

ESTIMATED INCOME CHARACTERISTICS OF HSA ACCOUNTHOLDERS IN 2008

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SUMMARY

In the summer of 2008, AHIP initiated a long-term project to allow detailed analysis of financial activity in health savings accounts (HSAs). For the original study, five bank trustees of HSAs provided de-identified data on a total of over one million HSA accounts with activity in 2007 and 2008.¹ For this follow-up study, the responding banks used a geo-coding technique to estimate the income characteristics of those HSA accountholders, which allows analysis of account balances, inflows and outflows by income range.

Each responding bank trustee used the geo-coding process to match HSA accountholders to the income characteristics of their 2000 Census “tract” or neighborhood, and report the neighborhood result.

Using this technique, we estimate:

- 3 percent of HSA accountholders lived in lower-income neighborhoods, which had median incomes less than \$25,000 in 1999 dollars;
- 46 percent lived in lower-middle income neighborhoods, with 1999 median incomes between \$25,000 and \$50,000;
- 34 percent lived in middle-income neighborhoods, which had median incomes between \$50,000 and \$75,000;
- 12 percent lived in upper-middle income neighborhoods, with median incomes between \$75,000 and \$100,000; and
- 5 percent lived in higher-income neighborhoods, with median incomes above \$100,000.²

Although accountholders in all neighborhood income ranges used their HSAs, those in higher income ranges tended to make larger deposits and withdrawals. For example, during calendar year 2007 accountholders residing in areas with median incomes between \$25,000 and \$50,000 (in 1999 dollars) experienced average HSA

inflows (personal deposits, employer contributions and interest earnings) of \$1,401 and average outflows (personal spending and fees) of \$936. For accountholders in neighborhoods with median incomes between \$75,000 and \$100,000 (in 1999 dollars), average HSA inflows in 2007 were \$2,083 and average outflows were \$1,320.

INTRODUCTION

Health savings accounts (HSAs) were authorized by the 2003 Medicare Modernization Act and became available to consumers in 2004. HSAs give consumers incentives to manage their own health care costs by coupling a tax-favored savings account for qualified medical expenses with a high-deductible health plan (HDHP) with specified deductibles and out-of-pocket expense limits.³ Most HDHPs cover preventive care services (e.g., routine medical exams, immunizations, well-baby visits) on a first-dollar basis, without requiring the enrollee to first meet the deductible.⁴ Funds in the HSA are owned by the individual and may be rolled over from year to year. We believe that the five participating banks in this study of HSA accounts manage a large and likely representative sample of the HSA accounts in place, with accounts held by persons living in all 50 states and the District of Columbia.

APPROXIMATING HSA ACCOUNTHOLDERS' INCOMES

Each of the five participating banks used a geo-coding technique to approximate the income levels of their HSA accountholders. The technique maps the HSA accountholders to the income characteristics of their census tract or neighborhood (see Figure 1 on page 5). The banks used the geo-coding process to map neighborhood incomes to 1,024,770 accounts out of a

¹ America's Health Insurance Plans, *A Preliminary Analysis of Health Savings Account Balances, Contributions and Withdrawals: 2007 & January–June 2008* (February 2009). Available at: <http://www.ahipresearch.org/pdfs/PreliminaryAnalysisHSAsv2.pdf>.

² Median household incomes for all households rose by about 25 percent between 1999 and 2007 (in current dollars). For 2007 Census data, see DeNavasWalt, C., et al. U.S. Census Bureau, Current Population Reports (2008). *Income, Poverty, and Health Insurance Coverage in the United States: 2007*, P60235. Washington, DC: U.S. Government Printing Office. For 1999 data, see U.S. Census Bureau, Current Population Reports (2000). *Money Income in the United States: 1999*. P60209.

Washington, DC: U.S. Government Printing Office. Both reports are available from <http://www.census.gov/prod/www/abs/income.html>.

³ For 2009, a self-only HDHP must have a deductible of at least \$1,150 and a maximum out-of-pocket limit of not more than \$5,800. Family HDHPs must have deductibles of at least \$2,300 and maximum out-of-pocket limits of not more than \$11,600.

⁴ America's Health Insurance Plans, *A Survey of Preventive Benefits in Health Savings Account (HSA) Plans, July 2007* (November 2007). Available at: http://www.ahipresearch.com/pdfs/HSA_Preventive_Survey_Final.pdf

total of 1,153,124 HSAs in place on June 30, 2008. (Some addresses could not be mapped because the address was a Post Office box, the address was formatted in an unexpected way, or for other reasons.)

Two important issues arise from the use of the geo-coding technique. First, the data on median incomes by census tract are from the 2000 U.S. Census, which means that the incomes are expressed in 1999 dollars. However, median household incomes rose by roughly 25 percent between 1999 and 2007 (in current dollars). Therefore, it is important to remember that the income distributions calculated from the geo-coded Census data will appear lower than would be the case if the data were available in today's dollars.

Second, the geo-coding technique provides the median income for a given census tract and it is possible that HSA accountholders may have lower or higher incomes. However, the census tracts are sufficiently detailed, and the number of HSA accounts in the study sufficiently large, that we believe the neighborhood-based approach provides a reasonable proxy for accountholders' income levels.

Table 1. Distribution of Year 2008 HSA Accountholders' Median Household Incomes, By Neighborhood Income Range (2000 U.S. Census)

Neighborhood Income Range	Number of Accounts in Income Range	Percent of Accounts in Income Range
Lower-Income	29,294	3%
Lower-Middle Income	471,458	46%
Middle-Income	352,200	34%
Upper-Middle Income	122,753	12%
Higher-Income	49,065	5%
All Accounts	1,024,770	100%

Source: America's Health Insurance Plans.
 Note: We have designated median household incomes of neighborhoods as follows: less than \$25,000 designated as lower-income; \$25,000-\$50,000 is lower-middle income; \$50,000-\$75,000 is middle-income; \$75,000-\$100,000 is upper-middle income; and \$100,000 and above is higher-income. These income amounts are from the 2000 U.S. Census, and are measured in 1999 dollars. Median household incomes rose by approximately 25 percent between 1999 and 2007.

Table 1 shows the distribution of HSA accountholders among neighborhood income categories. This information is based on geo-coded averages of median household incomes in census tracts where HSA accountholders lived.

Tables 2 and 3 summarize the account deposits, interest earned, and withdrawals of HSA accounts by geo-coded income range, for 2007 and the first six months of 2008, respectively. It is important to remember that results calculated from the first six months of 2008 should not necessarily be "doubled" to get an estimate for the full year 2008. This is because account inflows and outflows may not occur evenly across the year. For example, account contributions may be made in lump sums, not on a month-to-month basis; and medical needs leading to account withdrawals may be more prevalent during certain times of the year.

HSA accountholders residing in areas with higher median incomes tended to make larger account deposits

Table 2. Summary of HSA Deposits, Interest, and Withdrawals, By Geo-Coded Income Range (2000 U.S. Census), Calendar Year 2007

Neighborhood Income Range	Average Total Personal Deposits, Employer Contributions, and Interest, Calendar Year 2007	Average Total Withdrawals (Including Fees), Calendar Year 2007
Lower-Income	\$1,145	\$745
Lower-Middle Income	\$1,401	\$936
Middle-Income	\$1,712	\$1,108
Upper-Middle Income	\$2,083	\$1,320
Higher-Income	\$2,444	\$1,500
All Accounts with Geo-Coded Income Data	\$1,634	\$1,063

Source: America's Health Insurance Plans.
 Note: Based on 767,931 accounts open in 2007 with geo-coded income information available. We have designated median household incomes of neighborhoods as follows: less than \$25,000 designated as lower-income; \$25,000-\$50,000 is lower-middle income; \$50,000-\$75,000 is middle-income; \$75,000-\$100,000 is upper-middle income; and \$100,000 and above is higher-income. These income amounts are from the 2000 U.S. Census, and are measured in 1999 dollars. Median household incomes rose by approximately 25 percent between 1999 and 2007.

Table 3. Summary of HSA Deposits, Interest, and Withdrawals, By Geo-Coded Income Range (2000 U.S. Census), January–June 2008

Neighborhood Income Range	Average Total Personal Deposits, Employer Contributions, and Interest, January–June 2008	Average Total Withdrawals (Including Fees), January–June 2008
Lower-Income	\$784	\$489
Lower-Middle Income	\$958	\$608
Middle-Income	\$1,202	\$742
Upper-Middle Income	\$1,464	\$892
Higher-Income	\$1,766	\$1,051
All Accounts with Geo-Coded Income Data	\$1,136	\$706

Source: America’s Health Insurance Plans.

Note: Based on 1,024,770 accounts open in June 2008 with geo-coded income information available. We have designated median household incomes of neighborhoods as follows: less than \$25,000 designated as lower income; \$25,000-\$50,000 is lower-middle income; \$50,000-\$75,000 is middle-income; \$75,000-\$100,000 is upper-middle income; and \$100,000 and above is higher-income. These income amounts are from the 2000 U.S. Census, and are measured in 1999 dollars. Median household incomes rose by approximately 25 percent between 1999 and 2007. Spending and contributions in 2008 represent only half of the year. Contributions, spending, interest, and fees may not accrue evenly across the year – thus it may not be appropriate to “double” the January-June averages to approximate full-year 2008 averages. (For example, account fees may be charged on the first of the year; contributions may be made in lump sums, not on a month-to-month basis; and medical needs leading to account spending may occur more often in certain times of the year.)

and withdrawals. For example, for accountholders residing in areas with median incomes in the lower-middle income category (between \$25,000 and \$50,000 in 1999 dollars), average account inflows (personal deposits, employer contributions and interest earnings), totaled \$1,401 in calendar year 2007 and average outflows (withdrawals and fees) totaled \$936. For accountholders residing in neighborhoods with median incomes in the upper-middle income category (between \$75,000 and \$100,000 in 1999 dollars), average inflows in 2007 were \$2,083, and average outflows were \$1,320.

Likewise, in the first six months of 2008, average account inflows were \$958 for accountholders residing in areas with median incomes between \$25,000 and \$50,000 (in 1999 dollars), and outflows were \$608. For accountholders residing in areas with median incomes between \$75,000 and \$100,000 (in 1999 dollars), average account inflows in the first six months of 2008 were \$1,464, and outflows averaged \$892.

Table 4 shows the neighborhood income distribution of HSA accountholders with accounts that were opened in the years 2004 through 2008. Although this analysis is at best an approximation because the income profile of neighborhoods may change, the apparent income distribution of HSA accountholders has changed little as new accounts were added over time.

Table 4. Distribution of HSA Accountholders’ Census Tract Median Household Incomes, By Year, 2004–2008

Neighborhood Income Range	2004	2005	2006	2007	2008
Lower-Income	2.5%	2.6%	2.8%	3.0%	3.0%
Lower-Middle Income	43.9%	46.0%	46.0%	46.4%	45.8%
Middle-Income	35.3%	34.3%	34.2%	34.4%	34.3%
Upper-Middle Income	12.7%	12.2%	12.2%	11.6%	12.0%
Higher-Income	5.6%	4.9%	4.8%	4.6%	4.8%
All Accounts	100%*	100%*	100%*	100%*	100%*

Source: America’s Health Insurance Plans.

*Totals may not sum to 100% due to rounding.

Note: Based on 1,024,770 accounts open in June 2008 with geo-coded income information available. We have designated median household incomes of neighborhoods as follows: less than \$25,000 designated as lower-income; \$25,000-\$50,000 is lower-middle income; \$50,000-\$75,000 is middle-income; \$75,000-\$100,000 is upper-middle income; and \$100,000 and above is higher-income. These income amounts are from the 2000 U.S. Census, and are measured in 1999 dollars. Median household incomes rose by approximately 25 percent between 1999 and 2007.

CENSUS TRACT OVERVIEW

A census tract is a small and relatively permanent statistical subdivision of a county.⁵ Census tracts are delineated for most metropolitan areas and other densely populated counties by a local committee of census data users who follow the Census Bureau guidelines. Census tract data allow a user to find population and housing statistics about a specific part of an urban area. Census tract boundaries normally follow visible features, but may follow governmental unit boundaries and other non-visible features in some instances. A single community may be composed of several census tracts but census tracts do not cross county boundaries.

Census tracts usually average about 4,000 inhabitants and when first delineated are designed to be homogeneous units with respect to population characteristics, economic status, and living conditions. The spatial size of census tracts varies widely depending on the population density of the area.

Census tract boundaries are delineated with the intention of being maintained over a long time so that statistical comparisons can be made from census to census. However, physical changes in street patterns caused by highway construction, new development, etc., may require occasional revisions. Census tracts occasionally are split due to large population growth, or are combined as a result of substantial population decline.

There are 65,443 census tracts in the United States (not including census tracts in Puerto Rico and Island Areas such as the U.S. Virgin Islands). Currently data on census tracts are obtained only from the Census of Population and Housing conducted every 10 years. The most recent Census of Population and Housing survey was conducted in 2000. Starting in 2010, the Census Bureau will have annual data for census tracts based on the American Community Survey.

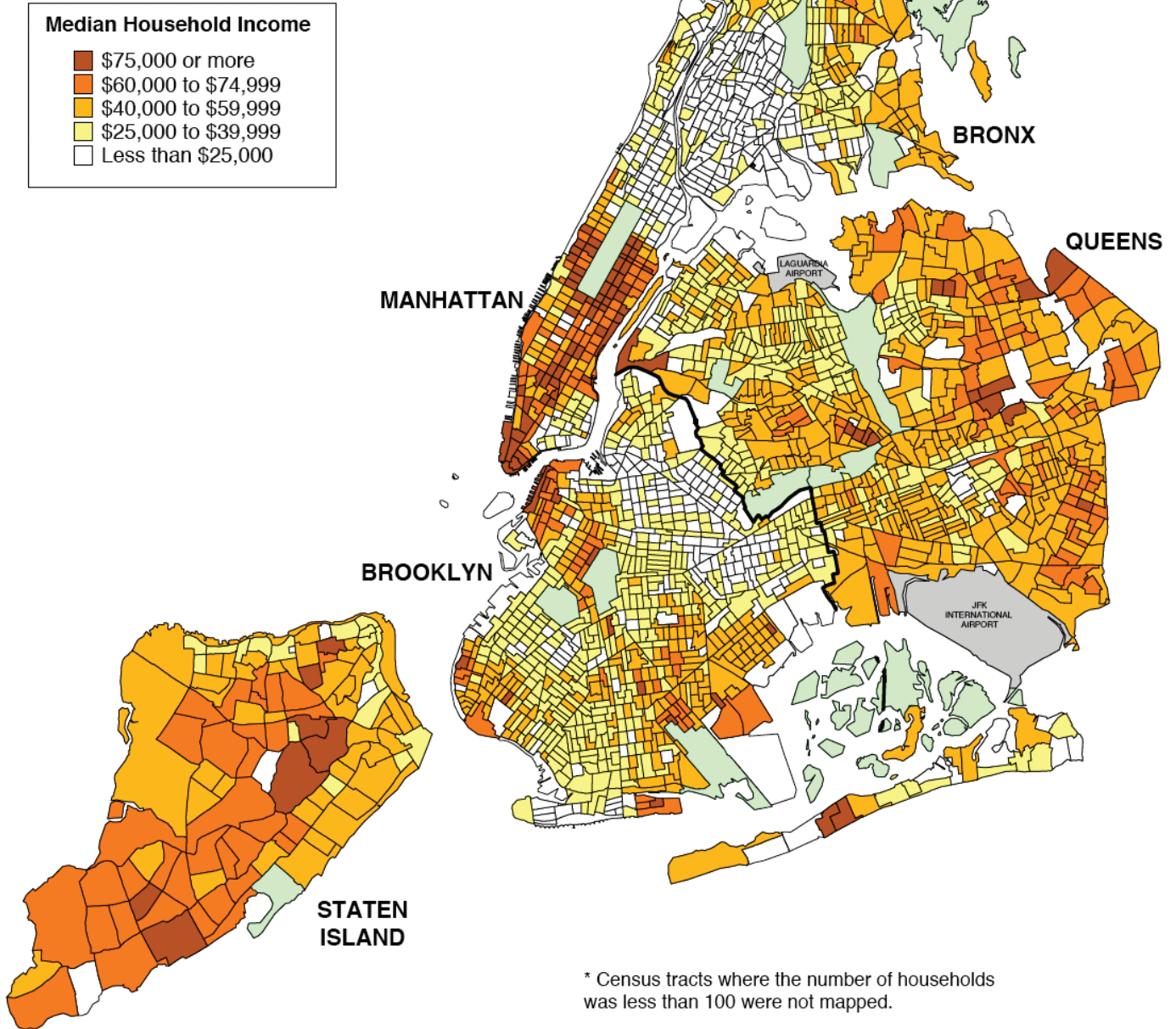
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⁵"Census Tracts and Block Numbering Areas." U.S. Census Bureau. http://www.census.gov/geo/www/cen_tract.html (accessed on April 1, 2009).

Figure 1. New York City Household Income Map, By Census Tract (2000 U.S. Census)

New York City Median Household Income: \$38,293



Source: U.S. Census Bureau, 2000 Census SF3. Population Division - New York City Department of City Planning. Map Available at: <http://nyc.gov/html/dcp/pdf/census/mpsf3inc1.pdf> (accessed on April 1, 2009).



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