

Industry insights

The impact of HSA employer contribution strategy

New research reveals how the right
HSA contribution strategy can improve
employees' financial security.



Introduction

Employers and employees are increasingly turning to Health Savings Accounts (HSAs) to save on their healthcare expenses. At the end of 2023, \$123 billion in assets were housed in over 37 million HSAs in the United States, and these numbers are anticipated to increase year over year.¹

An employer HSA contribution can be a powerful tool to encourage high-deductible health plan (HDHP) adoption and influence employee HSA contribution and investment behavior. Contribution timing, amount, and behavioral motivation vary widely from employer to employer. However, upon close examination, we found trends and subsequent strategies that can help companies benchmark and measure success across organization sizes and strategic goals.

In the spring of 2024, we explored our book of business (BoB) and conducted unmoderated qualitative surveys to better understand how HSA members are impacted by employer contribution strategies. Our goal was to examine the data so we can help employers, benefits brokers, and consultants design HSA contribution strategies that best support business needs and employee outcomes.

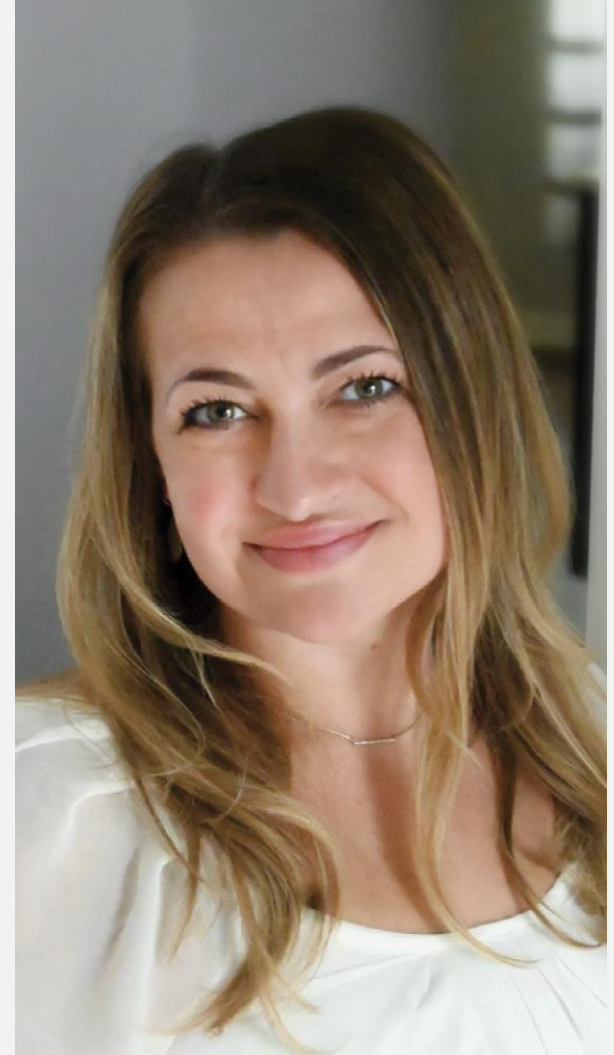
¹Year-End Denver HSA Research Report, 2023





Companies who are dedicated to improving employees' financial security should carefully consider their HSA contribution strategy.

Evolving your strategy to provide the right amount at the right time will help people feel secure seeking care and saving for their future needs.”



Amanda Riley

Head of Enterprise
Client Relationships

HealthEquity

Areas of impact

As healthcare premium costs continue to rise,² both employers and employees feel the impact on their budgets. Research from the Kaiser Family Foundation (KFF) found that one in four adults say that in the past 12 months they have skipped or postponed getting health care they needed because of the cost.³

Because HSAs can offer much needed financial relief for millions of Americans, employers and those who advise them now have a chance to leverage this account to better bridge the gap so employees can access and afford healthcare.

This report frames HSA contribution strategies through six key areas of impact. We selected a performance indicator for each area of impact and scored each contribution strategy by that indicator.

- 01 | **Enrollment**
The percentage of eligible employees enrolled in an HSA →
- 02 | **Employer cost savings**
The average employer cost savings of HDHPs with HSAs compared to PPOs assets →
- 03 | **Employee benefit equity**
How similarly an employer HSA contribution impacts balance growth across employee income demographics →
- 04 | **Employee contribution support**
The percentage of annual HSA contributions made by employees →
- 05 | **Employee savings retention**
The percentage of annual HSA contributions employees retain →
- 06 | **Employee investing**
The percentage of HSAs with invested assets →

Using this report

- Consider** your company's current HSA contribution strategy and if it's having the desired effect.
- Decide** where your specific contribution strategy could have the most impact organizationally.
- Review** the Areas of impact in this report to align with your organizational goals.
- Analyze** any relevant employee data related to your HDHP and HSA plan offering, including benefits preference, healthcare utilization, and HSA usage.
- Propose** a plan to adjust the HSA contribution strategy for the following plan year, and model different scenarios to ensure the plan fits your budget and needs.
- Include** HSA contribution design in your annual benefits review.

² KFF Employer Health Benefits Survey, 2023 | ³ KFF Americans' Challenges with Health Care Costs, 2024

Methodology

Research criteria

For this study, we used a sample of employer clients from 2022 and 2023 in our BoB with the following criteria:

- Employers with 500+ eligible employees
- Employers had at least 50 employees with HSAs
- Employers active with HealthEquity since at least 2021
- Members enrolled in an HSA-eligible health plan for the entire calendar year

Qualitative study

For the qualitative portion of the study, we conducted 22 unmoderated, anonymous HSA member interviews through a third-party. Respondents were asked how employer HSA contributions affected their individual contribution and investment strategies. Respondent quotations are included in this report to show the relationship between employer contributions and personal account behaviors.

HSA contribution strategies



No contributions

Employer makes no contributions to employee HSAs.



Seed

Employer makes contributions to the entire member base once or twice a year.



Distributed seed

Employer makes contributions to their entire member base at least once a month.



Match

Employer contributions are dependent on members making payroll contributions.



Seed + match

Employer makes contributions to entire member base once or twice a year with additional contributions dependent on members making payroll contributions.

01

Enrollment

How do HSA contribution strategies impact the enrollment of eligible employees?

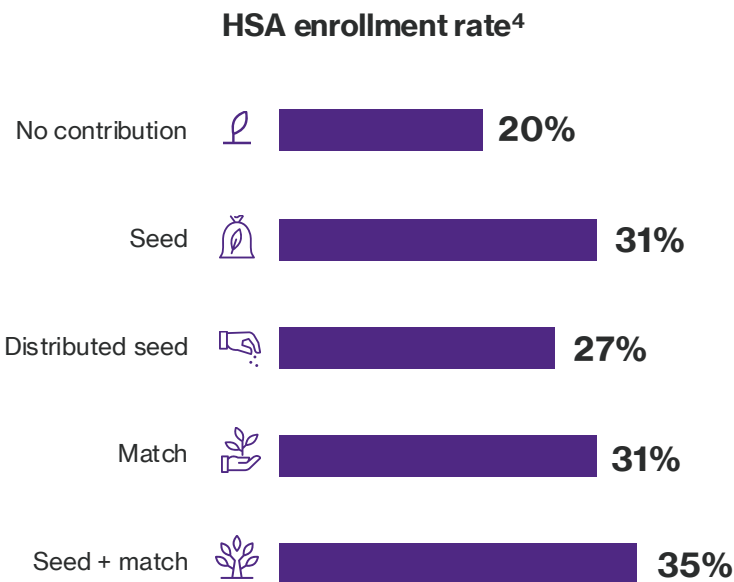
Key insight

Utilizing any contribution strategy positively impacts enrollment, and higher employer contribution amounts result in higher employee enrollment rates.

Data

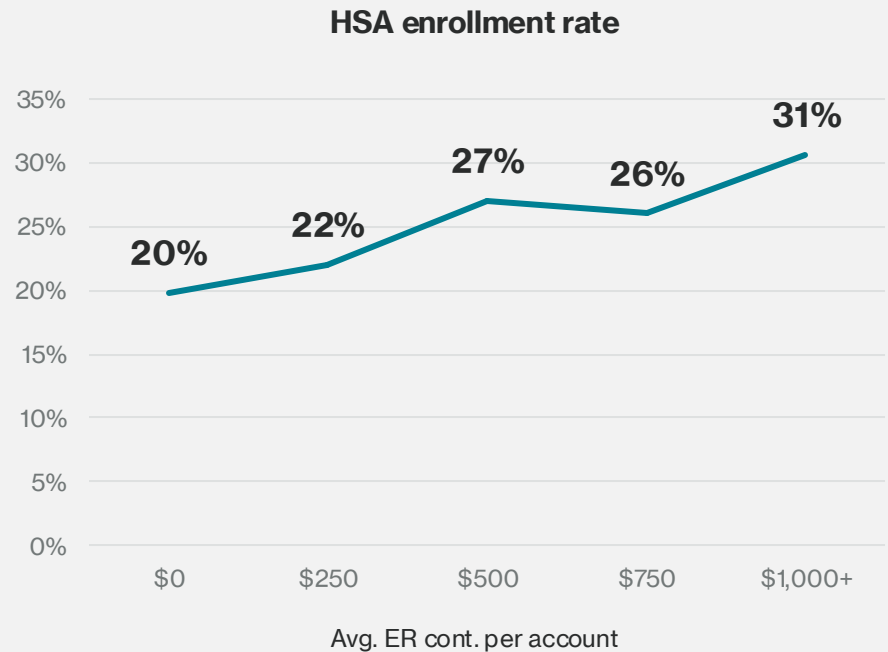
Our research revealed that employees are more likely to enroll in an HSA when their employer actively contributes to their accounts. A comparison of contribution strategy types shows that companies offering a seed + match strategy see the highest HSA enrollment rate (35%), 15 percentage points higher than companies offering no contribution (20%).

When comparing the other contribution strategies, however, the difference becomes narrower, indicating that contribution strategy type isn't always the main driver of increased enrollment.



⁴ The percentage of eligible employees enrolled in an HSA






Further, the data indicates that the amount of money an employer contributes to their members' HSA impacts enrollment. Higher employer contributions are correlated with a higher member enrollment rate.



Finding the right contribution fit for each organization will depend on unique strategic goals that the organization values. The next five areas of impact discussed in this report can provide insights into the contribution strategies relative to organizational goals.

Taking action

Compare strategy impact.

Impact			
Above average	 Seed + match	 Match	 Seed
Average	 Distributed seed		
Below average	 No contribution		

Just getting started?

- Offer the type of employer contribution that aligns with your organization's goals.
- Increase your current employer contribution amount.
- Communicate your contribution clearly during open enrollment and onboarding.

Ready to accelerate progress?

- Offer a seed + match contribution.
- Rename your HDHP to reference "HSA" or "Savings."
- Provide health plan comparison tools that include the employer contribution amount.



Employer cost savings

How do HSA contribution strategies impact employer costs compared to PPOs?

Key insight

While offering no HSA contribution allows companies to capture the HDHP premium savings, a match strategy can incentivize HDHP enrollment while providing valuable HSA employer tax savings.

02 | Employer cost savings

Data

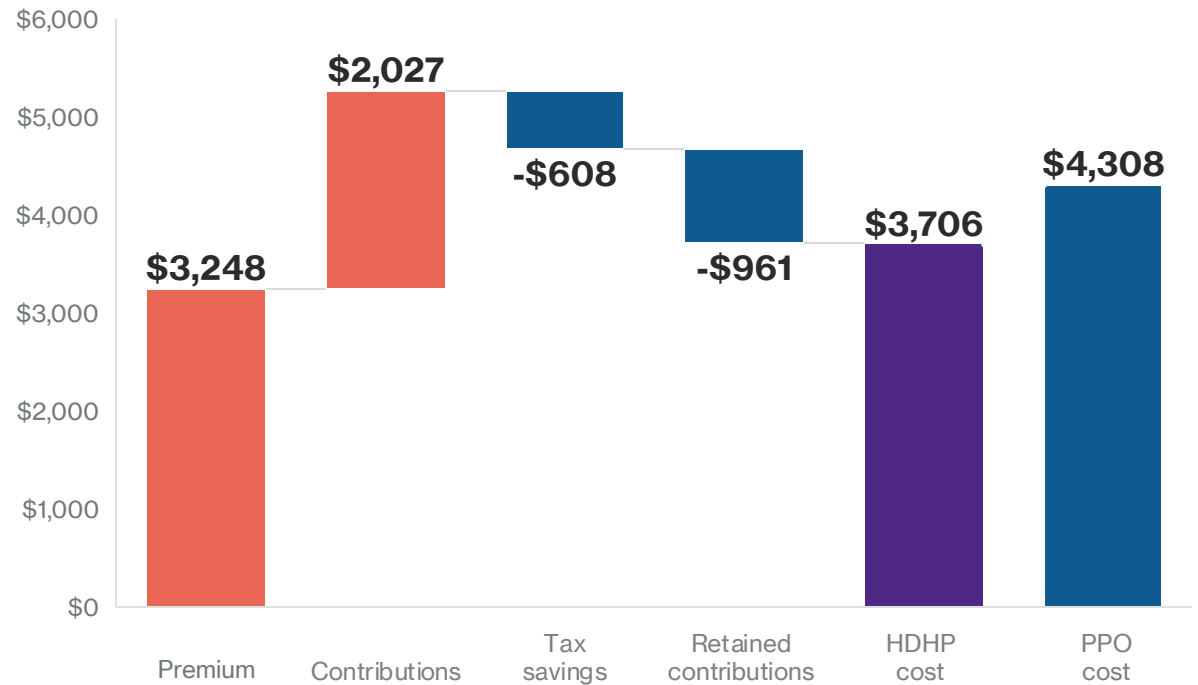
An HSA-compatible plan is a popular benefit because of its cost-effectiveness for both employees and employers.

According to KFF, the average premiums for covered workers in a HDHP with a savings option (like an HSA) are lower than the overall average premiums for Preferred provider organizations (PPOs).⁵ For HSA members, the premium cost savings coupled with HSA tax savings provide an annual savings of 16%. Based on 2023 costs, this amounts to over \$600 of annual savings, providing financial relief and flexibility for many workers dealing with rising healthcare costs.

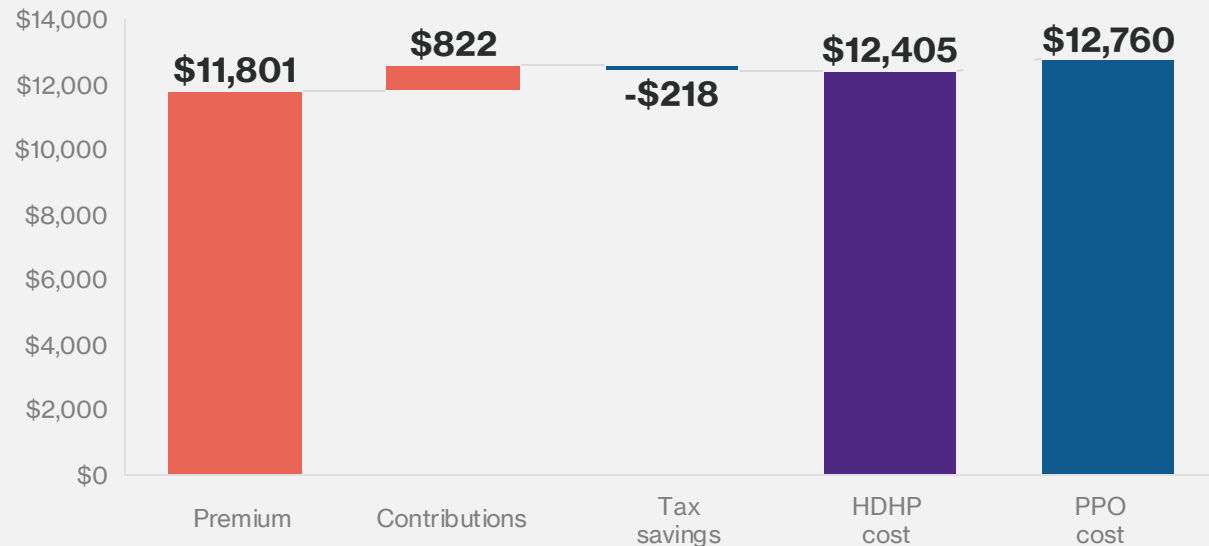
KFF data also showed an average HDHP premium is \$11,801, while the PPO premium cost of \$12,760. The difference between total plan costs begins to narrow once the average HealthEquity BoB HSA employer contribution amount (\$822) is included.

Once employer tax savings are calculated by finding the FICA tax savings (7.65%) of the average employee and employer contribution (\$2,027 and \$822, respectively), we see an average savings of 3%.

Avg. annual employee cost HDHP vs. PPO



Avg. annual employer cost HDHP vs PPO



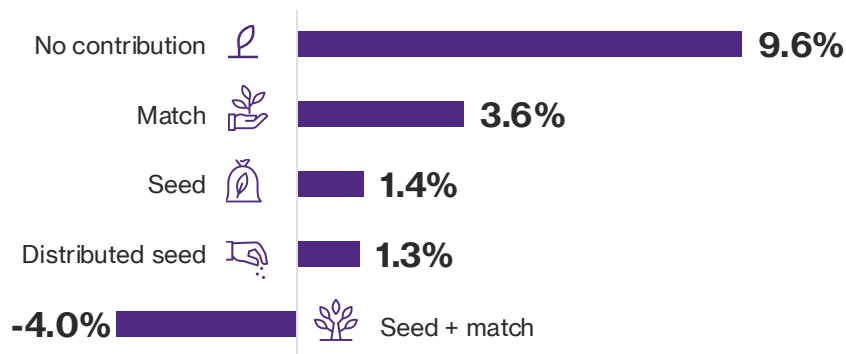
⁵ KFF Employer Health Benefits Survey, 2023

Data

This data below may lead one to conclude that the most cost-effective HSA contribution strategy is no contribution at all. However, from the previous area of impact, it's clear that offering no employer financial incentive reduces HSA adoption, decreasing the chance to capture premium savings.

Outside of seed + match, which costs ~4% more on average than PPOs, every contribution strategy retains cost savings for employers.

Avg. employer cost savings vs PPO



Research showed that a match strategy yielded the most savings for employers while also providing financial benefits to employees.

By offering an HSA match, employers can encourage HSA adoption (31% enrollment) while still experiencing meaningful savings. Additionally, when employees contribute their own money, they have a motivation to understand how the account works to help them with their healthcare needs.








If my employer would provide a match, I would definitely contribute up to the amount to get that match. I'm not gonna leave money on the table, so I would definitely take advantage of that."

Male, age 38

Taking action

Compare strategy impact.

Impact			
Above average	 No contribution	 Match	
Average	 Distributed seed	 Seed	 Seed + match

Just getting started?

- Offer an HSA match contribution.
- Encourage employees to contribute up to the matched amount.
- If you already offer a 401(k) match, communicate the HSA match is a similar way.

Ready to accelerate progress?

- Consider fully replacing your current health plan with an HSA-compatible plan and HSA.
- Auto-enroll HSA members in a payroll contribution, ensuring they experience the positive impact of your employer match.



03

Employee benefit equity

How equitably are contributions distributed by strategy type across different income bands?

Key insight

A match strategy allows higher earners to receive a relatively greater share of employer contributions whereas seed strategies are more effective at spreading contributions across all income levels.

Data

Equity serves as a guiding principle for many companies, helping them evaluate how benefits are impacting underserved employee demographics, including lower-wage earners.

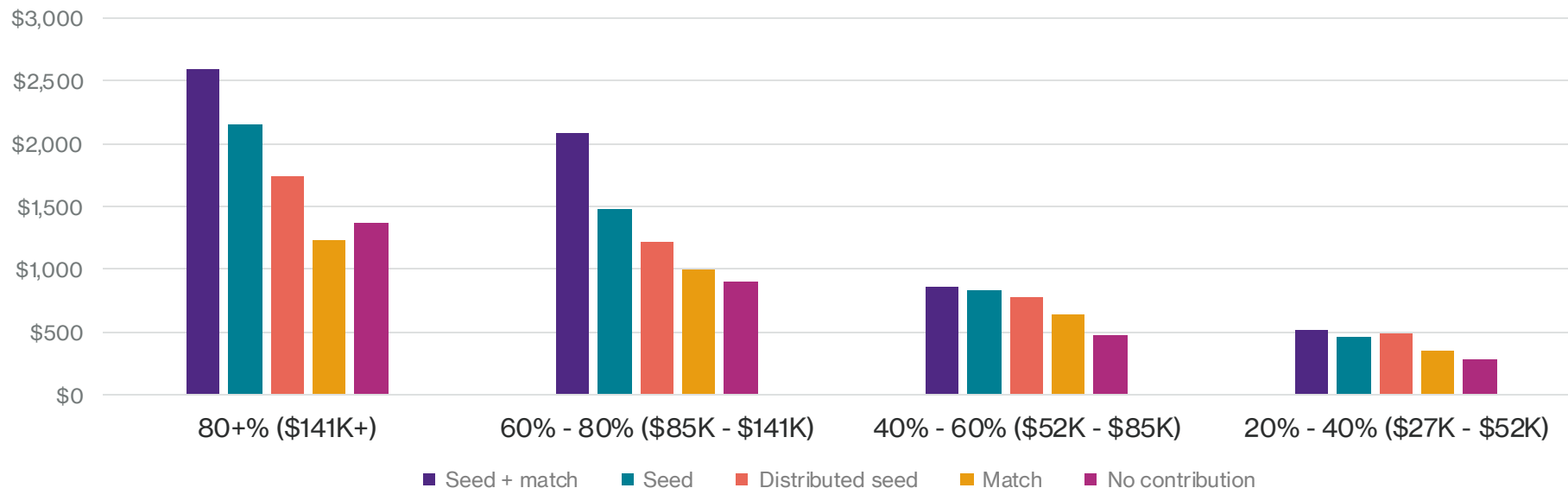
HSA's are an attractive benefit for workers in all income brackets because they offer tax savings⁶ and long-term investment opportunities. And because HSA members own their accounts with funds rolling over each year, they give employees the ability to save money they can use for healthcare both now and in the future.

This benefit is also attractive to employers who want to help their employees feel financially secure and reach their financial goals through their holistic benefits package.

Something to consider, however, is how contribution strategies affect HSA balances across income demographics and if they are being distributed equitably.

The chart below shows employer contribution distribution by four income ranges.

Avg. retained contributions by income and cont. strategy



⁶ HSA's are never taxed at a federal income tax level when used appropriately for qualified medical expenses. Also, most states recognize HSA funds as tax-deductible with very few exceptions. Please consult a tax advisor regarding your state's specific rules.

Data

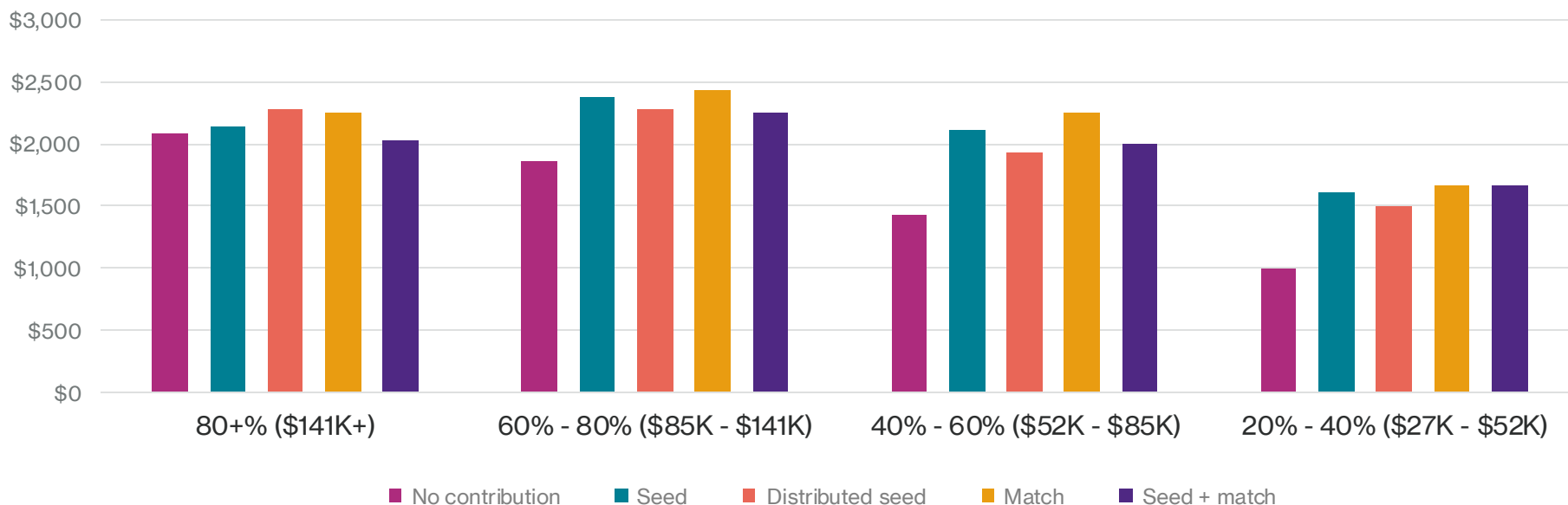
Employees earning over \$85,000 annually had more pronounced balance growth, while employees in lower-wage demographics didn't see much growth in their balances, in relation. This is especially apparent when compared to the average spend broken down by the same income demographics.

So, which contribution strategy is the best income equalizer? Contributions utilizing a seed (annual seed, distributed seed, and seed + match) typically generate greater balance growth for members. Though, providing the same seed contribution

amount to every employee may not be enough to ensure that everyone opting into an HSA-compatible plan has a thriving balance. Instead, it may be worth it to evaluate how your funds are distributed, and consider implementing income-tiered seed, so the more vulnerable populations in your workforce have the assistance they need to grow their accounts.

Benefits equity requires in-depth evaluation and research to implement effectively. But it's worth it if you want to ensure that the lower-wage earners in your workforce have similar financial opportunities as higher-wage earners.

Avg. annual HSA spend by income and cont. strategy










“

I basically just want to make sure that there's enough in there to cover those things that I know I'm going to have to pay for every month.”

Male, age 34

Taking action

Compare strategy impact.

Impact			
Above average	 Seed	 Distributed seed	 Seed + match
Average	 Match		
Below average	 No contribution		

Just getting started?

- Determine what benefits equity means for your company.
- Survey employees across income bands to understand their healthcare expenses.
- Offer any type of HSA seed contribution.

Ready to accelerate progress?

- Consider implementing an income-based contribution model, providing lower earners a higher seed amount.
- Design a wellness program that includes an HSA contribution for healthy behaviors like completing preventive care appointments.

HealthEquity does not provide legal, tax or financial advice.

04

Employee contribution support

How do different strategies impact employees' HSA contributions?

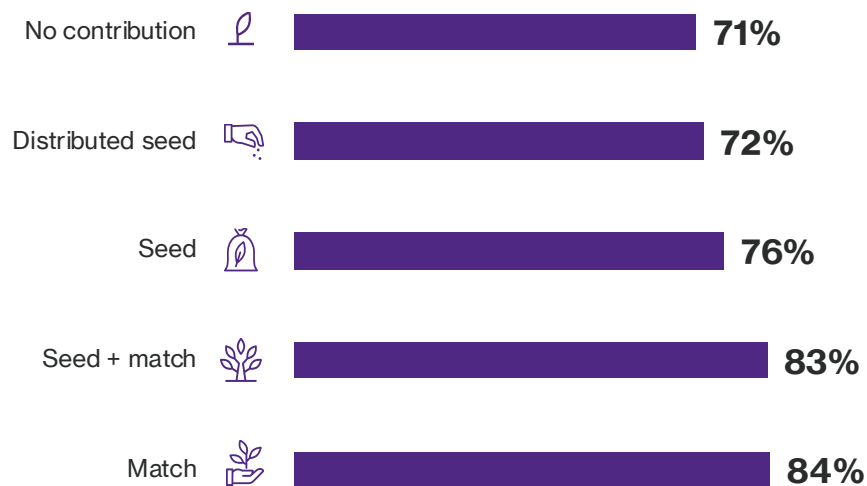
Key insight

Employers with seed strategies reduce employees' financial burden more than other strategies because their contributions make up a higher percentage of the employees' account balance.

Data

In this section, we'll review the impact of employer contribution strategies on employee contributions. First, let's look at the percentage of employees who contribute to their HSAs in the first place.

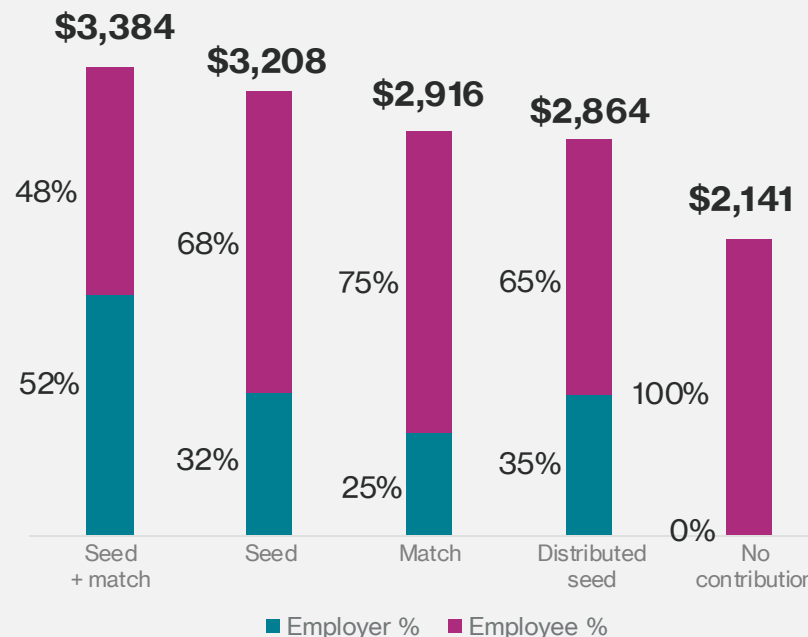
Employee contribution rate



Match strategies (match and seed + match) have the highest employee contribution rate, while the no contribution strategy, predictably, has the lowest.

Employees at companies offer no contribution are required to self-fund the complete balance of their HSAs. And with a 71% contribution rate, nearly one-third of accounts go unfunded, leaving these employees with little-to-no healthcare safety net.

Avg. contribution per account and percentage made by employee and employer



Even though matching generates a higher rate of employee contributions, a match alone puts a higher financial burden on the member. Seed strategies, however, remove more of the burden because employer contributions make up a higher percentage of the account balance. Employees with seed + match contribution benefit from a near-even split between employer and employee contributions.








“

I do see [the employer seed] as funds going in that will be spent. I combine what's expected from our employer in addition to what we set aside to come up with the total of what we expect to be put into that account.”

Female, age 46

Taking action

Compare strategy impact.

Impact			
Above average	 Seed	 Distributed seed	 Seed + match
Average	 Match		
Below average	 No contribution		

Just getting started?

- Offer any type of HSA seed contribution.
- Provide tools to help employees calculate and plan their annual healthcare spend.
- Clearly communicate how and when the employer contribution works during enrollment season.

Ready to accelerate progress?

- Increase the amount of your Seed contribution.
- Offer an HSA-compatible Limited Purpose Flexible Spending Account (LPFSA) providing employees access to dental and vision funds on the first day of their plan year.

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05

Employee savings retention

How do HSA contribution strategies impact how much employees have left in their accounts at the end of the year?

Key insight

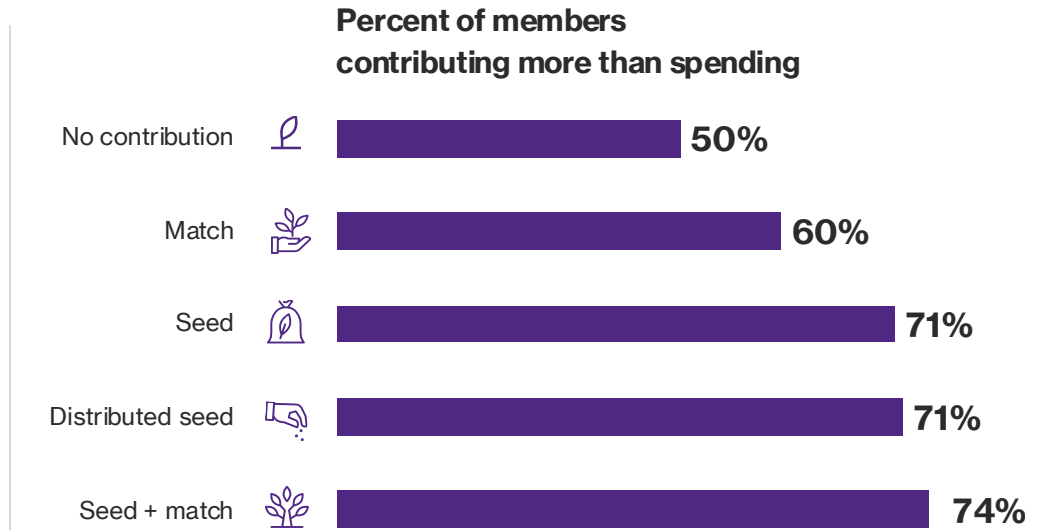
Seed contribution strategies tend to generate more total contributions for members, leading to more contributions retained year over year.

Data

Contributions only tell part of the story when it comes to HSA program success. It's also important to look at savings retention to understand how these strategies support employees.

To get a sense of how much employees are retaining in their accounts, let's look at the percentage of employees, per contribution strategy, who are contributing more than they are spending from their accounts each year.

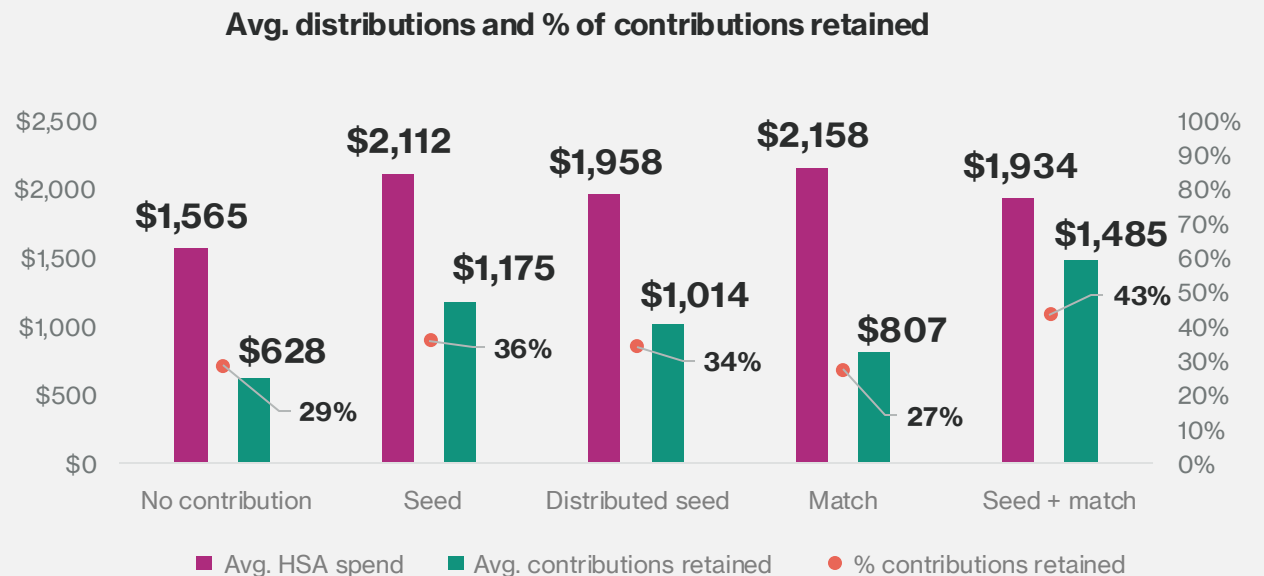
More than 70% of HSA members with seed contributions are contributing more than they spend annually. This is followed by match (60%) and no contribution (50%).



The data reveals that the actual percentage of HSA funds retained is also highest for those experiencing seed contribution strategies. Further, seed + match strategies retained the most savings, by far, retaining well over 43% of their contributed funds.






Employees with a match contribution retained the least amount of HSA funds (27%), even less than those with no contributions (29%).

Employees who can retain more of their HSA funds are set up to both afford planned and emergency out-of-pocket expenses.



Taking action

Compare strategy impact.

Impact			
Above average	 Seed	 Distributed seed	 Seed + match
Average	 Match		
Below average	 No contribution		

Just getting started?

- Offer any type of HSA seed contribution.
- If you offer a healthcare Flexible Spending Account (FSA), clearly explain the difference between an HSA and FSA.
- Highlight HSA ownership and fund rollover during Open Enrollment and onboarding.

Ready to accelerate progress?

- Adjust your contribution strategy to seed + match.
- Offer an HSA-compatible LPFSA providing employees access to dental and vision funds on the first day of their plan year.

06



Employee investing

How do HSA contribution strategies impact the percentage of members who invest their HSA assets?

Key insight

Early annual access to seed contributions combined with higher-than-average employer contributions help more members access the funds needed to invest.

Data

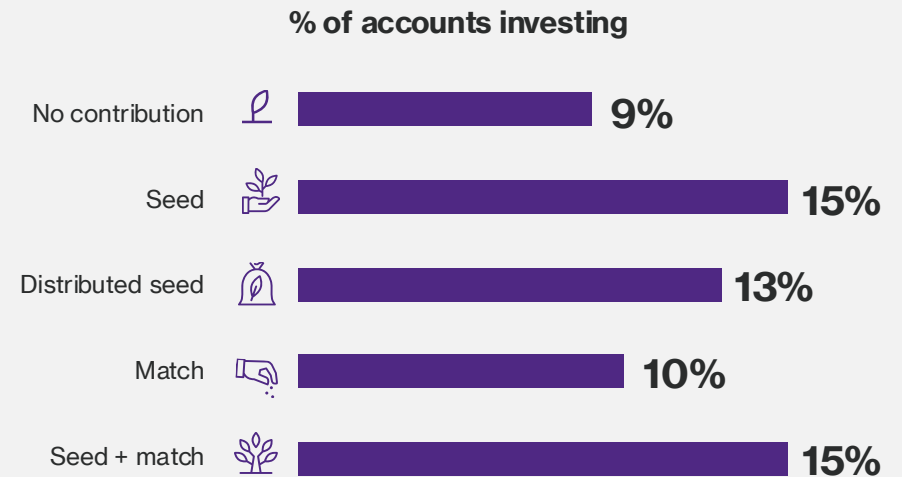
Our qualitative research found that there are two common strategies for how employees conceptualize their HSA funds: either they use their HSA like a checking account, spending healthcare funds they accrue, or growing their balances to invest their funds for future healthcare needs.

Those who use their HSA like a checking account are more likely to estimate expected medical expenses (and perhaps add a little cushion) to plan their yearly HSA contribution amount. Conversely, those who use their accounts as part of a long-term investment strategy (which only account for 8% of the HSA market⁷) generally have higher contribution amounts and strive to meet their annual maximum contribution limit.

Our BoB data found that a higher-than-average employer contribution amount and upfront account seeding help members get closer to the maximum contribution limit and invest at a higher rate.

Note that accounts with a seed or seed + match are invested at a much higher rate than those with no contribution.

Employees who invest at least part of their HSAs are looking toward the future and experiencing one of the key benefits of an HSA. Unlike other retirement accounts, which are taxed either as money is contributed or distributed, HSAs provide tax advantages at both stages.



⁷Year-End Devenir HSA Research Report, 2023

Investments made available to HSA holders are subject to risk, including the possible loss of the principal invested, and are not FDIC or NCUA insured, or guaranteed by HealthEquity, Inc.








“

[Employer contributions] would make me more inclined to invest at a higher rate just because it's not technically my money. It's free money. So yeah, I would probably take everything that [my employer] contributed, and I'd probably just invest that entire amount.”

Female, age 44

Taking action

Compare strategy impact.

Impact			
Above average	 Seed	 Distributed seed	 Seed + match
Average	 Match		
Below average	 No contribution		

Just getting started?

- Offer any type of HSA seed contribution.
- Provide an HSA investment calculator to show employees how funds can grow through the power of compound interest.
- Encourage employees to consider HSAs as part of their retirement planning.

Ready to accelerate progress?

- Consider a front-loaded seed providing access to funds at the beginning of the plan year.
- Increase the amount of your employer contribution.
- Pay for the employee investment fee (if applicable), making it easier for HSA members to invest.

Conclusion

Overall, this study found that an employer's contribution strategy can be a determining factor in how employees contribute to their HSAs and save for future healthcare expenses.

With support and education from their employers, members can make great strides towards their financial goals and realize better health outcomes. With an HSA as a safety net, members are in a better position to pay for healthcare both now, and in the future, including retirement. In fact, research shows that better benefits literacy is correlated with job satisfaction and retention.⁸

If companies are interested in helping employees increase financial security and optimize HSA impact, here are some actions to consider:






- If your contribution strategy isn't helping employees cover their average out-of-pocket healthcare expenses and retain a portion of their savings for future healthcare needs, it may be time to re-evaluate.
- If you are in the process of re-evaluating your contribution strategy, consider auditing your HSA usage across income bands and surveying employees about their current and future healthcare spending needs.
- Use the Contribution strategy impact chart on the next page to model different contribution scenarios, ensuring the strategy will fall into your budget and align with your goals.
- Prioritize HSA education during Open Enrollment and employee onboarding and reinforce positive spending and savings by providing year-round HSA education.

⁸ HealthEquity Benefits Literacy Research, 2024



Contribution strategy impact



Areas of impact	 No contribution	 Seed	 Distributed seed	 Match	 Seed + match
Enrollment	Below average	Above average	Average	Above average	Above average
Employer cost savings	Above average	Average	Average	Above average	Average
Employer benefit equity	Below average	Above average	Above average	Average	Above average
Employee contribution support	Below average	Above average	Above average	Average	Above average
Employee savings retention	Below average	Above average	Above average	Average	Above average
Employee investing	Below average	Above average	Above average	Average	Above average

As your company changes, your healthcare benefits will continue to be an integral part of attracting, supporting, and retaining top talent. Evolving your HSA contribution strategy will ensure employees feel supported, nurturing a healthy workforce able to meet today's demands.

HealthEquity does not provide legal, tax or financial advice.



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Appendix

Contribution strategies

- **No contributions** | 451 clients, 205K members
Employer contributions made to less than 10% of members in a calendar year.
- **Seed (annual/bi-annual)** | 557 clients, 1.2M members
1 to 2 Employer contributions made to at least 90% of members in a calendar year.
- **Distributed seed** | 505 clients, 436K members.
At least 12 employer contributions were made to at least 90% of members in a calendar year.
- **Match** | 230 clients, 342K members
The number of members receiving employer contributions is within +/- 2% of the number of members making payroll contributions.
- **Seed + match** | 27 clients, 72K members
At least 90% of members not making payroll contributions received 1 to 2 employer contributions and the average employer contributions were higher for members making payroll contributions.