 3% in 2020. This can be attributed to COVID-19 causing an increase in sheltering in place and work from home conditions.

### Mental Health Spending

The percentage of spending on mental health (0.3%) and vision & eyewear (3%) experienced no change between 2019 and 2020.

# Consumer Behavior Habits & Trends

For the second year, we have consumer spend information included in our analysis. This includes aggregated merchant spend data.

## Prescription Drug Trends

Prescription drug spending accounts for 13.2% of all 2020 HSA spend and 10% of all healthcare spending nationally. Here are the highlights:



Traditional national pharmacies reign supreme with 67.8% led by Walgreens, CVS, and Rite Aid.



Superstores are gaining traction with 13%, including Target, Walmart, Costco, and Sam's Club.



Amazon is still lurking. While they only have single-digit spend (4.4%), they are capturing a large portion of web and mobile purchases (vs. in-store). This could change significantly in 2021 with Amazon's new online pharmacy and acquisition of PillPack.

In-store purchases, led by the larger national pharmacies still dominate the market and capture the largest—although reduced—percentage of market share, with Walgreens leading the way, followed by CVS and RiteAid. However, the pandemic may have changed this consumer spending trend. Between 2019 and 2020, 63% more prescriptions were filled at 'superstores,' where people were already shopping. And traditional national pharmacy purchases were reduced by 12%. This could have been spurred by convenience and consumers looking to reduce the potential of COVID-19 transmission by grouping shopping needs. Aligned with convenience and safety, we're likely to see a trend in mobile purchases as consumers become more confident with online-first ordering.

# Consumer Behavior Habits & Trends

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## Vision and Eyewear Trends

In 2020, 13.3% of all vision and eyewear spending was online, dominated by 1-800 Contacts and Warby Parker. This HSA spending trend decreased by 11.6% in 2020, from 15% 2019 to 13.25% in 2020. This could correlate with the prescription drug shopping trends seen in 2020—the convenience and safety of grouping shopping needs at ‘superstores.’

## Mental Health Trends

Mental health spending experienced no increase between 2019 and 2020, it was steady at 0.3%. However, we did see an increase in mental health spending through virtual experiences, a 10% increase from 15% in 2019 to 16.3% in 2020. While the amount of mental health spend did not increase, the way in which consumers accessed help did.

It is hard to know why more consumers were not spending on mental health care—especially at a time when mental health-related prescriptions and public awareness increased. It could be because of the stigma related to seeking help or because mental health care is not a well-known HSA expense. For those that did know, the trend towards spending through virtual experiences did increase.

**It is hard to know why more consumers were not spending on mental health care—especially at a time when mental health-related prescriptions and public awareness increased.**

This aligns with broader consumer trends and direct-to-consumer mental health offerings that have emerged in the market over the last few years. If consumer adoption of mental health apps expands and also diminishes former stigmas of mental health experiences, we would expect HSA spending to increase.



# Comparing Health Costs

vs.

# HSA Expenses

# Cost Comparison

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

National Healthcare Spending	
Hospital Care	31%
Physical 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 Healthcare	3%
Other Professional Services	3%
Other Non-Durable Medical Products	2%
Other Non-Durable Medical Products	2%
Durable Medical Equipment	2%

Data Source

When comparing overall healthcare spending and HSA spending you will see key differences in hospital, doctor visits & services, and dental expenses. We will look into these differences and outline likely correlations and casualties.

# Top Spend Categories

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Hospital care accounts for 31% of national healthcare spending, but only 13.6% of HSA spending. Doctor visits and services account for 48.7% of all HSA spending, but only 20% of national healthcare spending.

These inverse relationships are based on three factors:

1. Cost per health experience
2. Frequency of health experience
3. Age of HSA account holder and account

The average hospital stay costs over [\\$1,000 out-of-pocket](#). The average industry HSA spend is \$106. While there are more doctor visits and services than hospital stays, the 10x difference in cost per experience accounts for the difference.

The biggest concern here is that HSA account holders are using their funds for regular doctor visits & services throughout the year. As a result, account holders often want or need more HSA funds if an unexpected health event account that requires a hospital stay.

We know from our [2020 HSA Persona Report](#) the age of the HSA account holder and account also influences HSA spending. The average HSA distribution amount increases with age. The increase from account holders in the under 55 segment to over 55 segment ranges from 2-10x, suggesting an almost exponential growth in healthcare spending later in life.



# Top Spend Categories

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## Why are dental expenses higher for HSAs than the national average?

Dental expenses are 4% and 14.5% of national healthcare and HSA spending respectively. The 3.6x gap between these two data sources are related to the convenience and value that HSAs offer when paying for regular dental expenses. However, this convenience is not outweighed by larger (and more frequent) healthcare expenses. This cost vs. convenience discrepancy will continue, and may even increase, as more HSA providers educate account holders in regard to HSA-eligible dental expenses.

The gaps between overall healthcare spending and HSA spending showcase a clear and distinct distribution between out-of-pocket consumer health expenses and national expenses, which include both out-of-pocket and insurance-related health expenses.

Now that HDHPs have become the most common health plan [most common health plan](#), we can expect most health expenses (both nationally and with HSAs) to become more aligned. The biggest exclusion will be major medical expenses, like hospital care, that will still be largely covered by health insurance.



# Conclusion

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COVID-19's influence on 2020 HSA spending and healthcare costs was significant. The impact of COVID-19 on 2021 premiums ranges from a 3.4% decrease to an 8.4% increase. The volatility has employers and employees seeking ways to cut the costs of fixed expenses, adding more pressure on the average American consumer who spends their savings on everyday health expenses.

Downward trends in routine and preventative care, plus hospital spending, were stark. The pandemic also influenced the increase in prescription drug and chiropractic care spending. How and where these purchasing decisions took place was also altered, with an increase in online-first ordering and services and a preference for contactless and mobile wallet spending. It was an abnormal year for healthcare and whether or not these trends will stick is to be seen.

**86% of annual HSA spending is being used for expected costs and routine visits.**

What we do know is that in 2020, regardless of the pandemic, Americans continued to use HSAs how they were initially intended – for standard, yearly medical expenses. Healthcare costs continue to rise, unemployment is high, and health insurance premium volatility at its peak. HSAs will continue to be vital for American families to shelter themselves from rising out-of-pocket healthcare costs. Increasing the annual HSA contribution limit would better prepare Americans for both regular healthcare experiences and higher cost, but less frequent healthcare emergencies.



## About Lively, Inc.

Lively is a modern Health Savings Account (HSA) platform for employers and individuals, built by pioneers of the HSA industry with decades of health, benefits, financial, and insurance industry expertise.

Lively's top-rated, 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.

Lively is headquartered in San Francisco, CA. For more information, please visit [livelyme.com](https://livelyme.com) or contact us at [sales@livelyme.com](mailto:sales@livelyme.com).