

HEALTH AND WEALTH CONTRIBUTION ANALYSIS

Who uses HSAs and 401(k)s and how much do they save to each?

Insights into worker behaviors in employer-sponsored
health and retirement programs



alight



About Alight Solutions

As the leading provider of benefits administration and cloud-based HR and financial solutions, we enhance work and life through our service, technology and data. Our dedicated colleagues across 14 global centers deliver an unrivaled consumer experience for our clients and their people.

We are Alight. Reimagining how people and organizations thrive.

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Employers are adopting a more holistic approach to health and retirement benefits.

The lines between health and wealth are blurring.

- With money woes consistently ranking among the top stressors for individuals, organizations are creating wellbeing programs for their workers that highlight financial wellbeing as well as physical health. Organizations are also communicating to workers about the link between financial stress and health and wellbeing.
- With medical inflation outpacing other inflation, health care premiums are rising. This forces some people to tighten their financial belts just to receive the same health coverage they had in prior years.
- Health savings accounts (HSAs) are savings tools that can be used to pay for medical expenses in the future—whether one month or 25 years from now.

Because the silos of health care and retirement benefits are merging, Alight believes it is important for employers to look holistically at their workforces and determine how workers are using medical and retirement benefits in conjunction with one another. We analyzed the behaviors of over 1 million people to gain insight on questions such as:

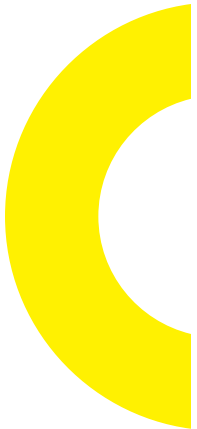
- How many employees enroll in employer-provided health care and participate in their 401(k) plan? Are there particular demographic groups that are more likely to use both benefits when available?
- At what level do people contribute to their 401(k) and HSA when both are available? Does contributing to an HSA “cannibalize” 401(k) savings?

We offer some action items for organizations that want to promote the financial and health benefits of their workplaces.

About this survey

This research is based on more than a million people at 34 large employers for which Alight Solutions provides recordkeeping services for both health and welfare and defined contribution benefits. All health care and 401(k) elections discussed here were effective for the 2017 plan year, generally as of January 1, 2017. This research excludes any dental, vision or other health care coverage, and ignores any defined benefit pension benefits provided by the employer.

All 401(k) contribution elections were available as a percentage of pay, and HSA contributions were provided in the form of annual dollar elections. HSA elections were converted to a percentage of pay using annualized base pay. Employer contributions were not taken into account in this analysis. Age was calculated as of January 1, 2017.

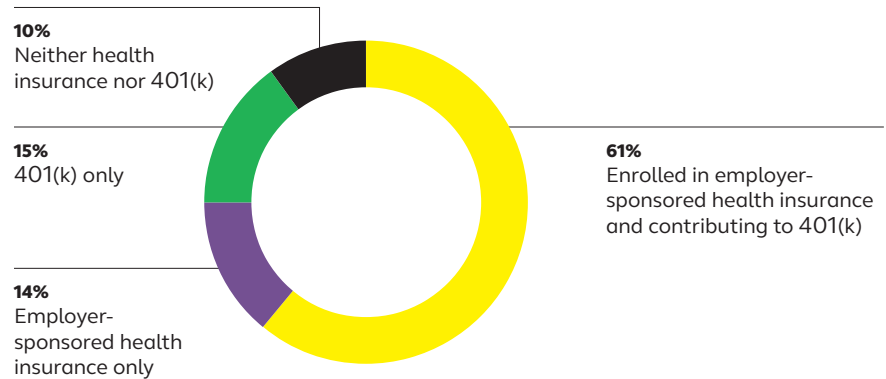


Which employees both enroll in employer-sponsored health care coverage and contribute to their 401(k) plan?



61% of workers use employer-provided health care coverage and save to the 401(k) plan.

Participation in employer-sponsored health insurance and 401(k)



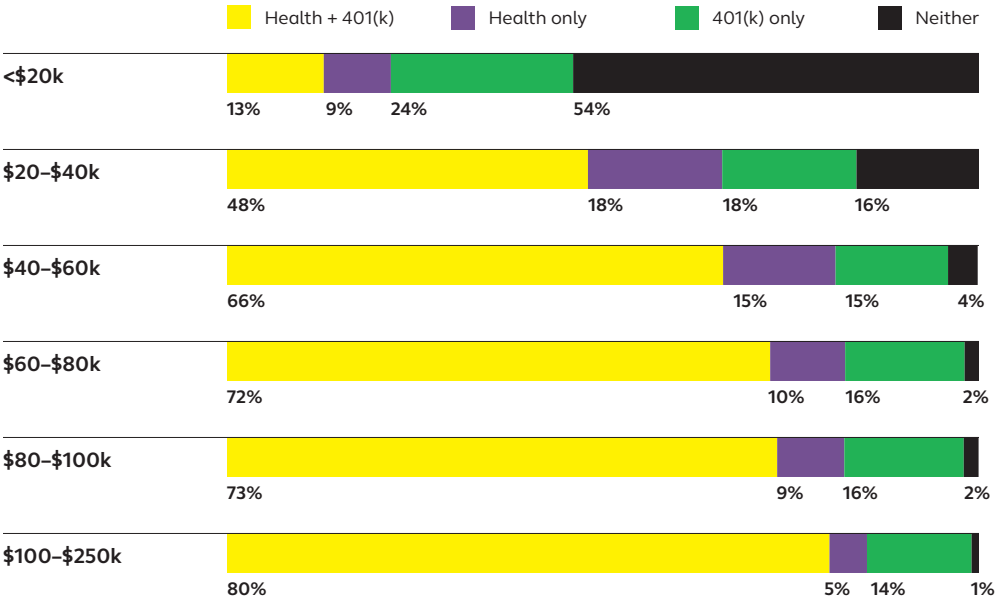
Just over 60% of workers use both the health care and retirement benefits provided by their employers. However, this means that roughly two out of every five are foregoing one of these benefits. In fact, 10% of workers are neither enrolled in an employer-provided health care plan nor contributing to the 401(k) plan.

Knowing the overall percentages is important, but it is also important to dive into the different demographics of these groups to determine the characteristics of those who choose to participate in the 401(k) plan and/or elect health coverage from their employers.

Pay is the key driver for those who participate in both health coverage and the 401(k).

Participation rates

By pay



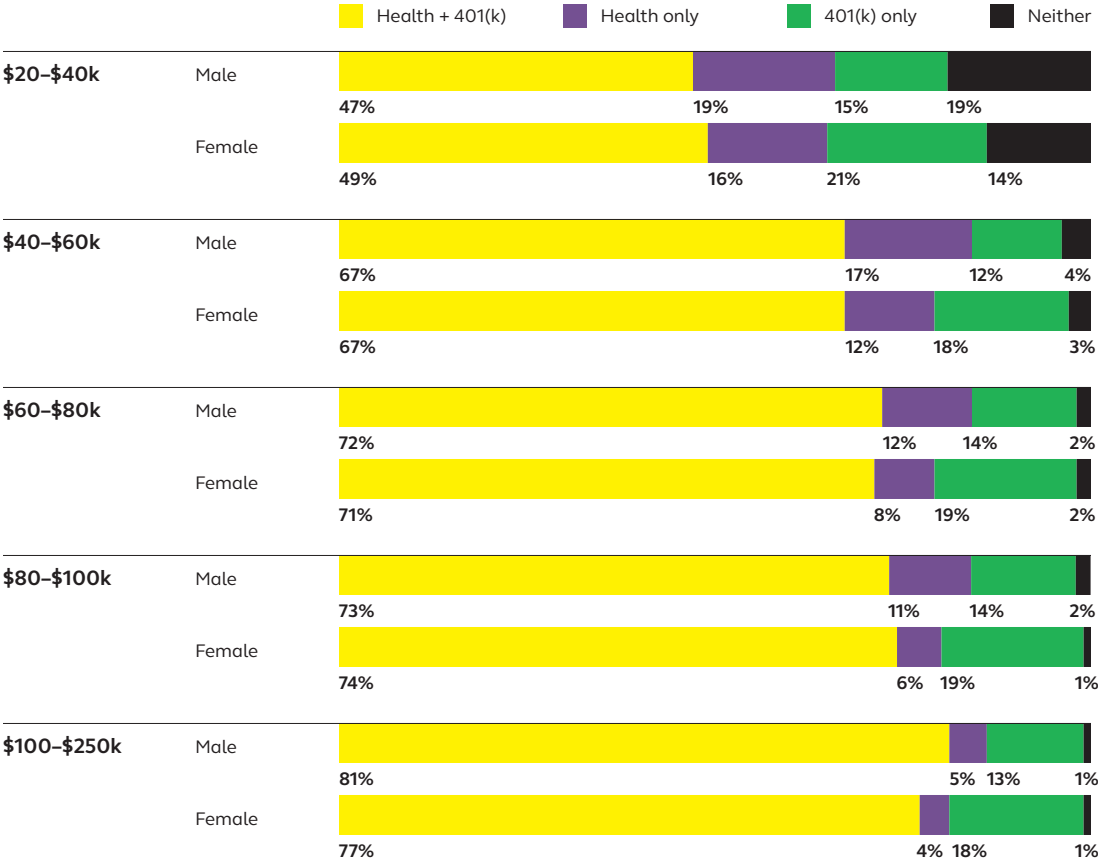
Compensation matters. Workers making more than \$40,000 are much more likely to elect health care coverage and save to the 401(k) plan. Those making less than \$40,000 are mainly hourly workers, whereas those making

more than \$40,000 are mostly salaried workers. Whether they were hourly or salaried, all workers in this study were eligible for both medical and 401(k) benefits.

Across all pay groups, there is little difference in participation between genders.

Participation rates

By pay and gender



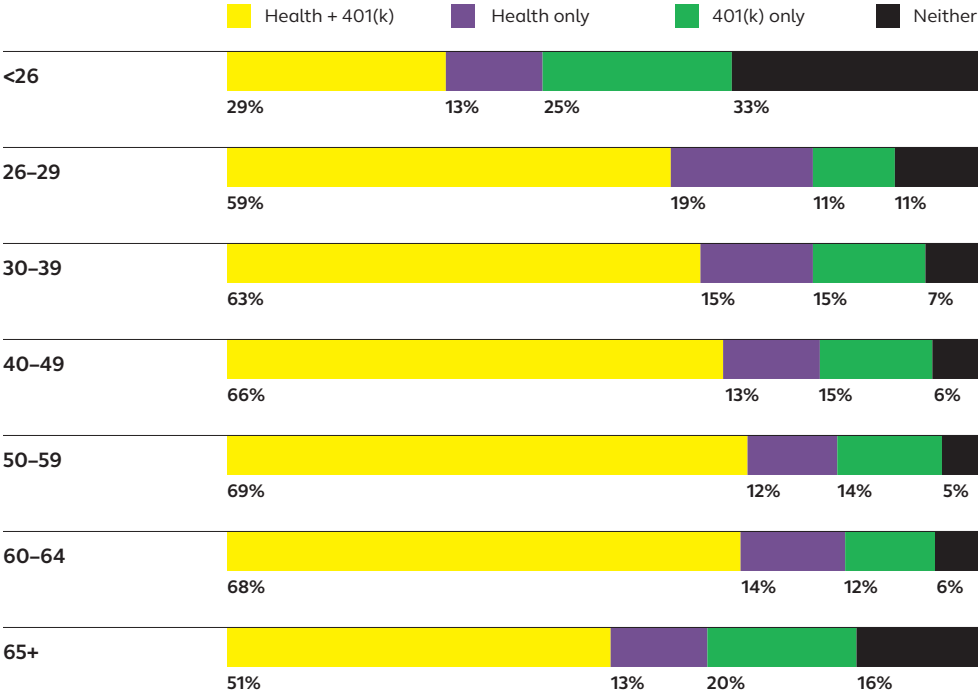
After accounting for pay, there is little difference between males and females in the likelihood of both enrolling in health coverage and contributing to the 401(k) plan. However,

when people select just one benefit, males are more likely to choose health coverage and females are more likely to choose 401(k) participation.

Participation in health care plans and 401(k) plans is lower for people under age 26 and over age 65.

Participation rates

By age



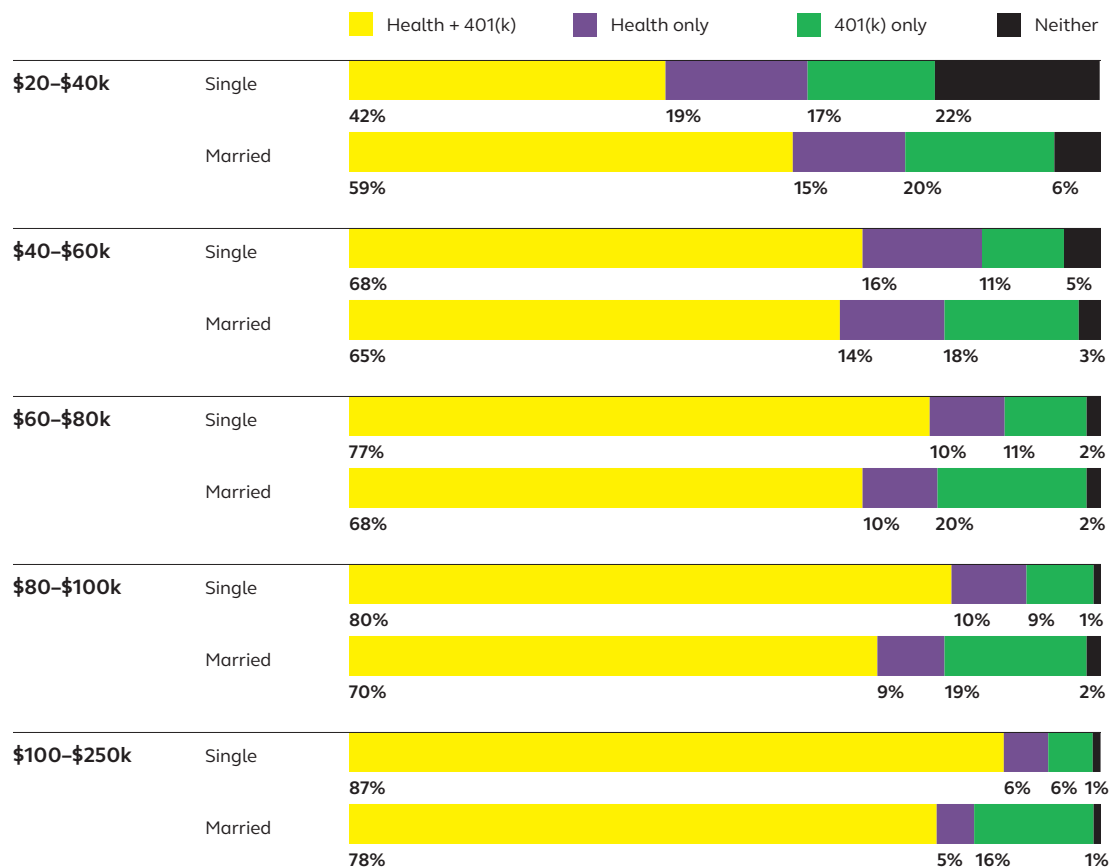
Among people between ages 26 and 65, age has little influence on whether they participate in both benefits, especially when controlling for pay. However, health plan participation is lower for those younger than 26 and older

than 65. This may stem from the fact that health care is available under a parent’s policy for those under 26 and through Medicare for those over 65.

Marital status plays a role in how likely people are to elect health care coverage and contribute to 401(k)s.¹

Participation rates

By pay and marital status



Among those making at least \$40,000, single workers are more likely than married workers to use both benefits. It is likely that married workers opt out of health care coverage because they can be covered by their spouses' plans.

However, among workers making between \$20,000 and \$40,000, only 61% of single workers are enrolled in health care coverage, compared to 74% of married workers in this group. Lower-paid single workers were also most likely to choose neither health care nor

401(k) benefits; 22% of these workers chose neither to enroll in health care coverage nor to participate in the 401(k) plan.

In summary, pay is the primary variable that helps determine whether or not a worker elects both to participate in the 401(k) plan and be covered by employer-provided health care coverage. Age is also a factor, but only for those who are younger than age 26 or older than age 65. Gender has little impact, and marital status plays a role in how likely people are to elect health care coverage.

¹ Married workers include those with domestic partners.

Who contributes to both the HSA and 401(k) when eligible?

One in five employees contributes to an HSA.

For many, health care will be the largest retirement expense. The Employee Benefit Research Institute estimates that males will need \$131,000 and females will need \$147,000 in savings if they want a 90% chance of having enough to cover just their health care costs in retirement.²

HSAs can supplement 401(k) accounts and provide workers with another vehicle to help save for retirement expenses. However, most people do not contribute to an HSA. Our data shows that out of the entire workforce we studied who is eligible for health care benefits, only 20% of those employees are making a contribution to an HSA.

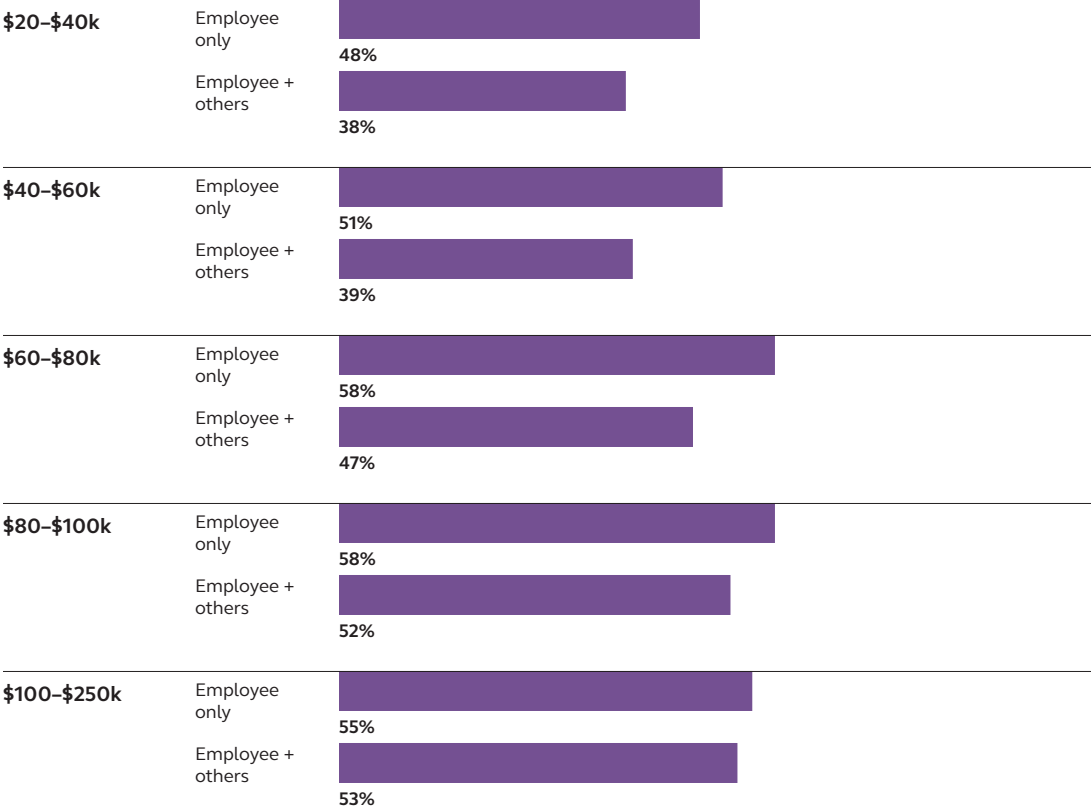


² "Savings Medicare Beneficiaries Need for Health Expenses: Some Couples Could Need as Much as \$370,000, Up from \$350,000 in 2016"
Employee Benefit Research Institute, December 2017, Vol. 38, No. 10
ebri.org

Characteristics of people who are enrolled in HSA-eligible health care plans

Percentage enrolled in HSA-eligible health care plan

By pay range and coverage category



Lower-paid workers are less likely to enroll in an HSA-eligible health care plan: 44% of workers making below \$60,000 were enrolled in an HSA-eligible plan compared to 53% making at least \$60,000.

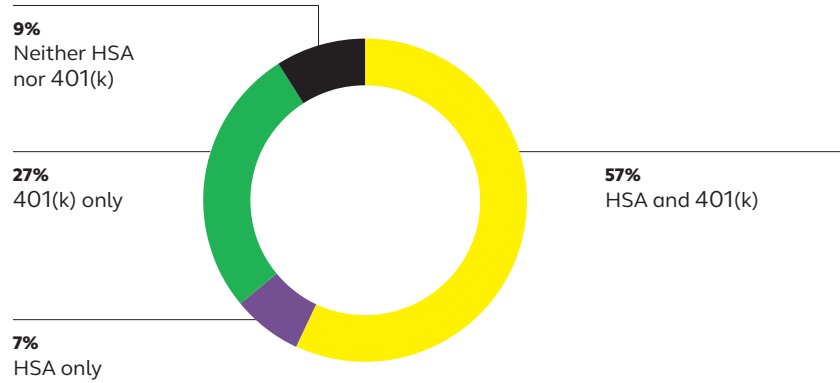
Workers who cover other individuals—spouses and/or children—are less likely to enroll in a plan that is eligible for an HSA as shown in the graph above.

Younger people are more likely to enroll in an HSA-eligible health care plan: 50% of millennials are enrolled in an HSA-eligible health care plan, compared to 44% of Gen Xers and 39% of Baby Boomers.³

³ Millennials are those born between 1980 and 1995, Gen Xers are those born between 1965 and 1979, and Baby Boomers are those born between 1947 and 1964.

What percentage of employees contributes to both the HSA and 401(k)?

Contributions to HSA and 401(k)



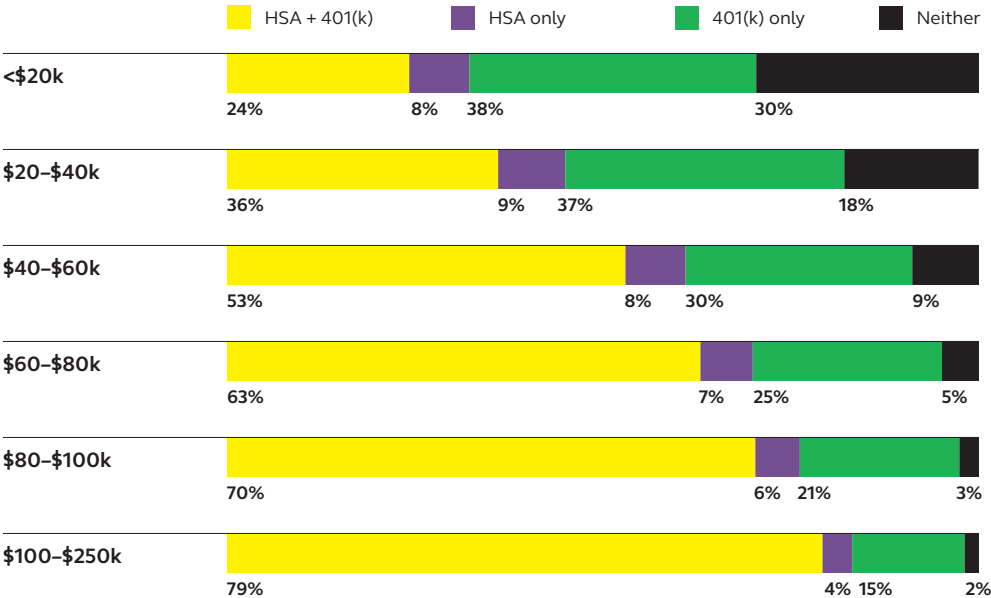
Only two in three (64%) employees enrolled in an HSA-eligible health care plan make a contribution to the HSA. The majority of these people are also saving in the 401(k) plan,

but over one in four (27%) are making contributions to the 401(k) only and not the HSA.

Many factors influence participation in both the HSA and 401(k), but pay is the largest influencer.

Contributions to HSA and 401(k)

By pay



Pay, age, gender and whether dependents are covered under the health care plan are all correlated with participation in both the HSA and 401(k). However, pay is the largest driver.

The higher the pay, the greater the likelihood that employees are contributing to both HSAs and 401(k)s.

Younger people are less likely than older people to be contributing to both the HSA and 401(k).

Contributions to both the HSA and 401(k)

By age and pay

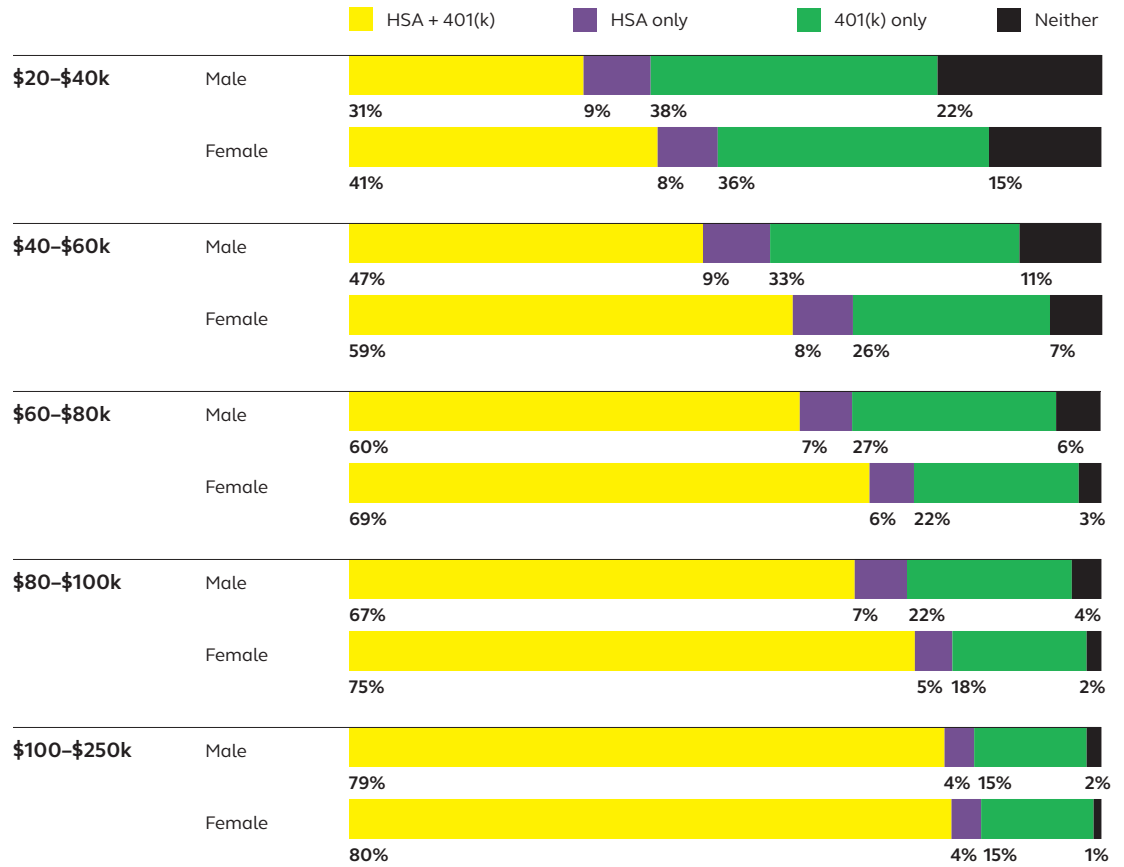
Age	Pay				
	\$20-\$40k	\$40-\$60k	\$60-\$80k	\$80-\$100k	\$100-\$250k
25-29	30%	44%	58%	64%	60%
30-34	36%	48%	60%	69%	72%
35-39	37%	53%	63%	71%	78%
40-44	41%	53%	64%	72%	80%
45-49	43%	55%	66%	74%	80%
50-54	44%	59%	69%	74%	83%
55-59	45%	62%	70%	73%	84%
60-64	47%	62%	71%	69%	82%

Across all pay categories, people are more likely to save in both the HSA and 401(k) as their age increases.

Women are more likely than men to contribute to both the HSA and 401(k).

Contributions to HSA and 401(k)

By pay and gender

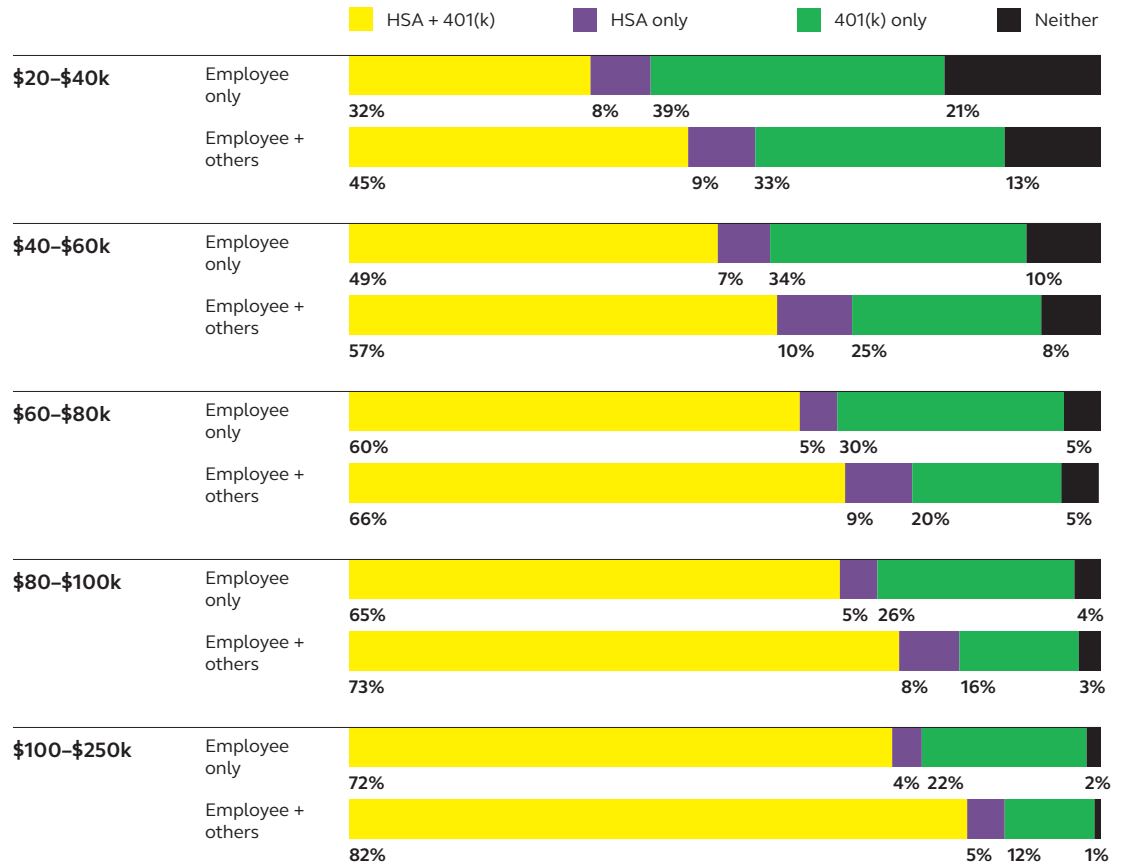


Across all pay categories, women are more likely than men to contribute to both the 401(k) and HSA. Men are more likely than women to be contributing only to the 401(k) plan.

Workers covering dependents under their health care plan are more likely to contribute to the HSA.

Contributions to HSA and 401(k)

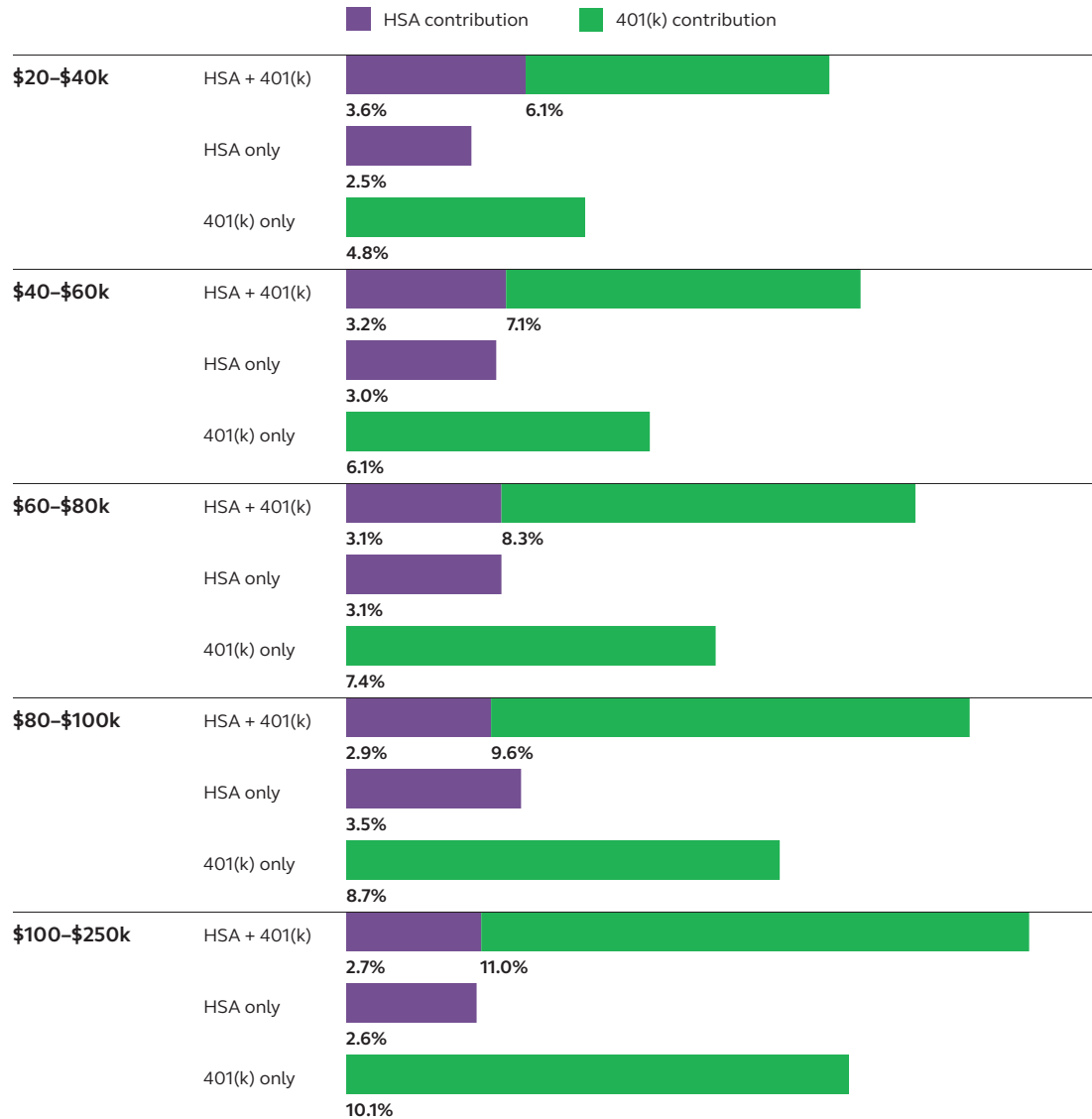
By pay and coverage category



When workers are eligible to contribute to HSAs and 401(k)s, those who use both save more than people who use just one.

Average HSA and 401(k) contribution levels

By pay and contribution type



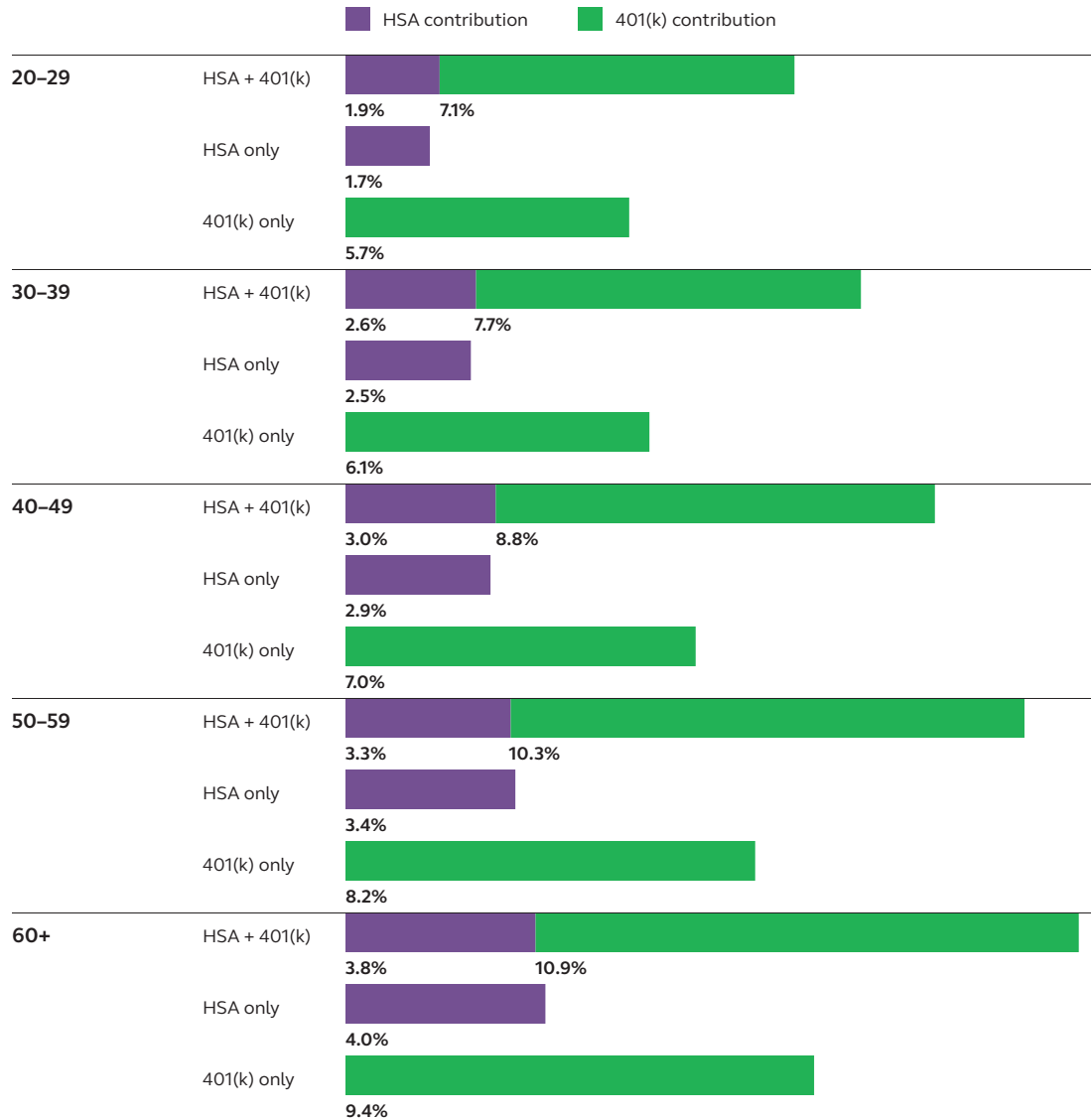
Those who use both savings vehicles actually save more—not just in total, but also to the 401(k) alone. Among people who are enrolled in HSA-eligible health care plans, those who contribute to both the HSA and the 401(k) save, on average, 8.9% in the 401(k) plus an

additional 2.9% in the HSA. This is a higher average contribution rate than the 6.8% average for workers who save only in the 401(k). The higher savings rates for these super-savers holds true even when controlling for different demographic factors such as pay.

Average contributions increase with age.

Average HSA and 401(k) savings

By age and contribution type



HSA and 401(k) savings both tend to increase as workers get older. This is true when controlling for other factors such as pay, gender and coverage type. We know that 401(k) savings tend to increase with

age,⁴ but here we see that HSA contributions also increase with age—an indication that younger workers save less not just for retirement, but also for health care expenses.

⁴ See Aight Solutions' 2017 Universe Benchmarks.

Workers covering dependents under the health care plan tend to save less to the 401(k) but more to the HSA.

Contributions among workers contributing to both the HSA and 401(k)

By pay and coverage category



HSA limits are lower for people who elect employee-only coverage. So it is not surprising that we see lower HSA contributions for this group compared to workers who cover other

dependents. However, workers with employee-only coverage tend to save more to the 401(k) than those who cover others.

What can employers do to promote their benefits?



Employer actions

Employers have the opportunity to use this information to help promote benefits at their workplaces.

Benchmark behavior. Employers should benchmark their plans' data against the information shown in this report. Is your workers' behavior similar to this data? Why or why not?

Incorporate 401(k) into annual enrollment. Annual enrollment is a time when workers vote with their paycheck dollars on the benefits they find most important. Folding 401(k) into the mix can help workers keep it top of mind as they adjust their benefits spend.

Promote the HSA. Some companies tilt communications more toward the health part of HSAs and encourage workers to set aside some money to cover deductibles or anticipated medical expenses in the upcoming year. Other companies tout the savings part of HSAs and highlight the long-term tax advantages of the vehicle. Consider how to position the HSA at your organization.

It's not a one and done. Both HSA and 401(k) accounts can be updated at any point in the year. Take advantage of ongoing communication targeted at those who may not be contributing. Use data sources like claims experience or benchmarking data to help employees quantify the financial benefits.

Follow the leaders. This research shows that there are some workers who are "model citizens" when it comes to maximizing their employer-provided benefits. What lessons can be learned from these individuals?

Create a contribution modeler. Some workers struggle with understanding the benefits of saving in an HSA versus a 401(k). Provide workers with a modeler that shows the estimated impact of saving in one vehicle versus the other and highlights the pros and cons of each.

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