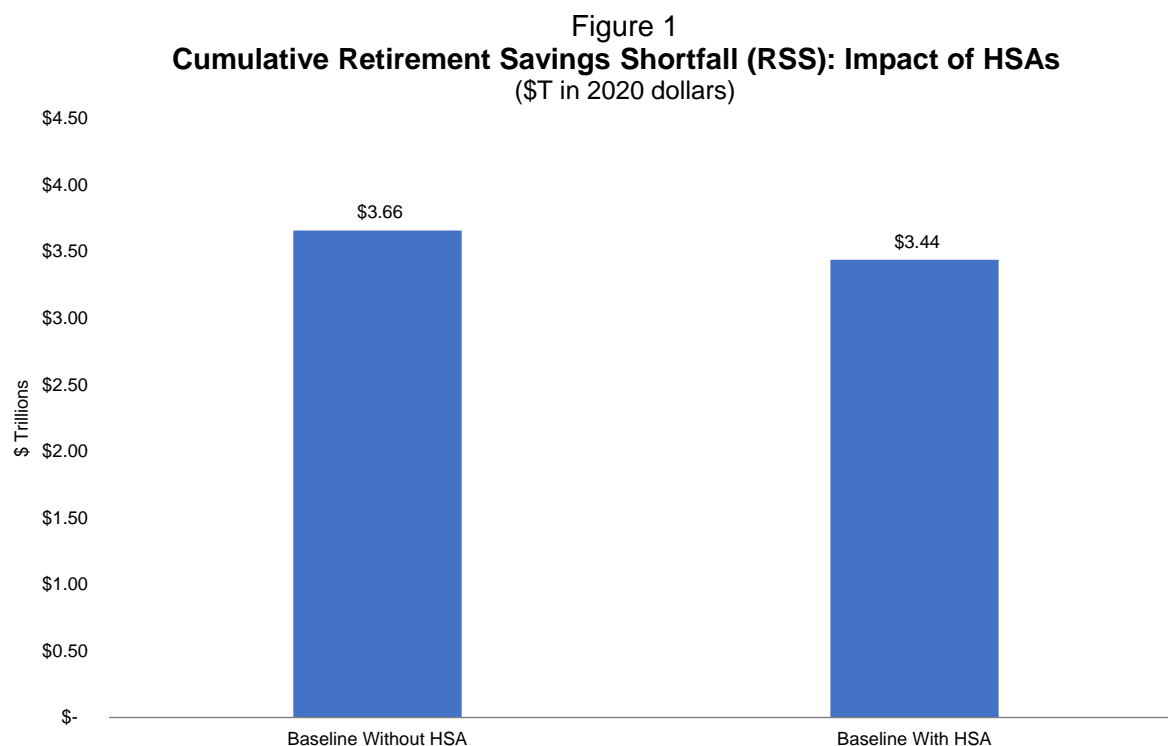# The Impact of HSAs on Retirement Income Adequacy

EBRI's Retirement Security Projection Model® (RSPM) simulates the percentage of the population at risk of not having enough retirement income to cover average expenses and out-of-pocket health care costs (including long-term-care costs) throughout retirement. RSPM looks at specific income groupings and simulates the present value of the deficits for those who do run short of money in retirement. A household is considered to run short of money in RSPM if aggregate resources in retirement are not sufficient to meet average retirement expenditures for the household's income. EBRI's RSPM has determined that the aggregate retirement savings shortfall for all U.S. households ages 35–64 as of December 31, 2020, was $3.66 trillion. EBRI's proprietary Retirement Readiness Rating (RRR) generated by the model is the probability that a household will not run short of money in retirement. EBRI's baseline (what is considered most likely to occur with individuals' behavior and economic outcomes) RRR is 59 percent.[1]
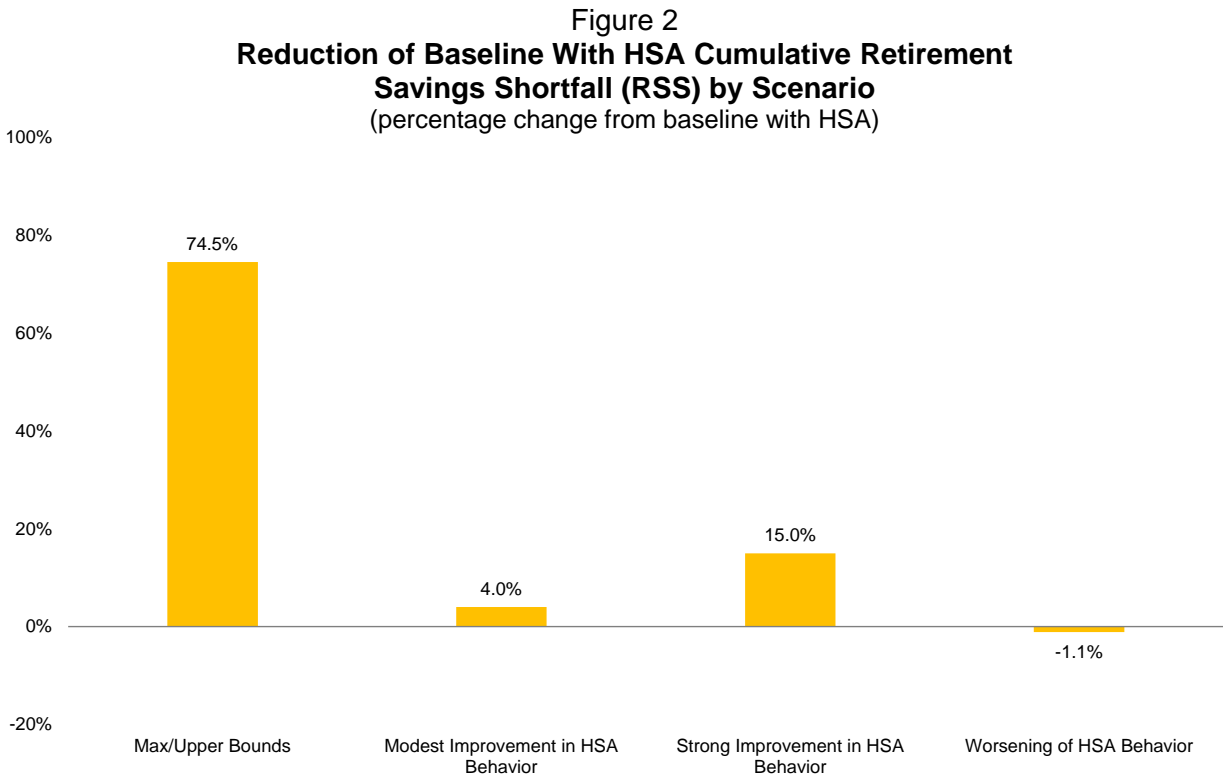
A recent report found that health savings accounts (HSAs) can have a substantial impact on retirement income adequacy. The report found that the cumulative baseline deficit decreases by 6.2 percent to $3.44 trillion when status quo HSA utilization is considered. Similarly, the RRR increased from 59.0 percent to 60.2 percent.

Figure 1
Cumulative Retirement Savings Shortfall (RSS): Impact of HSAs
($T in 2020 dollars)

---

[1] See https://www.ebri.org/publications/research-publications/issue-briefs/content/retirement-savings-shortfalls-evidence-from-ebri-s-2019-retirement-security-projection-model for more information.

The model tested five scenarios across working career factors of HSA investor prevalence, enrollment, contributions, and distributions. The behavioral scenarios tested were status quo (continuation of the historical trend, or baseline with HSA), moderate improvement in behavior, strong improvement in behavior, maximum use of HSAs, and worsening of behavior. These HSA behaviors consisted of enrollment, investing, contributions, and distributions.

- A moderate improvement in HSA behavior increases the baseline Retirement Readiness Rating with HSAs by 2.5 percent to 61.7 percent and reduces the aggregate deficit by 4.0 percent.
- A strong improvement in HSA behavior increases retirement readiness by 7.4 percent to 64.7 percent from the baseline with HSAs and reduces the aggregate deficit by 15.0 percent.
- The maxing out of the four HSA behavioral factors simultaneously increases the retirement readiness rating by 36.0 percent to 81.9 percent from the HSA baseline and reduces the aggregate deficit by 74.5 percent.

Figure 2
**Reduction of Baseline With HSA Cumulative Retirement
Savings Shortfall (RSS) by Scenario**
(percentage change from baseline with HSA)

HSAs have the potential to play an important role in determining retirement income adequacy for future retirees. Maximizing HSA enrollment and HSA investing accounts for most of the improvement in retirement income adequacy. Increasing access to HSAs and encouraging investment among HSA accountholders may significantly reduce the cumulative retirement savings shortfall and be more impactful for demographic cohorts who are currently projected to face the largest deficits.

About EBRI: The Employee Benefit Research Institute is a private, nonpartisan, and nonprofit research institute based in Washington, D.C., that focuses on health, savings, retirement, and economic security issues. EBRI does not lobby and does not take policy positions. The work of EBRI is made possible by funding from its members and sponsors, which include a broad range of public and private organizations. For more information, visit www.ebri.org.

A Thank You to Our Funder: This study was supported by a grant from the TIAA Institute.