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# 2019 HSA Spend Report

Lively, Inc.  
588 Sutter Street, #214  
San Francisco, CA 94102

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+1 (888) 576-4837  
hello@livelyme.com  
<https://livelyme.com/>

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# 2019 HSA SPEND REPORT

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## INTRODUCTION

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### ***The Rising Cost of Healthcare + High Deductible Health Plans***

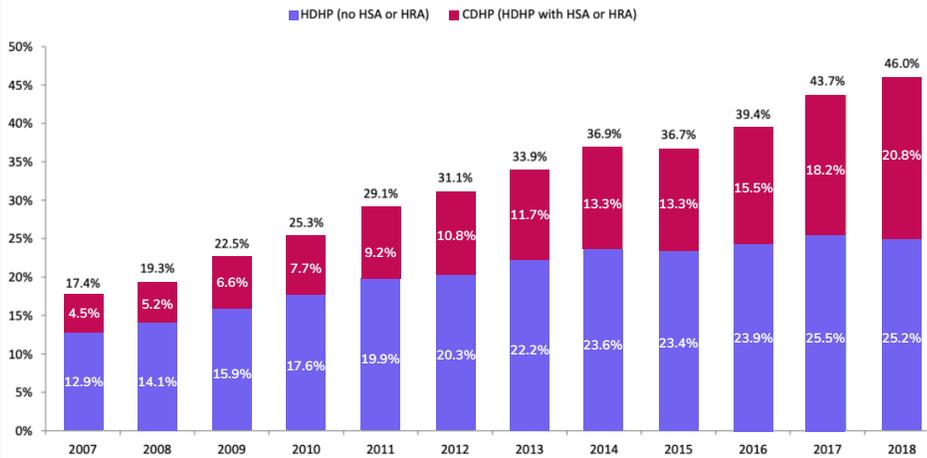
In 2019, 36 percent of American household costs went to out-of-pocket medical care. Needless to say, this has serious implications on the wellbeing of American families and the future of our economy -- and it's only expected to get worse.

Over the last decade, healthcare spending has been rising year-over-year (4.6 percent)<sup>1</sup>, with costs rising faster than the annual rate of inflation. Driven by rising healthcare costs, employers are increasingly moving to high deductible healthcare plans (HDHPs).

HDHPs are no longer a trend in healthcare -- they are the norm. Almost half (46 percent) of employer-sponsored health plans are now high deductible offerings. Adding direct to consumer health plans, which are mostly HDHPs as well, through state-exchanges and other direct to consumer health plans options, it's clear that HDHPs are now one of the most common health plans on the market. This move to cut costs has put more pressure on the average American consumer to spend more of their savings on everyday health expenses.

<sup>1</sup> U.S. Centers for Medicare & Medicaid Services (2019, December 17). National Health Expenditure Data. Retrieved from <https://www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/NationalHealthExpendData/index>

**Percentage of Persons With Private Health Insurance Under Age 65 Enrolled in a High-Deductible Health Plan or in a Consumer-Directed Health Plan, 2007–2018**



2 Source: Figure 11 in <https://www.cdc.gov/nchs/data/nhis/earlyrelease/insur201811.pdf> and Figure 3 in <https://www.cdc.gov/nchs/data/nhis/earlyrelease/insur201306.pdf>

One unintended but notable impact of higher deductibles is that the responsibility of tracking healthcare spending is shifting to the consumer level. This creates the opportunity for better access and insights as personal spending represents an increased proportion of total healthcare expenses. More consumer spending transparency, such as the findings in this report, will help to identify and isolate consumer healthcare needs.

## How the U.S. is Spending on Healthcare

Americans are spending more on healthcare than ever before -- but what is costing them the most? Are expenses dominated by high-cost medical events, like hospital stays? Or is it the combined effect of higher co-pays and out-of-pocket costs for health services and prescriptions?

To improve financial well being and create efficient and effective health spending options, Lively sampled health savings account (HSA) spend data from 25,000 random, unique customers to better understand consumer habits when it comes to healthcare spending.

This HSA Spend Report will outline where consumers spend their HSA funds, and compare that against data from the Center for Medicare and Medicaid Services to understand the similarities and differences between HSA spending and national healthcare spending.

2 Fronstin, P. (2019, December 20). Consumer Engagement in Health Care: Findings From the 2018 EBRI/Greenwald & Associates Consumer Engagement in Health Care Survey. Employee Benefit Research Institute. Retrieved from [https://www.ebri.org/docs/default-source/ebri-issue-brief/ebri\\_ib\\_468\\_cehcs-20dec18.pdf?sfvrsn=effc3e2f\\_14](https://www.ebri.org/docs/default-source/ebri-issue-brief/ebri_ib_468_cehcs-20dec18.pdf?sfvrsn=effc3e2f_14)

# KEY FINDINGS

## #1 HSA users are spending, not saving.

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- The average HSA account holder will spend 96 percent of their annual contributions on qualified medical expenses.

## #2 Online retailers are gaining ground in healthcare spending.

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- Traditional national pharmacies reign supreme: Of the total 10 percent Rx spend, 76 percent of transactions were at Walgreens, CVS and Rite Aid.
- Superstores are nipping at their heels: 8 percent of spending is happening at Target, Walmart, Costco and Sam's Club.
- Amazon is lurking: While only a small percentage of HSA purchases occurred through Amazon, the web giant is capturing a large portion of web and mobile purchases (vs. in-store).

## #3 Healthcare spending is increasing across all categories.

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From 2018 to 2019:

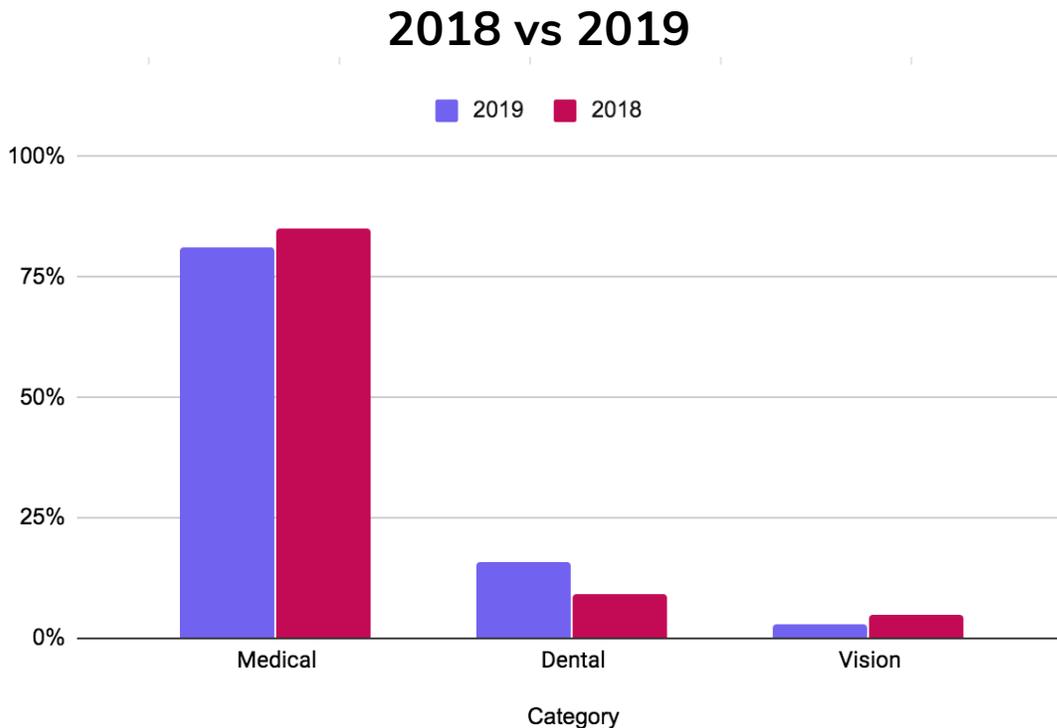
- Doctor visits & services spending increased moderately by 22 percent
- Hospital spending increased 114 percent
- Dental spending increased 78 percent

## HSA CONSUMER SPENDING HABITS

### Key Finding #1: HSA users are spending, not saving.

HSAs can be split into three categories of account capabilities: savings, investments, and spending. The average HSA account holder will spend 96 percent of their annual contributions on qualified medical expenses. This excludes any year-over-year carry from their existing HSA savings or investments.

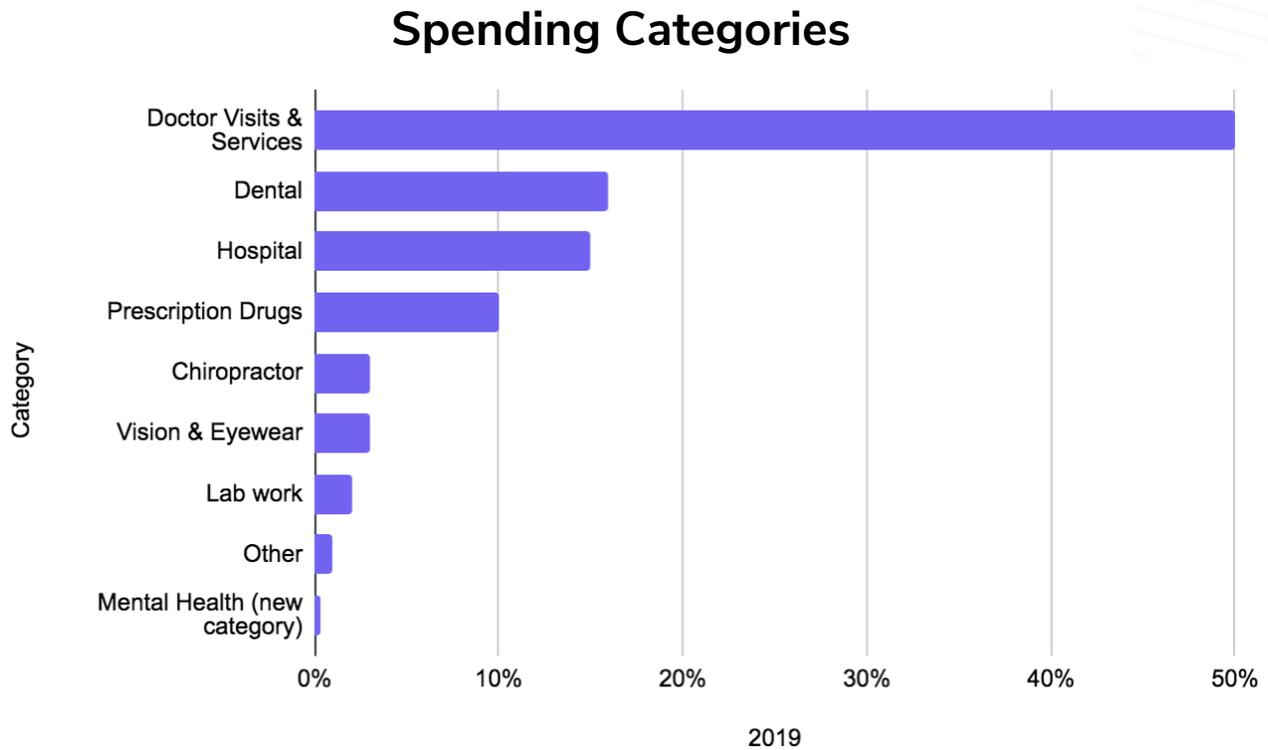
In 2019, Lively HSA spending was used for medical (81 percent), dental (16 percent), and vision costs (3 percent). Surprisingly, these costs are focused around expected and typical healthcare costs -- such as preventative care and regular doctor visits -- rather than hospital visits.



The typical Lively HSA account holder averaged 13 spend transactions per year. This is just above the average HSA account holder, likely correlated to the higher than average account balance of a Lively account holder vs. an average HSA account holder.<sup>3</sup> The average Lively HSA account holder spent **\$117 per transaction**, on par with the average HSA account holder.<sup>4</sup>

<sup>3, 4</sup> Devenir Research (2019, August 27). 2019 Midyear Devenir HSA Research Report. Retrieved from <https://www.devenir.com/research/2019-midyear-devenir-hsa-research-report/>

The below chart shows HSA spending habits of consumers, broken into the types of health goods or services that were purchased by our HSA account holders.



The most obvious, yet important discovery of this spend data, is that we can clearly see that HSA funds are used as they were originally designed and intended, for yearly medical expenses.

**96 percent of annual contributions are being spent on expected expenses and routine visits.**

When expected medical, dental, and vision expenses are combined, over 70 percent of all HSA funds are being used for yearly expenses. Combined with prescription drug spending, that jumps to 80 percent. We would expect this distribution to climb even further, as yearly service-based medical costs continue to increase.

While using HSA funds for regular and expected medical services reduces overall out-of-pocket healthcare spending (when compared to those without access to an HSA and the triple-tax savings that come with it), more education is required to help HSA account holders understand the benefits of saving and investing their annual contributions for the long-term.

## CONSUMER BEHAVIOR HABITS

# Key Finding #2: Online retailers are gaining ground in healthcare spending.

For the first time, we have added consumer spend information to our analysis. This includes aggregated merchant spend data. One important find is that online retailers are becoming increasingly popular in every consumer health category, from purchasing prescription drugs to accessing mental health professionals.

## Where Prescriptions Are Purchased

Prescription drug spending accounts for 10 percent of all 2019 HSA spend and 9 percent of all healthcare spending nationally. We can now see where HSA account holders are purchasing prescription drugs. Here are the highlights:

### TRADITIONAL NATIONAL PHARMACIES REIGN SUPREME:

Of the total 10 percent Rx spend, 76 percent of transactions were at Walgreens, CVS and Rite Aid.



### SUPERSTORES ARE NIPPING AT THEIR HEELS:

8 percent of spending is happening at Target, Walmart, Costco and Sam's Club.



### AMAZON IS LURKING:

While only a small percentage of HSA purchases occurred through Amazon, the web giant is capturing a large portion of web and mobile purchases (vs. in-store).



In-store purchases, led by the larger national pharmacies, still dominate the market and capture the largest percentage of market share, with Walgreens leading the way. However, as consumer spending trends change, we could see a movement of spending that aligns with broader consumers habits including an increase in mobile purchases and/or a movement of spend to “superstores” where consumers are already shopping. Either way, convenience should be considered a key motivating factor in prescription drug spending trends.

### **Vision and Eyecare Trends**

The predictability of most vision and eyecare spending has moved spending from in-store to online. [Over 15 percent of all HSA vision and eye care spending in 2019 was online, dominated by 1-800-Contacts and Warby Parker.](#) In addition to the clear convenience of shopping online, the subscription discounts offered by many online retailers are also driving this consumer behavior.

### **Mental Health Trends**

Mental health spending is a new data category in 2019, therefore the data is limited. However, our first look shows that [more than 15 percent of all mental health spending is through virtual experiences, apps, and/or digital experiences that connect consumers to mental health professionals.](#)

This aligns with broader consumer trends and direct-to-consumer mental health offerings that have emerged in the market over the last few years. If consumer adoption of mental health apps expands, and also stigmas of mental health experiences diminishes, we expect HSA spending in this category to increase year over year.



## HSA CONSUMER SPENDING HABITS: 2019 VS. 2018

# Key Finding #3: Healthcare spending is increasing across all categories.

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Doctor visits & services spending increased moderately by 22 percent - from 41 percent in 2018 to 50 percent in 2019.

Prescription spending decreased 60 percent - from 25 percent in 2018 to 10 percent in 2019.

Hospital spending increased 114 percent - from 7 percent in 2018 to 15 percent in 2019.

**Doctor visits & services** spending increased moderately by 22 percent - from 41 percent in 2018 to 50 percent in 2019. Because HSAs are designed to be used for regular yearly healthcare expenses, doctor visits & services spending are at the top of the list. The moderate shift in spending can be attributed to continued increased yearly out-of-pocket spending. However, it more accurately represents the most common HSA use case and how they fit into the health spending landscape.

**Prescription spending** decreased 60 percent - from 25 percent in 2018 to 10 percent in 2019. The decrease in spending, now better aligns HSA spending with overall consumer prescription spending. Therefore the 2018 data should be treated as an anomaly.

**Hospital spending** increased 114 percent - from 7 percent in 2018 to 15 percent in 2019. The increase in hospital spending aligns with the continued increase in hospital spending across the healthcare category overall. Hospital based outpatient care prices increased 25 percent, and were mainly dominated by facility fees.<sup>5</sup>

<sup>5</sup> Kacik, A. (2019, February 4). Hospital price growth driving healthcare spending. Modern Healthcare. Retrieved from <https://www.modernhealthcare.com/article/20190204/NEWS/190209984/hospital-price-growth-driving-healthcare-spending>

Dental spending increased 78 percent - from 9 percent in 2018 to 16 percent in 2019. This can be attributed to a dedicated education effort to identify lesser known HSA-eligible expenses. Therefore the increase can be credited to a more efficient use of HSA funds, not an a shift in overall consumer spending.

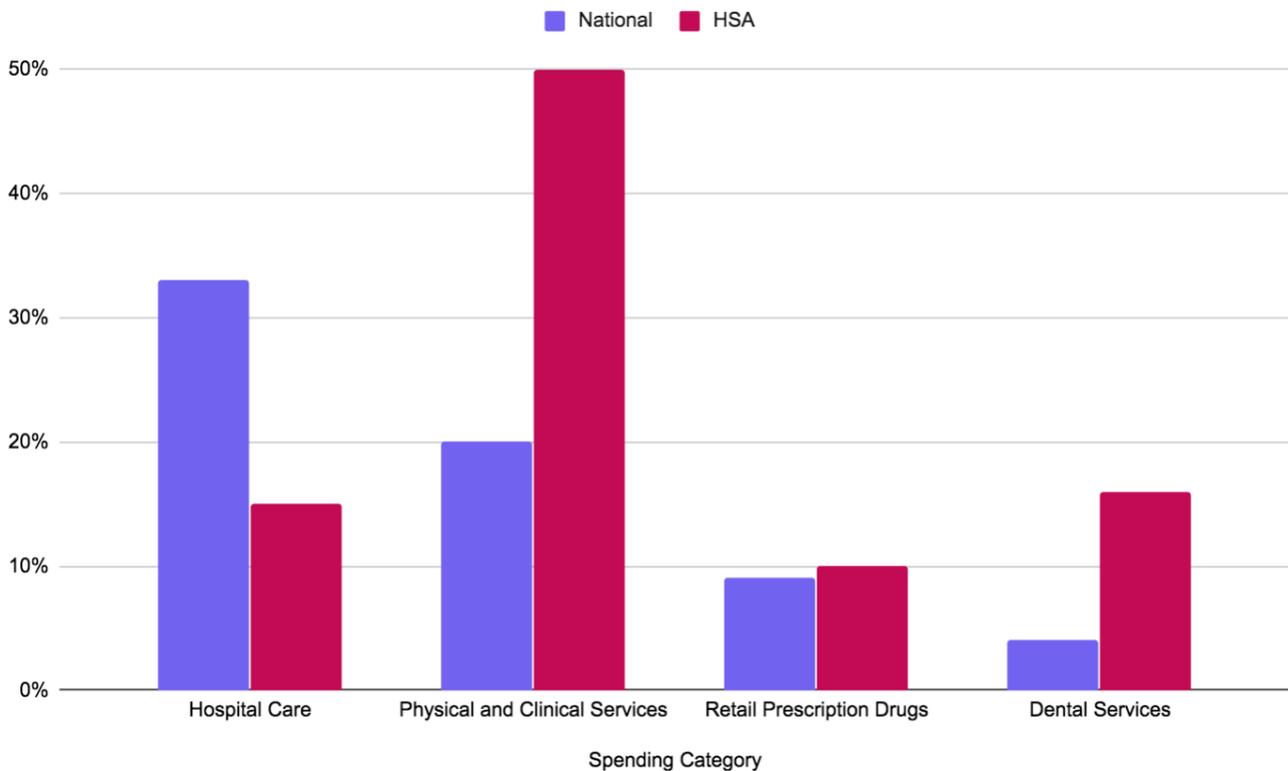
There were also small fluctuations in chiropractor (down from 5 percent to 3 percent), and vision & eyewear (down from 5 percent to 3 percent) and lab work (down from 4 percent to 2 percent).

Please note, mental health was a new category and not tracked in 2018.

## Consumer Behavior Habits: National Healthcare vs. HSA Spending

How does HSA spend data look compared to national healthcare spending? Let's look at the data.

### National Healthcare vs. HSA Spending <sup>10</sup>



<sup>10</sup> U.S. Centers for Medicare & Medicaid Services (2019, December 17). National Health Expenditure Data. Retrieved from <https://www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/NationalHealthExpendData/index>

When comparing overall healthcare spending and HSA spending you will see key differences in hospital, doctor visits & services and dental expenses. We will look into these differences and outline likely correlations and casualties.

## Top Spend Categories

Hospital care accounts for 33 percent of national healthcare spending, but only 15 percent of HSA spending. Doctor visits and services account for 50 percent of all HSA spending, but only 20 percent of national healthcare spending. These inverse relationships are based on two factors:

1. **Cost per health experience**
2. **Frequency of health experience**

The average hospital stay costs <sup>11</sup> **more than \$1,000 out-of-pocket**. The average HSA spend is just over \$100. While there are more doctor visits & services than hospital stays, the 10x difference in cost per experience accounts for the difference.

The biggest concern here is that HSA account holders are using their funds for regular doctor visits & services throughout the year, and as a result often want or need more HSA funds if an unexpected health event account that requires a hospital stay. **Increasing the annual HSA contribution limit would better prepare Americans for both regular healthcare experiences and higher cost, but less frequent healthcare emergencies.**

## Why are dental expenses higher for HSAs than the national average?

Dental expenses are 4 percent and 16 percent of national healthcare and HSA spending respectively. The large gap between these two data sources is related to the convenience and value that HSAs offer when paying for regular dental expenses. However, this convenience is not outweighed by larger (and more frequent) healthcare expenses. This cost vs. convenience discrepancy will continue, and may even increase, as more HSA providers educate account holders in regard to HSA-eligible dental expenses.

<sup>11</sup> Radcliffe, Shawn. (2017, July 17). How Much Does It Cost to Stay in the Hospital? Healthline. Retrieved from <https://www.healthline.com/health-news/how-much-does-hospital-stay-cost#2>

The gaps between overall healthcare spending and HSA spending showcase a clear and distinct distribution between out-of-pocket consumer health expenses and national expenses, that include both out-of-pocket and insurance related health expenses.

Now that HDHPs have become the most common health plan, we can expect most health expenses (both nationally and with HSAs) to become more aligned. The biggest exclusion will be major medical expenses, like hospital care, that will still be largely covered by health insurance.

## Conclusion

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When HSAs were created, the intention was to create a way for consumers to save and spend for medical expenses tax-free. This biggest benefit comes from being able to use funds saved in an HSA in retirement when earnings are lowest and healthcare is most expensive. While Americans are using HSAs how they were initially intended, saving behavior has not changed to match the new realities of the cost of healthcare in retirement.

It's our hope that this HSA spend data will help forecast future healthcare category expenses and consequently contribute to the national conversation on how to improve the state of our healthcare system and reduce out-of-pocket costs for American families.

***“Rising healthcare costs will have serious implications on the wellbeing of individuals and families. As much as people are increasingly putting HSA money aside, our 2019 report alerts us to one dangerous outcome: rather than saving funds to create a safety net for healthcare costs into retirement, Americans have to use almost the entirety of their HSAs to cover basic health needs every year.”***

- Shobin Uralil,  
Co-Founder and COO, Lively

## Report Methodology

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Lively collected anonymous data from a randomly selected subset of account holders (25,000), who had an HSA account in 2019. This includes accounts with active contributions and ones without. To classify the types of health goods or services that were provided, HSA debit card spend data from January to December 2019 was categorized by Merchant Category Codes (MCCs). No demographic or personal information was provided or used to create these cohorts. As such, any demographic details are based on post-data collection analysis.

## About Lively, Inc.

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Lively is the modern HSA experience built for—and by—those seeking stability in the ever-shifting healthcare landscape. By harnessing modern innovation and deep industry expertise, Lively is committed to bridging today's savings with tomorrow's unknowns. Unlike traditional institutions hindered by bureaucracy, Lively's commitment extends beyond initial set up. It provides dedicated, ongoing support and education during every step, so that each HSA can reach its maximum potential with minimal headache. Lively is headquartered in San Francisco, CA.

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