Title: Health Savings Accounts: Takeup, Savings, and Use

Health Savings Accounts (HSAs) are tax-advantaged savings accounts that help Americans with High Deductible Health Plans (HDHPs) build savings for future medical expenses. The tax advantages are threefold: contributions are tax deductible, they earn interest tax free, and withdrawals are not taxed if made for qualified medical expenses. Withdrawals for any other reason are subject to income tax, and they are additionally penalized if taken prior to age 65. After the age of 65, withdrawals for non-qualified expenses are still taxed as income, but there is no penalty in excess. Due to their triple tax advantage, HSAs have gained popularity among financial advisors both as medical savings accounts and de facto retirement accounts, within the range of other tax-advantaged savings tools such as 401(k) and IRA retirement savings accounts. But while there is a lot of work that studies the latter, we know very little about Americans' usage of HSAs. Specifically, we lack knowledge about the take-up of the program and how it changed over time, as well as about how households contribute into these accounts and withdraw from them. Moreover, we do not know the degree to which funds are used for medical expenses versus non-qualified distributions that could address other liquidity needs, and how these could vary over the life cycle and differentially operate for older households who could use these funds for consumption at retirement. Hence, what role HSAs play in Americans' financial well-being and in their savings portfolios to finance consumption at older age remains an open question.

To fill this gap, this project plans to study household take-up and usage of HSAs using the IRS tax records on the universe of American families. This will be done through an existing co-authorship with a researcher at the Office of Tax Analysis and access to data has been established. The main data will be based on: Forms 5498-SA and 1099-SA (third party reported contributions and distributions), and Form 8889 (households' filing of contributions, distributions, and amounts penalized for non-qualified distributions). We plan to study different behaviors and exploit several sources of variation as follows:

(1) Characterize the take-up of HSAs over time, age, and across income groups.
(2) Analyze the contribution patterns into HSAs over time and age, including the degree to which households max out these contributions by analyzing patterns of bunching at max amounts allowed.
(3) Investigate withdrawals from these accounts. Specifically:
    a. how they are used for qualified health expenses versus non-qualified consumption needs.
    b. how financial and major events (unemployment, sharp income decline, spousal death) lead households to rely on HSA funds to access liquidity, by studying penalized withdrawals.
(4) On January 1, 2011, as part of the Affordable Care Act, the penalty for non-qualified withdrawals increased from 10 to 20 percent. We will use this variation to study how it could have affected:
    a. take-up of accounts and contributions into it (will shed light on expectations for liquidity needs)
    b. withdrawals for non-qualified distributions (will shed light on realizations of liquidity needs)
    c. substitution into cheaper non-qualified withdrawals from 401(k)/IRA (portfolio management)

    Since this is a national change, we will explore sources of variation that relate to intensity of exposure, e.g., by spatial variation in the share of households with HSAs prior to the policy change.
(5) We will pay particular attention to SSA beneficiaries and individuals of eligible ages by studying the withdrawal behavior of older Americans at age 65. At that age, non-qualified distributions become discontinuously non-penalized, and they can be freely used for consumption at retirement (while being taxed as income). This will shed light on the liquidity and consumption needs of older families.

We propose to address ***Focal Area #4: Economic Security of SSA Beneficiaries***. The project will directly address the evolving risks to economic security of American families, by studying adverse household events, and how current and future beneficiary cohorts fare or will fare, by studying take-up, accumulation, and decumulation of HSAs across different stages of the life cycle. We will directly examine differences across various population subgroups, particularly by age, homeownership, income, and capital. Spatial variation could also allow us to study location characteristics such as racial composition. This will aim to address differences in unmet financial needs among SSA beneficiaries across demographic groups.