

Insight from  
Harland Clarke's

# HSA Industry Trends Survey

How Health Savings  
Account Growth  
Is Impacting  
the Financial  
Services Industry

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# HSA Growth Skyrockets



The Health Savings Account, or HSA, celebrated its 15th birthday in 2019, enjoying a rise in popularity that is nothing short of incredible.

According to HSA investments leader, Devenir®, there are now more than 28 million health savings accounts, holding a combined total of cash and investment assets exceeding \$66 billion. Even more impressive is that **HSA account assets grew by 20 percent year over year** — a strong indication that HSAs are enjoying more than a growth spurt, but a steady and continuous rise with no end in sight.



QuickMBA.com

Most industry insiders agree HSAs are still squarely in the growth stage, with **substantially more room to grow** before hitting maturity.



## Why the Surge in HSA Assets?

The one clear answer to the long-term steady surge of HSAs is that everyone benefits — employers, employees and financial institutions alike.

### **Employers and Employees Benefit from Lower Premiums**

Employers have sought ways to decrease their company's healthcare costs by moving to low premium/high deductible healthcare plans, a prerequisite for opening an HSA.

Average insurance premiums for employees with a family high-deductible health plan with a savings option was nearly \$2,000 less per year than a traditional health plan.<sup>1</sup>

Many employers are taking advantage of the premium savings by placing all or some in their employees' health savings accounts. Employer contributions as a one-time or ongoing match is helping to fuel the growth in total HSA assets.

<sup>1</sup> KFF Employee Health Benefit Survey 2018.

### **Employers Receive Tax Savings**

In addition to premium savings, HSAs offer unmatched tax benefits, as employers can make tax-free contributions to their employees' accounts. Unlike employer 401(k) contributions, money placed in HSAs is also free of FICA, or payroll taxes, saving the employer an additional 7.65%.

### **Employees Supplement Retirement Funds**

Employees have started to look at HSAs as a complement to their company's 401(k) plan. Additionally, many employees now understand the differences between their flexible spending account and an HSA, with the latter offering more benefits, such as the ability to keep HSA dollars when they switch jobs and invest contributions for long-term growth.

### **Financial Institutions Achieve Greater Wallet Share**

As HSA providers, financial institutions can acquire more business from their clients and customers.

An HSA program expands an institution's wealth management offering as well as the commercial services offered to employers as they seek a local, trusted financial institution for their employee benefit needs.

By expanding their product suite to include growing and profitable HSAs, institutions can widen their footprint and increase product cross-sell opportunities, thereby increasing customer loyalty and satisfaction.

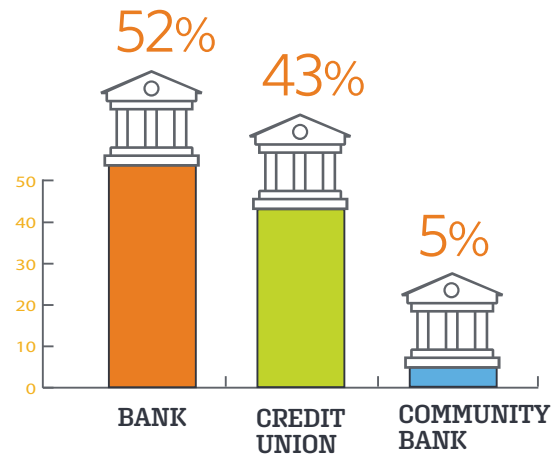
**HSA**s help entice independent, self-employed customers and **create powerful cross-selling opportunities**<sup>2</sup>

<sup>2</sup> Gonzalez, Rick, "The freelance market is growing. Grow with it." BAI Banking Strategies, December 23, 2019

# Survey Objective and Participants

Harland Clarke's inaugural HSA benchmarks survey was sent to 5,500+ financial clients in late 2019 to measure the impact of Health Savings Accounts as a growing source for low-cost deposits and an important strategy in retirement planning.

The survey garnered 350 responses and 120 completed surveys. Respondents were split among banks and credit unions, as well as community banks, providing important feedback across a broad spectrum of institutions for a deeper understanding of this promising revenue stream.



## More and Better Engagement Is Needed

Adding to the optimism for future growth is the fact the financial industry as a whole, including providers and employers, can still do more through the use of engagement and education strategies to help employees maximize HSA contributions and balance growth.

According to our survey respondents:



**91%** have **no engagement or activation strategy** for non-funders

Just **32%** feel their customer service reps were adequately trained

## Credit Union Participation Is Growing

As HSA assets have grown, credit unions, in particular, have taken notice. Last year, 850 credit unions held HSA assets of nearly \$1.75 billion, with 38 credit unions holding at least \$10 million.<sup>3</sup>

<sup>3</sup> "2019 Midyear Devenir HSA Research Report," Devenir, August 27, 2019

# Survey Insight

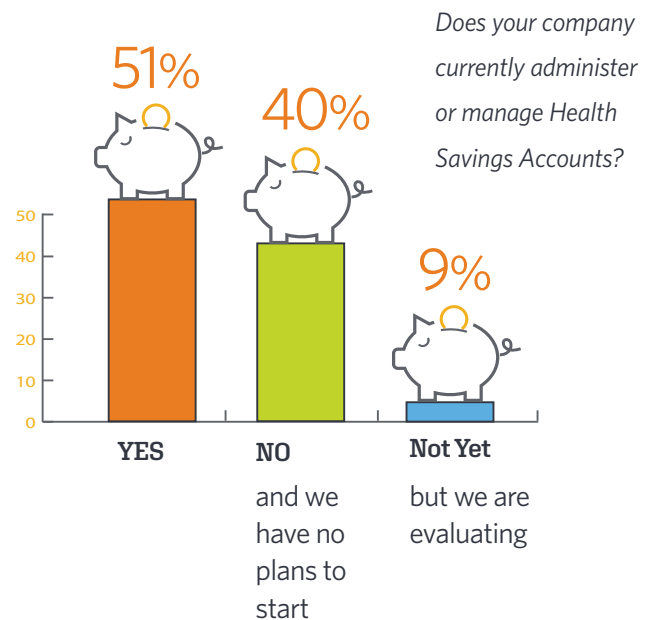
## 1. Competition Is Driving Change

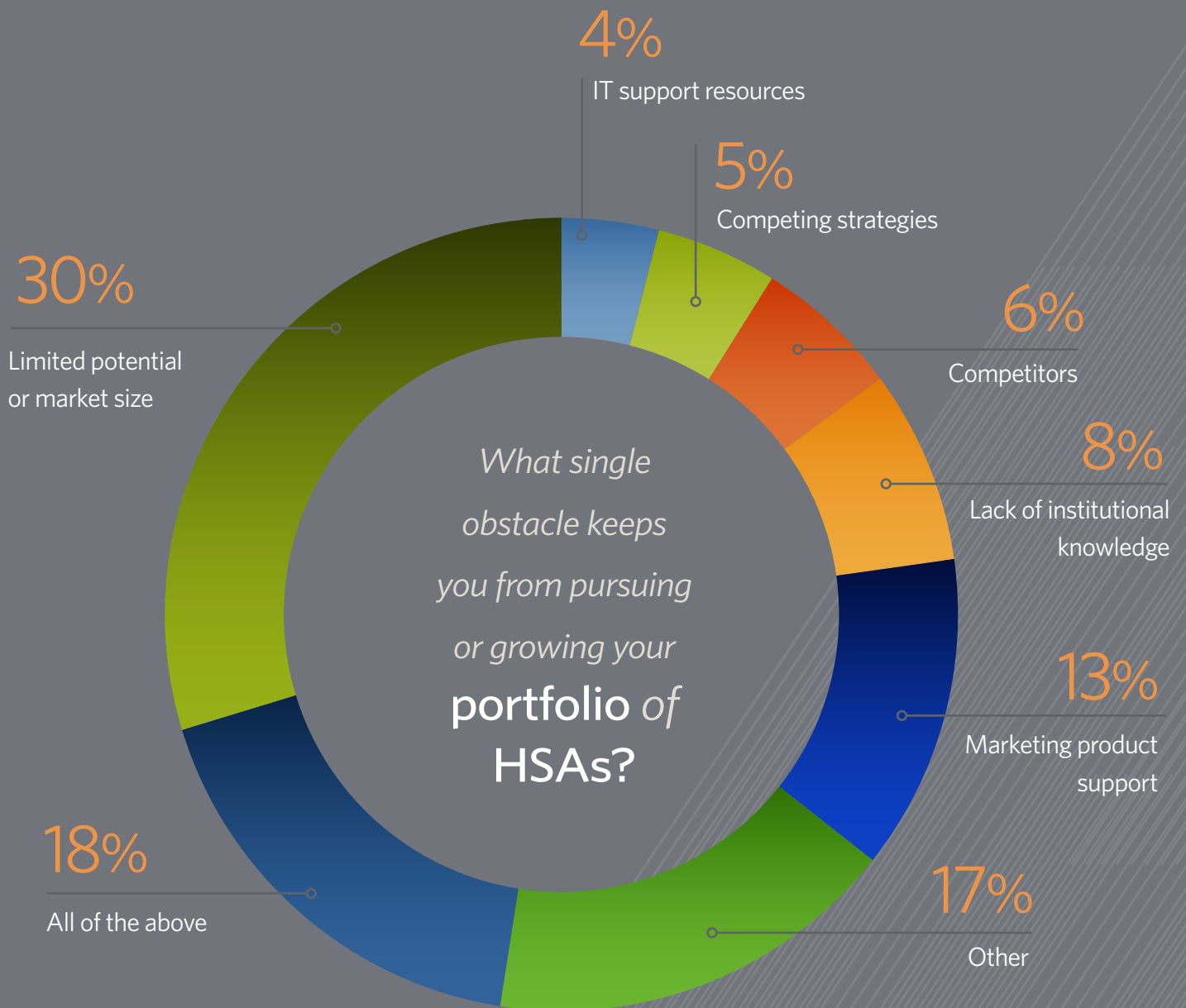
Surprisingly, nearly half our respondents (40%) are not currently considering adding HSA programs. But, it's fair to forecast, due to the intense and unceasing competition for deposits among banks and credit unions, that could change. Every indication is word of the HSA boom is spreading, as more than 50 percent of survey participants believe an HSA program is a viable strategy for obtaining low-cost deposits.

## 2. Many Fail to See the Growth Trajectory

There's a potentially costly disconnect for 30 percent of respondents who believe the market for HSAs is limited and lacks potential. This may be due to an incomplete view of the revenue opportunities and operational expenses need to support an HSA program.

There is potential for substantial return on investment for HSA providers, especially given past and future projected growth of HSA accounts and assets, according to Coherence LLC, an HSA solution provider to financial institutions.





**3. HSA deposits and investments continue to increase** with an average balance of \$2,757 for non-investors of funded accounts.<sup>4</sup> The average total balance (deposits and investments) for HSA investment accounts is \$16,012 — more than seven times larger than a non-investment holder’s average balance. As more customers learn about the benefits of HSAs, and start shifting their view from a spending account to a retirement fund, **average balances will continue to increase.**

<sup>4</sup> 2019 Year-End Devenir HSA Market Statistics and Trends. March 3, 2020

## Three Main Sources of Revenue for HSA Providers

**50% Net Interest Margin (NIM)** represents about half of HSA revenue. HSA deposit costs are not as sensitive to rate changes, enabling institutions to earn higher revenue in a rising rate environment and maintain steady income in a flat or declining rate environment.

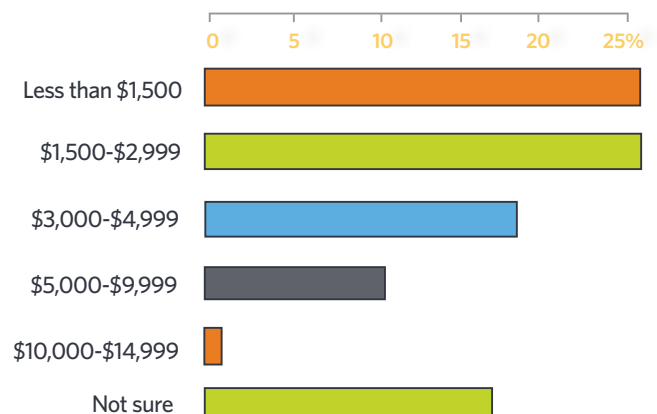
**32% Account-Based Fees** comprise almost a third of revenue, representing fees associated with monthly account maintenance and behavior, i.e., returned checks and debit card issuance.

**18% Interchange generated from debit card purchases** is higher during Q1 and Q2 as customers spend more of their HSA dollars on their insurance plan's out-of-pocket

### 4. Investment-Linked HSA Accounts Are Far More Profitable

The average deposit balance of an HSA with a linked investment account is more than one and a half times higher than those without investment assets. Because NIM and interchange revenue is not earned on investment assets, banks and credit unions benefit greatly from the account-based fees of linked accounts, given the higher balance and longer life.

What is the average balance of your HSA accounts?



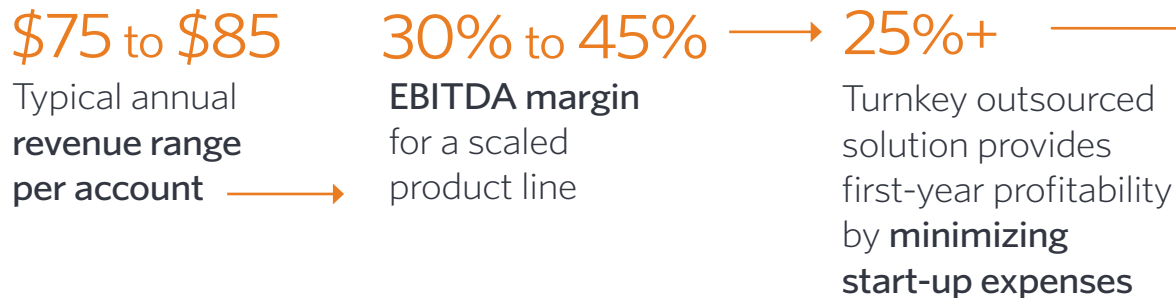
“We’re interested in offering HSA programs in 2020 because they’re a **low-cost source of funds, maintain higher balances** than savings accounts, and **limits the reasons to take out the funds.**”

- Donna Beringer | President/CEO of Carolina Federal Credit Union



## Turnkey Outsourcing Drives Up Profitability

HSA product line profitability is dependent on several factors, including the scale of business, existing synergies within the financial institution, and whether accounts will be managed in-house or through a turnkey outsourcing solution.



Source: Coherence LLC

Supporting an HSA product in-house can be costly. Expenses to consider include: marketing and education, sales and account management, call center, back office operations, technology as well as risk and compliance. These fixed expenses can be greatly reduced with a turnkey outsourced solution with variable pricing.

### Worried About HIPAA? Don't Be.

- Banking operations for HSAs are covered by SSAE16 standards.
- In most cases the financial institution is considered the service provider, which excludes them from HIPAA rules.
- Fees have to be appropriate and fully disclosed by the financial institution.
- Financial institutions should avoid providing investment advice, as it could trigger the Employee Retirement Income Security Act (ERISA).
- In the outsourced service model, operational overhead is greatly reduced, as the HSA administrator is responsible for tax reporting, creation of statements and investment recordkeeping and reporting.

“We’re interested in learning more about HSAs because we know our Small Business Community needs really well.”

- Leslie England  
SVP Retail Operations, TNBANK

“Compliance initially stopped us. Turns out much of the responsibility lies with the third-party administrator.”

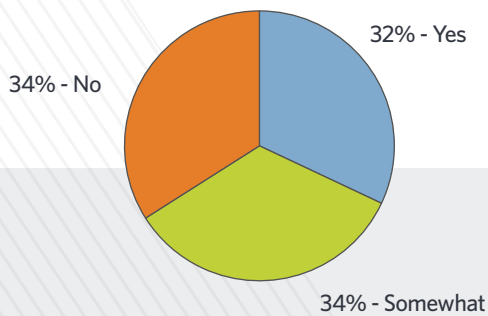
- Donna Beringer  
President/CEO of Carolina Credit Union

## 5. Many Institutions Consider the Benefits of Turnkey Outsourcing

The challenge for many administrators is getting customers to take an active role in their health savings account benefits, particularly during open enrollment. High-quality, turnkey augmented support is hard to come by, but valued, according to our survey.

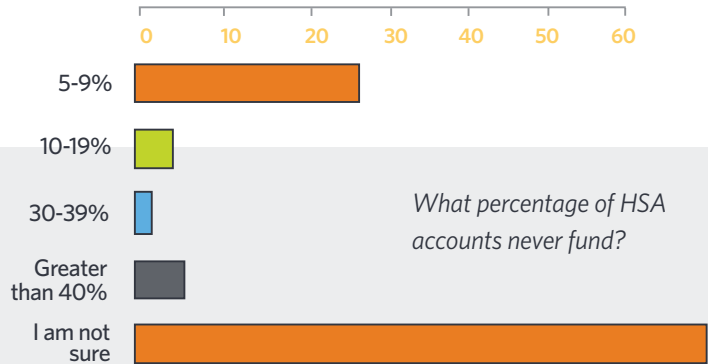
Survey results indicate lack of inhouse resources, product visibility, and engagement strategy are the major obstacles for many survey respondents who are considering HSA programs — and almost half would consider outsourcing before taking next steps:

68% feel unprepared or understaffed



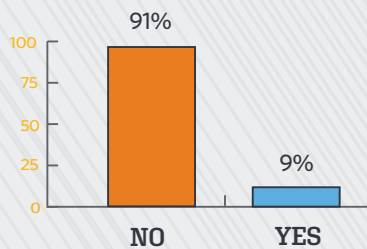
Does your institution have certified or trained HSA Customer Service Representatives?

68% aren't sure who's funding



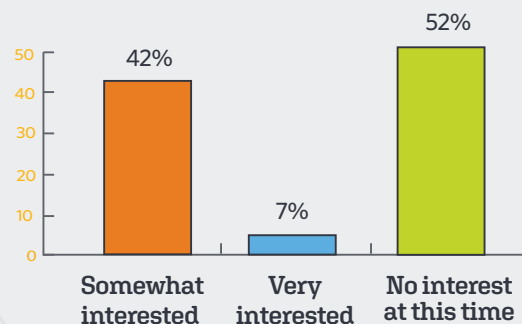
What percentage of HSA accounts never fund?

91% don't have an HSA engagement strategy



Do you have an engagement strategy to non-funders to contribute to their accounts?

49% are interested in outsourcing



If a turnkey program was available to support the onboarding and activation of new HSA accounts during/after Open Enrollment, as well as customer service support, would your institution be interested?

# Offer customers a cost-effective, powerful and branded HSA program **without** draining internal resources.



Harland Clarke's suite of turnkey solutions get customers to take an active role in their health savings account benefits, during open enrollment and beyond, including:

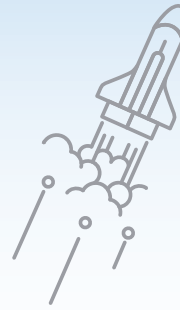
**High-Quality CARD SERVICES** use cutting-edge technology to make manufacturing, personalizing, issuing and distributing employer-branded health savings account cards easy and effective.

**Omnichannel MARKETING COMMUNICATIONS** engage customers and prospects with relevant, personalized, and compelling messages designed to acquire new participants and keep them active.

**Comprehensive EDUCATIONAL MATERIALS** provide employers with a comprehensive library of educational programs designed to empower customers to make informed decisions about account selection, account funding, healthcare spending and saving.

**Critical COMMUNICATIONS** deliver accurate and timely transactional documents, statements, privacy and tax notices, explanation of payment (EOP), explanation of benefits (EOB), and reports, and other relevant information.

**Expert CONTACT CENTER SUPPORT** provides high-quality support, including one on-one assistance, during open enrollment periods, plan changes, acquisitions, and other change events to ensure a seamless and superior transition experience.



# The Sky's the Limit for HSAs

HSAs are an incredible benefit for employers, their employees, and the financial institutions that provide them.

With total assets exceeding \$61 billion and an expectation of double-digit growth for the foreseeable future, more financial institutions are realizing their potential for acquiring customers, growing long duration and low-cost deposits, and increasing client and customer wallet share.

By partnering with an industry-leading provider of comprehensive turnkey solutions, HSAs offer financial institutions substantial revenue and growth opportunities.

Learn more about how Harland Clarke turnkey solutions help you take advantage of the fast-growing HSA market.

Call **1.800.351.3843**

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