# Business Customers Generate Increase in Deposits, Revenue, and Accounts With Health Savings Accounts

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# Abstract

The key for any financial organization to be successful in the HSA market is to educate your commercial, business, and Select Employee Group (SEGs) customers on the benefits HSAs can provide their company and its employees.

Health Savings Accounts (HSAs) are seen by many as the means to transform the healthcare industry since being introduced in 2004.[1] Financial organizations have the opportunity to play an integral role in that transformation. An estimated tens of billions of dollars will be redistributed across the health care and financial services industry over the next five years because of HSAs.[2]

[1] HSAs were introduced in 2004 with the passage of the Medicare Modernization Act of 2003.
[2] *Seizing the HSA Opportunity*, study by DiamondCluster, 2006.

In today's healthcare environment, consumers have little to no financial incentive to learn about the actual costs of the healthcare they receive. Consumer-directed healthcare should make the price of healthcare more transparent to consumers and, in turn, encourage competition among healthcare providers. This should result in lower healthcare costs and alleviate the burden on businesses.

Health Savings Accounts (HSAs) are a critical component of this new consumer-directed trend in healthcare. But the HSA by itself is only half of the solution. For a consumer to be eligible, the HSA must be paired with a High Deductible Health Plan (HDHP).

## Financial Organizations Have Focused on the Wrong Opportunity

During the past few years, financial organizations have focused on marketing HSAs. Although more than one million individual plans have been established, these accounts were set up one at a time and required a disproportionately large commitment on behalf of the financial organization. Because many employer groups and their insurance providers were not familiar with the benefits of HDHP paired with a HSA, they required additional education. Financial organizations frequently found themselves explaining the rules to consumers or redirecting potential account owners back to their own financial planners for advice.

***Consumer-directed health plans***
*These plans allow consumers to exercise much more control over their healthcare dollars than in the past. The theory is that, by placing control with the consumer, they will make more fiscally prudent decisions on spending their money than employers or healthcare companies.*

***Health Savings Accounts (HSAs)***
*As the name implies, a HSA is an account designed to help consumers pay for qualified medical expenses. To encourage saving, the HSA has certain tax advantages (similar to an IRA).*

***High Deductible Health Plans (HDHP)***
*Generally, a HDHP will provide 100 percent coverage for costs associated with preventative and wellness health care. Costs associated with things such as routine office visits, medications, and other minor disorders are generally paid by the consumer using money they've amassed in their HSA or, alternatively, paid directly out of pocket. Once a deductible is met, the HDHP covers major medical expenses—such as surgery or serious illness—and will kick in once the deductible is met. In order to qualify as a HDHP, the plan must meet a minimum deductible threshold, published in the Internal Revenue Code. A qualifying HDHP is a prerequisite for participation in a HSA.*

## Businesses Need to Partner With Financial Organizations

Today, most employers that provide insurance offer "first-dollar coverage" or low deductible insurance attempt to control costs by limiting service through co-pays or passing on some of the insurance cost to employees. These control measures have not controlled costs. In fact, health insurance costs have increased by more than two times the rate of inflation, including double-digit increases in 2003 and 2004 (13.9 percent and 11.2 percent respectively).[3] This has caused more employers to drop health insurance benefits altogether, falling from 69 percent in 2000 to 61 percent in 2006.[4] However, since the introduction of HDHPs combined with HSAs, health insurance cost increases have slowed, with an average increase of 7.7 percent in 2006 (down from 9.2 percent in 2005).

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[3] Annual Employer Health Benefits Survey from the Kaiser Family Foundation and the Health Research and Educational Trust, 2006.
[4] Annual Employer Health Benefits Survey from the Kaiser Family.

Although the impact of consumer-driven healthcare cannot be directly correlated yet, the early results appear to be positive. Individuals, as well as employers, are quickly adopting the new plans. As a result, many of the original HSA legislation's goals are becoming realized: value-conscious consumers, improved wellness behavior, and cost control. Better yet, healthcare costs are actually decreasing for some HSA-eligible plans. At least five insurance companies lowered premiums on existing HDHPs in 2005 from 2004; a beneficial trend for everyone involved.[5]

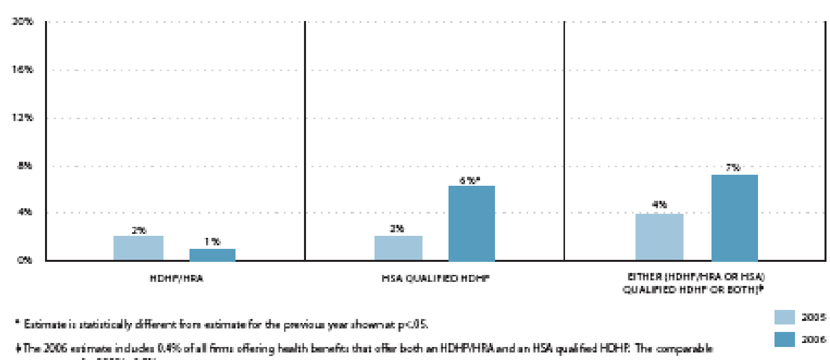
***HSAs receive more government backing:*** *Recent legislation and White House budget initiatives are making HSAs even more appealing to consumers. Not only is the White House promoting HSAs as part of the President's health insurance reform proposals, but the* ***Health Opportunity Patient Empowerment (HOPE)*** *Act of 2006 included provisions that make establishing HSAs more attractive to consumers.*

*The* ***HOPE Act*** *simplified the HSA contribution limits, allowing consumers to contribute more money to a HSA on an annual basis. The HOPE Act also includes provisions to help enable consumers initially fund HSAs. For example, it permits consumers to take a once in a lifetime tax-free distribution from an IRA, and transfer that amount to a HSA. A HSA owner may also be allowed to rollover assets from a HRA or Health Flexible Spending Account (FSA) to a HSA.*

Employers who offer health benefits are increasingly adding a consumer-driven health plan option for their employees. Of those firms, seven percent offer a HDHP with a savings option (a Health Reimbursement Account (HRA) or HSA option)—almost double that of the previous year. Even though the relative percentage of companies offering these types of plans has not changed significantly, the number of firms offering a HSA rather than a HRA has increased.

The transactional nature of HSAs created an opportunity for financial organizations to grow customers and assets, leveraging their expertise and capabilities in customer acquisition, customer service, settlement, payments, and asset management.[6]

Among Firms Offering Health Benefits, Percentage That Offer an HDHP/HRA and/or an HSA Qualified HDHP, 2005–2006




* Estimate is statistically different from estimate for the previous year shown at p<.05.

‡ The 2006 estimate includes 0.4% of all firms offering health benefits that offer both an HDHP/HRA and an HSA qualified HDHP. The comparable percentage for 2005 is 0.3%.

Note: For definitions of HDHP/HRAs and HSA qualified HDHPs, see the introduction to Section 8 in the full report.

Source: Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 2005–2006.

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[5] *Some Health Insurance Premiums for HSA Products are Declining*, Wall Street Journal, June 25, 2005.
[6] *Seizing the HSA Opportunity*, study by DiamondCluster, 2006.

## The Volume Opportunity

As of January, 2007, HDHP products cover 4.5 million individuals. This represents an increase of 1.3 million HSA-eligible plans established since January 2006 and 3.5 million HSA-eligible plans established since March 2005.[7] Currently, about 25 percent of individuals enrolled in an HSA-eligible plan have established an HSA.

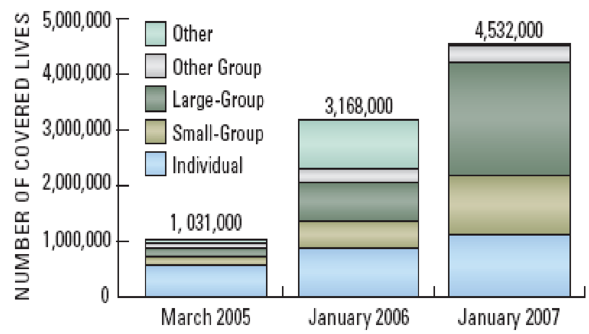
Health Savings Account growth has occurred in three primary markets segments:

1. Individual Consumers
2. Small Group (50 employees or less)
3. Large Group (greater than 50 employees)

Since 2005, the number of new HSAs established by the individual market decreased slightly each year and the small group market has stabilized. However, the large group market grew significantly with an increase of 19 percent in March 2005 to 33 percent by January 2006 to 49 percent by January 2007.

**FIGURE 1.**

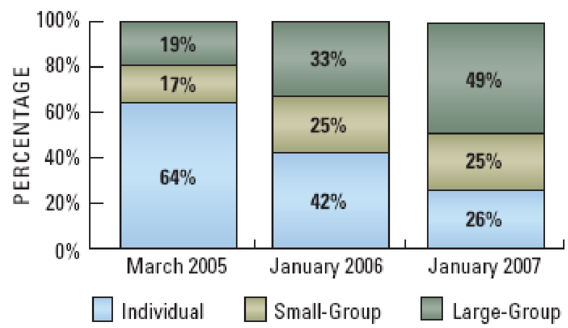
**Growth of HDHP Enrollment from March 2005 to January 2007**




Source: *Center for Policy and Research, America's Health Insurance Plans, April 2007*

**FIGURE 2.**

**Percentage of Lives Covered by an HDHP, by Market Type**




Note: Covered lives for "other" and "other group" market categories are not included in these calculations.

Source: *Center for Policy and Research, America's Health Insurance Plans, April 2007*

[7] *Center for Policy and Research, America's Health Insurance Plans*, April 2007.

## The Asset Opportunity

In 2006, HSA deposits exceeded $1 billion.[8] Over the next few years, however, HSA deposits are expected to increase dramatically. By 2010, an estimated 15-25 million HSAs will hold more than $75 billion in assets.[9]

HSA balances were relatively small in 2006, with more than 50 percent of accounts having a balance less than $1000. Given that 65 percent of those accounts had only been in existence for 12 months or less, smaller balances were expected. It's also not surprising that the majority of those assets are currently being held in deposit-type accounts. With time, the average HSA balance is expected to increase significantly as well. As this occurs, the anticipated results are diversified investments with a shift toward non-deposit investments.

**Health Savings Accounts: Average Amount of Time Accounts Were Open Prior to January 2007**

| | |
|---|---|
| 6 MONTHS OR LESS | 26% |
| 7 TO 12 MONTHS | 39% |
| 13 TO 18 MONTHS | 24% |
| MORE THAN 18 MONTHS | 11% |
| TOTAL | 100% |

Note: Based on responding companies with information about 359,816 HSAs.

*Source: Center for Policy and Research, America's Health Insurance Plans, April 2007*

**Health Savings Accounts: Average Account Balances, 2006**

| | |
|---|---|
| $0 | 14% |
| LESS THAN $1,000 | 55% |
| $1,001 TO $2,500 | 19% |
| $2,501 TO $5,000 | 8% |
| $5,001 TO $10,000 | 3% |
| MORE THAN $10,000 | 1% |
| TOTAL | 100% |

Note: Based on responding companies with information about 356,790 HSAs.

*Source: Center for Policy and Research, America's Health Insurance Plans, April 2007*

[8] *Inside Consumer-Directed Care* (ICDC) newsletter February 24, 2006 issue.
[9] *Seizing the HSA Opportunity*, study by DiamondCluster, 2006.

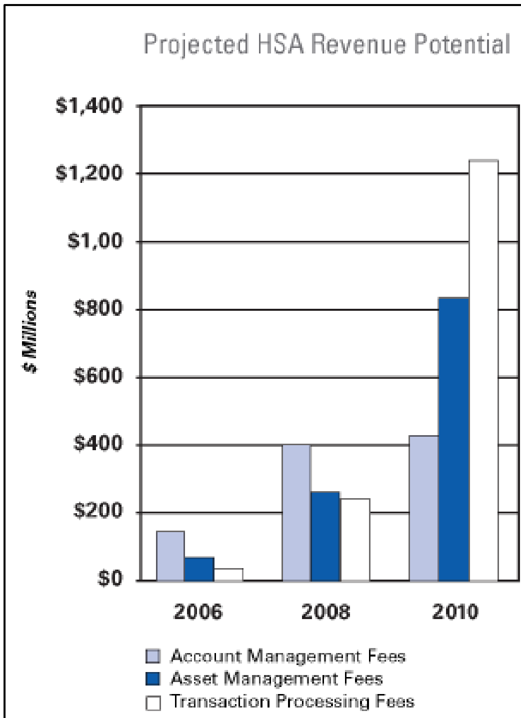
## The Fee-Based Opportunity

### Account set up and deposit account management fees

Health Savings Accounts are expected to be a good source of revenue for financial organizations now and into the future. Because most HSA assets are held in deposit-type account investments, account set up and deposit account management fees are currently the primary sources of revenue. By 2010, an estimated $457 million will be generated annually in account set up and deposit account management fees.

### Asset management fees and transaction fees

As the HSA market matures, however, the primary revenue sources are expected to change and the revenue opportunity is expected to grow. To take full advantage of the revenue opportunity, financial organizations need to become more competitive in their investment offerings. As HSA balances increase and consumers diversify their investments, asset management and transaction fees will become a primary source of revenue. By 2010, an estimated $800 million will be generated annually in asset management fees. Transaction fees are expected to generate even more revenue—$1.2 billion annually by 2010.[10]



*Source: DiamondCluster research*

[10] *Seizing the HSA Opportunity*, study by DiamondCluster, 2006.



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## Key Opportunities

With the early days of establishment in the past, the real HSA opportunity for financial organizations is about to unfold. The key for any financial organization to be successful in the HSA market is to educate your commercial, business, and Select Employee Group (SEGs) customers on the benefits HSAs can provide their company and its employees.

For example, as small and large group employers begin to see the value of HDHPs paired with a HSA for their employee group, financial organizations can look for ways to participate in group information sessions and accommodate mass employee enrollment. In addition, financial organizations can look for ways to diversify their investment offerings while leveraging their transaction and settlement expertise to accommodate the transactional nature of HSAs.

There are, in fact, a number of financial organizations that can serve as examples for building long-term, sustainable HSA solutions. These financial organizations vary from the largest banks to some of the smallest credit unions. Discovering their niche market and placing themselves in a position to win is their common link.

Wolters Kluwer Financial Services interviewed a bank in Ohio who successfully implemented a HSA program in December 2005. By working with local commercial customers, Killbuck Savings Bank was able to expand their HSA business exponentially.

> *"We saw Health Savings Accounts could help us grow our business on two levels," said Ron Hennen, Killbuck's Security Compliance Officer. "New HSA business clients would give us the chance to build commercial deposits and establish consumer accounts with their employees. That could be several hundred new customers in some instances. How long would it take for that many new customers to walk through the front door of the bank?"*
>
> Ron Hennen,
> Security Compliance Officer,
> Killbuck Savings Bank

Credit unions are also finding success with the HSA product offering. HealthAmerica Credit Union, the first credit union to offer HSAs to members, found HSAs to be a natural fit for their health-related field of membership. In a matter of a few months, they had signed up five new Select Employee Groups resulting in 100 new members—simply because they offered Health Savings Accounts.

Financial organizations can also take steps internally to enhance the HSA opportunity by making sure HSA personnel and business development personnel are working together. Your HSA personnel can turn to your business development officers for introductions to employer groups. By selling HSA products to businesses, you can further penetrate an existing business relationship. In addition, HSA personnel can provide leads to business development personnel on new HSA business customers that may not have an existing business relationship with your financial organization. This kind of coordinated effort can significantly benefit both departments.

Many financial organizations also have existing relationships with insurance providers—either internally or externally. Leverage these relationships and offer to refer business to them in exchange for partnering with them on a HSA paired with a HDHP product offering to employer groups. Strengthen these relationships by attending informational meetings with the insurance provider and participating in enrollment meeting with the employees. Streamline the enrollment process by ensuring your product offering can accommodate on-site applications and possibly account set up.

## Conclusion

Over the next ten years, the trend towards consumer-directed health plans and HSAs is expected to create an enormous revenue opportunity for financial organizations. In fact, the opportunity can be compared to the opportunity presented with the introduction of IRAs in 1974, which now hold more than $3 trillion in assets. Comparing asset growth at introduction, HSA assets are expected to grow faster than IRA assets.

HSAs create a great opportunity for financial organizations to grow assets, build relationships, and increase transaction volumes. Having the right HSA product could also be the difference that sets your financial organization apart from your competition. However, the HSA window of opportunity will not remain open for long. Financial organizations that want to capitalize on this opportunity need to take action and partner with businesses quickly. Success will be measured by the financial organization's ability to generate new revenue through asset management and transaction fees, expand customer relationships, and differentiate themselves in the marketplace.

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