What Is a Health Savings Account?

Some policymakers are proposing to expand Health Savings Accounts (HSAs) as a way to make health care more affordable. But HSAs do little or nothing to help uninsured people afford coverage, while offering people with high incomes lucrative tax-sheltering opportunities.

Under current law, people in a high-deductible health plan — meaning a deductible that is at least $3,000 for a family and that applies to virtually all services except preventive care — may establish an HSA to save for out-of-pocket health expenses.

	Single	Family
Minimum deductible	$1,500	$3,000
Maximum out-of-pocket	$7,500	$15,000

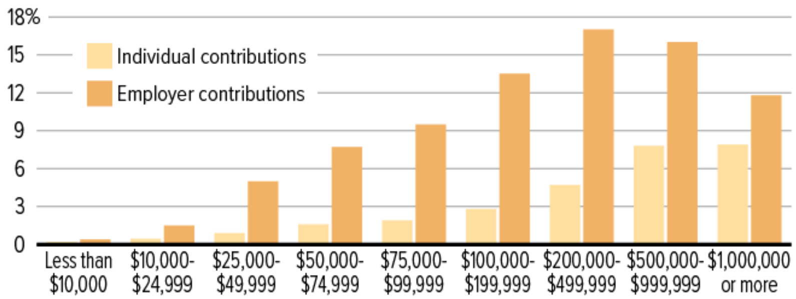
For 2023

Uninsured people receive little benefit. After paying premiums and paying upfront for needed medical care prior to meeting the deductible, many people with low incomes won't have money left to put into an HSA. Even if they can contribute, their tax benefit is minimal: the large majority of uninsured people are in the 12 percent tax bracket or lower, so at most they would save 12 cents in taxes for each dollar put into an HSA.

High-income people get the biggest benefit. They are less likely to need a tax break to pay for insurance or health care, yet they receive the largest tax break for each dollar put into an HSA because they are in the highest tax bracket. Someone in the 37 percent bracket, for example, saves 37 cents in taxes for each dollar put into an HSA, can earn investment gains, and can withdraw the money tax-free.

HSA Contributions Far More Prevalent Among People With High Incomes

Percentage of tax returns reporting Health Savings Account (HSA) contributions



Note: Income is measured as adjusted gross income.
Source: Congressional Research Service analysis of Internal Revenue Service data for tax year 2017

Comparing Health Plans

(Based on actual plans currently available in Arizona)

John Martinez
Age: 34
Marital status: Single
Annual income: $25,000 (12 percent tax bracket; 171 percent of the poverty level)
Pre-existing condition: Diabetes, requiring regular office visits, insulin, and other medical supplies. Without insurance, managing his diabetes would cost $5,600 a year.

2023 Marketplace Plan	High-Deductible Plan With HSA
• Mr. Martinez enrolls in a silver plan with cost-sharing reductions. The plan has a $500 deductible and caps total out-of-pocket spending at $3,000. • His plan covers many services, like doctor visits and prescriptions, without a deductible.	• Mr. Martinez has a high-deductible plan with a $6,700 deductible and an out-of-pocket cap of $7,500. • He pays the full cost of doctor visits and prescriptions until reaching the $6,700 deductible.
	Bottom line: higher out-of-pocket costs
• Mr. Martinez's income qualifies him for cost-sharing reductions, which significantly cut his out-of-pocket costs.	• Even if Mr. Martinez can afford to put money in his HSA after covering his out-of-pocket expenses, he receives no more than a 12-cent tax deduction for every $1 he contributes.
	Bottom line: little benefit for people with modest incomes
• Because of his plan's reduced cost sharing, he typically spends around $780 each year to manage his diabetes.	• Mr. Martinez pays $5,300 in diabetes-related costs out of pocket. If he never meets the $6,700 deductible, his plan pays almost none of his medical expenses, even though he paid monthly premiums plus other out-of-pocket costs.
	Bottom line: challenges for people with significant health costs