

Health Savings Accounts rose for another year as consumers, employers and insurers gained confidence in self-funding combined with more affordable premiums. This report updates proprietary data on banks and HSAs, and represents a leading indicator of HSA adoption - **Consumer Driven Market Report**

HSA 2011: A 10-Year Experiment Moving Mainstream

For the first time in almost a decade the steady growth in Health Savings Accounts reached a major milestone in January: \$11.3 billion deposited by employers, workers and individuals into HSA bank accounts in U.S. institutions. Over 12.8 million Americans are now tapping dedicated bank accounts to pay for health expenses and medical claims. This represents a victory for consumers and policymakers, a sign of hope for employers and insurers, and a vindication for early adopter banks and bank leaders challenged by the rising adoption curve.

This annual *Interpro Publications HSA Update* is based on data submissions by the largest identified banks in the U.S., offering HSAs broadly through multiple and growing *distribution channels*: health plans, online websites, technology platforms, employer direct contracts, local and national payer partnerships, state and local government programs, TPA branding deals, large provider network agreements, agents and brokers, and credit unions.

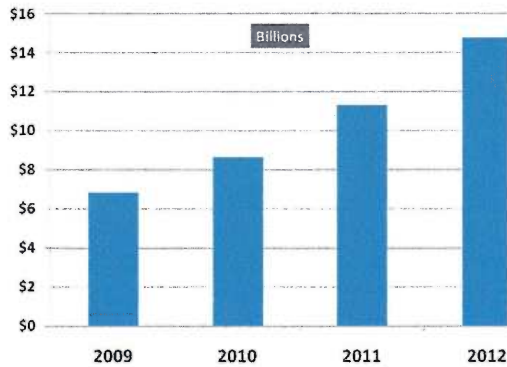
HSA accounts totaled 6.6 million in January across the entire U.S., this study estimates based on the data provided by all of the top banks representing more than 70% of all accounts. This is a year-over-year increase of 1.98 million HSA accounts in January 2011, compared with 2.08 million during the prior year period. The growth rate for HSA accounts was 18.2% for the year ending in January 2011, compared with 23.6% in the prior year. This means that HSAs grew at almost exactly the same pace throughout the recession, adding two million Americans per year.

Every one of the largest HSA banks except one added to its accounts in the past year, with the average (mean) number of accounts added standing at 29,256 per bank. Seven of the largest HSA banks added over 50,000 accounts each. The average HSA bank in the past year grew its accounts by 22.3%, ranging from 3.2% to 48.7%.

Here is the list of institutions which are the largest HSA banks in the U.S.:

	Accounts Jan-11	Projected Jan-12	2011 > Assets	Market Notes
ACS-BNY Mellon	784,000	847,801	26.9%	Widest distribution, best technology across payers + employers
OptumHealth	670,000	787,544	29.5%	Best distribution across health plans, explosive account growth
JPMorgan Chase	550,000	593,137	34.9%	Fastest growth in assets (\$), leadership in jumbo + small firms
HSA Bank	370,400	457,321	27.2%	Fastest growth in investments, most-focused product execution
Bancorp Bank	293,323	352,927	10.4%	Key partnerships, steady execution keeps growth right on track
Wells Fargo	262,360	274,315	21.6%	Initial setbacks, weak execution looks to stabilize during 2011
HealthEquity	255,000	425,000	97.1%	Fast growth in partnerships, strong + focused multi-purse options
US Bank	182,870	271,882	54.0%	Leadership in web-based platforms + multi-account cross-selling
UMB Bank	182,000	253,662	43.5%	Strong regional deals emerging into a clear national identity
PNC Bank	165,000	209,423	30.4%	Initial rapid growth is slowed by changing ownership models
Bank of America	156,600	169,128	30.4%	Early growth stymied by bad choices -- market potential still huge
SelectAccount HSA	99,082	117,572	22.5%	Unique industry-leading Blues custodial model is still rock solid
Fifth Third	95,000	100,687	14.9%	New marketing and partnership funding may pay off over time
First Horizon	90,000	109,935	30.4%	Best single-market product, strong growth + top-notch sales
State Farm	75,974	93,891	30.4%	Unique model linking insurance-bank site shows major potential
HSA Clearing	60,555	74,835	30.4%	Limited distribution channels, but steady annual account growth
Patelco Credit Union	54,480	61,835	n/a	Unclear growth metrics but reportedly very large market potential
American Chartered	50,300	68,381	30.4%	Stable growth, good product execution per its small market model
First HSA	43,425	42,858	12.6%	Lackluster growth, but stable and rising assets hold steady
Sterling Bank	42,534	52,565	30.4%	Slow growth for its target market, yet asset base is holding up

HSA Asset Growth 2009 - 2012



2010 when assets held totaled \$8.6 billion. The 2011 increase in the value of HSA assets per bank ranged from a low of 15% to a high of 54%. The total value of HSA assets held by individual banks ranged from \$50.5 million to \$1.25 billion, and four banks were over one billion in HSA assets as of this report.

HSA investments in January were estimated at \$717.3 million or 6.4% of total assets, and growing at a rate of 29.6%. At this rate HSA investments as a category will exceed one billion dollars in the first quarter of 2012, yet still represent less than 10% of total HSA assets. Further research is planned for next year's study.

Discussion

In the past two years HSAs have faced and overcome some of their greatest challenges. Health reform presented a major risk that the statute creating HSAs would be impacted, and HSAs would lose all tax advantages or get lost in the shuffle. A massive recession then threatened to decimate the banking industry, and that put huge pressure on bank leaders to eliminate all funds going to support, let alone promote HSA products. Surviving these challenges, HSAs still faced new forms of competition, such as the accelerating popularity of low-priced but unfunded high-deductible plans, and uncertainty over their performance under health reform implementation.

The data in this and previous reports show that none of these challenges has had *any significant impact* at all so far on the market appetite for HSAs in terms of the growth rate of HSAs or funds deposited into personal bank accounts by American consumers. This raises one question: How much faster might HSAs have grown without having had to face these challenges, and how fast will they grow as the biggest threats to growth recede?

As a uniquely American solution to financing health care, HSAs and their brethren CDH plans like HRAs and FSAs have added a third leg of the health financing stool still missing in most other nations: individual self-funding. Instead of exclusively using either tax-based public programs or private employer-funded insurance, self-funding injects a completely new source of financing medical care that may well prove critical in the years ahead.

This fact is rarely if ever recognized as a feature of the HSA product. But HSA deposits are becoming vital to future U.S. health financing strategy. Rising HSA bank deposits and accounts are no longer an experiment, and the funds held in HSA spending and investment accounts have created a large source of future medical payments.

Technical Notes

There was a one-time adjustment in *zero balance accounts* by several custodians to more accurately count active HSA accounts going forward. Without these one-time adjustments the number of accounts would have been larger by approximately 450,000 accounts, not significantly affecting the overall results. The HealthEquity account totals include an overlap with some of its bank partners. This is due to the fact that the firm is the only non-bank custodian represented on the list of top HSA banks. It does not significantly affect the results. The ratio of reporting banks to all banks is proprietary, but is based on a literature search of similar ratios for both service industries and financial institutions. The range is from 70% to 82% in identified studies, and using a higher or lower ratio does not result in any significant difference in terms of HSA projected growth in accounts or assets. The calculation of total enrollment in HSAs based on enrollees per account is proprietary, but is based on a consensus opinion by leading industry actuaries and a literature search across multiple studies. In past studies this ratio was compared with two national surveys of HSA policies (AHIP and EBRI), and there was a close direct correlation between the summary data.

HSA Assets and Investment Accounts

The 25 largest banks also provided data on *HSA total assets*. HSA deposits into accounts were not tracked. HSA assets are the current balances after deposits and disbursements, i.e. a static value at one point in time. One other metric was provided by banks called *HSA investments*. This is defined as the portion of total assets that is contained in an account at a brokerage or available for investment purposes, one portion of total HSA assets held by a bank.

HSA total assets reached \$11.3 billion across the U.S. in January 2011, an increase of 30.9% versus 27.0% in the prior one-year period ending in January



The Consumer Driven Health Care Institute supports this research