



## Episode 12:

# How HSAs can combat inflation

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**Announcer:** You're listening to Benefits with Purpose, a WTW Podcast where benefits delivery experts help employers navigate the world of health and wealth benefits, and deliver purpose to their people in the moments that matter most.

**Philip Massey:** Hello. My name is Philip Massey. I've spent over 20 years in employee benefits, and I'm excited to be hosting another episode of our Benefits with Purpose podcast.

Today's episode, entitled, How HSAs Can Combat Inflation. With me today to discuss how employers can help employees perceive their HSA as a tool against inflation, is our resident health savings account expert, Stephen Durso, Associate Director at WTW. Good morning, Steve.

**Stephen Durso:** Good morning, Phil.

**Philip Massey:** Steve, we typically approach Benefits with Purpose by talking broadly about how employers can use position, or otherwise educate employees on getting the most out of their benefits. Today, let's narrow that focus a bit to something more topical.

**Stephen Durso:** Oh, sure. And I think you gave it away in the intro, Phil. We're going to talk about inflation.

**Philip Massey:** Yeah, that's right. Spoiler alert, inflation. So, we've talked a lot about HSAs in this series, but given the toll inflation is having on all of our households, do you see opportunities for health savings accounts to help employees combat inflation?

**Stephen Durso:** Absolutely. So, you know, the cost of everything is going up. Food, fuel, shelter. Those are going to be three of the areas where we've seen significant price increases. And all of those are essential items. So, everyone's out there searching for opportunities to offset the impact of rising prices. And one area that employees may be overlooking is their HSA.

**Philip Massey:** OK. So, we're talking about medical expenses as living in that essential bucket of the family budget. And I guess when we say medical, we should be thinking about office visits, hospital stays, labs, prescriptions, and likely considering out-of-pocket dental and vision in there as well.

**Stephen Durso:** Yeah, that's right. So, depending on an employee's individual or their family disposition, some or all of those are going to be essential services, kind of like food, fuel, and shelter. It can often feel like we're at the mercy of inflation, as commerce runs on fuel, people run on food, and all of us are scrambling for opportunities to save elsewhere. And for employees enrolled in an HSA, they already have the means to do that, experience significant savings on their medical care, including all of the examples you just provided, but they may not realize it.

**Philip Massey:** Right. So, with food, fuel, and shelter, we're looking for discounts and deals, right? Maybe changing brands, or even reducing utilization altogether. Employees likely know or are quickly learning those routines just in the course of their own lives. With medical expenses, what are the savings strategies one can employ? And how does the HSA fit into that approach?

**Stephen Durso:** Well, one that almost everyone is aware of, especially our dedicated listeners, is that any medical expense that's run through an HSA enjoys, on average, a 30% discount. So, by running an expense through an HSA, what I'm referring to is employee deposits that are made through payroll, and then spent on a qualified out-of-pocket medical expense.

So that could be prescriptions, it could be a doctor's visit, dental, vision, et cetera. So, the savings occurs by virtue of those contributions being pre-tax, which really means tax-free. And every single dollar contributed to an employee's HSA is deposited without Uncle Sam taking a cut.

So, if I could give just a simple example. If your gross pay is \$500, and taxes take 30%, you're left with \$350. So, a \$50 medical expense in that scenario, that you just pay out of pocket, would leave you with \$300.

But if you had taken that \$50 out of your paycheck and put it into your HSA, and then spent it on the medical expense, then only \$450 of your pay would be taxable, and that would leave you with an end result of \$315. So, it's the same expense, the same paycheck, but \$15 more in your pocket if you utilize the HSA.

**Philip Massey:** Great example there. So, this is the point. However, we should give the disclaimer that everybody's situation is different. We should get in the habit of ringing a bell here or something. Income varies obviously, along with state, local taxes, et cetera. But the logic here is sound, right? That the HSA deposits used for out-of-pocket medical are essentially converting that tax-free experience from payroll into savings at the register.

So, in a way, the employee's HSA is accounted for first. So, as you said there, as you gross pay, then the deposit is subtracted and sent into the employee's account, their HSA account. That's the pre-tax part. Then the taxes are applied only to the remainder.

That's two of the three tax advantages for HSAs right there. So, \$100 contribution comes out of the gross pay, not the net pay and the withdrawals-- meaning, that spending-- for eligible expenses. That part's also tax-free.

**Stephen Durso:** That's exactly right, Phil. And the third of that triple tax advantage is earnings. Another pro tip where you can tap into the earnings is called banking your HSA receipts.

So, your description of the tax-free contributions leading to savings at the register, that still applies, but some employees are actually in a position not to spend from the HSA in the current moment. Say, at the doctor's office or dentist office.

They can hold onto that receipt and reimburse themselves down the road when the need arises. So, this is where the earnings would apply. So they can build their money in their HSA over time, invest it, and actually earn income on it.

So with banking receipts, an employee can cash them in at any time, which is just a withdrawal from the HSA. So that could be a month later, a year later, or even in retirement.

So the receipt represents an eligible expense that they've already experienced but haven't withdrawn from the HSA. So, the trigger for that later withdrawal can be anything. It can be beyond medical, from household expenses to an unexpected need, like auto repair.

**Philip Massey:** And I would say, most administrators have the means to capture receipts electronically. Would you agree?

**Stephen Durso:** I would. And it's very common now, which makes the banking part of banking receipts much easier to keep track of.

**Philip Massey:** That's really helpful. Great description there. So, you've presented two approaches. One is to run all of the out-of-pocket expenses through the HSA. And that's where we're talking about spending out of pocket as the service occurs. And we talked about that's how the payroll tax-free piece becomes the discount at the register.

But the other, that doesn't get nearly enough publicity, and that is to not use the HSA if you don't absolutely have to, to bank those receipts in the short term, and then cash them in only when needed. Meaning, you withdraw those amounts from the HSA later.

**Stephen Durso:** Yeah, that's right, Phil. And all you need is that out-of-pocket expense. So something that you've spent out-of-pocket after your HSA was established. So, the receipts' proof that allows an eligible withdrawal from the HSA.

So, it can be any time for any expense, medical or otherwise, up to the amount of that unused receipt. So, it's truly a flexible way to look at your HSA. So, if I have \$100 expense today that I put on my credit card, or I just spend out of pocket with cash, I don't use my HSA, I can reimburse myself for that in 20 or 30 years if I want to.

And another thing I would say is that we talk about all the varied benefits of HSA, but from an employee's perspective, the HSA doesn't have to be all one thing. So, it can be used in the moment. And we talked about that before, with that \$15 savings. Or it can be used down the road by banking receipts. The savings is still there, all around.

**Philip Massey:** That's really essential for employees to understand, and for employers and administrators to communicate, to bring that key point to the fore. But as valuable as the HSA can be in and of itself, maybe any other thoughts on fighting inflation within the realm of the out-of-pocket medical expenses?

**Stephen Durso:** Well, it's always been difficult to compare prices for medical services. But very recently, this is becoming easier through state and federal transparency laws. So, we're very early in the process of these laws, and some of the rules are just going into effect. But many employers have transparency tools available through partnerships today.

And an employee can also contact different providers in their area, directly before a service, and ask for pricing information to shop and compare. They may find that different providers have wildly differing prices. And this is key when enrolled in a high deductible health plan.

Consumer health care was originally designed with a shopper's behavior in mind. And now we're really starting to get some traction and seeing an environment where there's a greater opportunity for employees to do so before they have a service.

**Philip Massey:** That's another great point. So, it is important to look at the problem from all angles, right? The problem of inflation. If you combine the tax savings with getting the lowest price for the service, the employee can really leverage significant savings.

As you mentioned, a number of tools and services, I know, particularly in the RX space, that have been getting a lot of attention as well.

**Stephen Durso:** That's right, Phil. So, there are helpful apps for that purpose. So I can go on the app and enter my prescription, and it immediately tells me how much it costs at all my local retailers. And it can really be eye opening to see how much it can vary from place to place.

**Philip Massey:** I've also heard that the IRS gave us a gift for the future to help us tackle inflation.

**Stephen Durso:** That's right. So in 2023, we will have the largest ever increase in the allowable contributions to an HSA. So in a typical year, we'll see individual contribution rates get bumped up by maybe \$50, and family by \$100. But for 2023, they're going up by \$200 on the individual side, and \$450 for family coverage. So, significant increases.

**Philip Massey:** So, for those that can afford the upper end of the contribution limits, or those looking at maybe an expensive procedure coming up in 2023, these new maximums will provide greater tax-free contribution opportunities, which ultimately equates to greater savings.

**Stephen Durso:** That's a great point, Phil.

**Philip Massey:** So, Steve, to summarize. How would you wrap up thoughts on using an HSA to combat inflation, maybe from the employer's perspective?

**Stephen Durso:** Well, it always comes down to education. And we've been talking about different ways to save on medical expenses to counteract inflation. What I would do is I'd encourage employers to work with their HSA administrators to dig into this issue and tackle it head-on with some timely mid-year education for their employees.

**Philip Massey:** And annual enrollment will be here before it. That's a moment where the employer has their population's attention.

**Stephen Durso:** That's right. While the current state of our inflationary economy is unfortunate, it may also be an opportunity for employers to get their employees' attention, and finally push the HSA to its full potential.

I do see an opportunity for employers to combine this message of savings from payroll to register, the flexibility to spend or bank, the transparency options that an employer may have through a partner or health plan, to shop for the best price. All of that together can really lead to significant savings.

What an employer can do is they can create a compelling narrative here. This is real savings, and a chance to flip the script from I can't afford to you can't afford not to.

**Philip Massey:** Well, excellent. Great insight, Steve. Thanks for shedding some light on the opportunities HSAs present to combat inflation. And thanks to all our listeners for tuning into to our Benefits with Purpose podcast series.

I wish each of you good luck in navigating inflation. Whatever you do, don't forget about the many ways an HSA can help. Be well all.

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