Health Savings Accounts Poised to Expand Under the Affordable Care Act

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Health savings accounts (HSAs) have been around for nearly a decade. HSAs have significantly changed over the years adapting to the marketplace, as well as fulfilling Americans' health care needs. As a result, both the number of HSAs, and the dollars in them, has risen sharply over the last nine years. With most of the key provisions of the Affordable Care Act (ACA) effective on January 1, 2014, HSAs stand poised to be reinvented, reinvigorated, and rediscovered by a whole new segment of the population. With the potential for wider availability under the new law, HSAs likely will expand at an even greater rate than in the past. With expansion comes opportunity for financial organizations to bring in new accounts, new customers, and new noninterest revenue. Is your organization in the game or on the sidelines for this opportunity?

How HSAs Work

HSAs are a tax-deferred savings account designed to pay the qualified medical expenses of the HSA owner, the HSA owner's spouse, and dependents. HSAs have eligibility requirements. An HSA-eligible individual is someone who

- is covered by a high deductible health plan,
- is not covered by another health plan that is not an HDHP,
- is not enrolled in Medicare, and
- is not eligible to be claimed as a dependent on another person's tax return.

For an HDHP to be HSA-eligible, it must meet the following requirements.

- For 2014, the HDHP must have minimum deductible of $1,250 for self-only coverage and $2,500 for family coverage.
- For 2014, the out-of-pocket expense maximum (which includes most everything but insurance premiums) cannot exceed $6,350 for self-only coverage and $12,700 for family coverage.

An HSA also has restrictions and requirements. For 2014, the contribution limits for HSAs are $3,300 for self-only coverage and $6,550 for family coverage, which includes contributions from individuals and employers. Only distributions for qualified medical expenses are tax-and penalty-free; nonqualified distributions are subject to tax and an additional 20 percent penalty tax. A benefit of an HSA is that balances carry over from year to year, unlike flexible spending accounts or cafeteria plans. All unused dollars still in the HSA at the end of the year remain in the account and may be used for future qualified medical expenses. Account owners have been able to accumulate substantial balances over the years.

HSAs in 2014 & Beyond

The direction of where HSAs are headed is unknown. Before the ACA, the HSA marketplace was limited for most financial organizations because the vast majority of people enrolled in HDHPs were receiving coverage through their employer who had a directed custodian in place. This allowed the employer to send payroll contributions on behalf of the employee and employer to one custodian—employees generally had no control over where their HSA was set up. If your organization was not selected as an HSA custodian, odds are only a relative handful of your customers opened HSAs with you in the past.

HSAs & HDHPs originally were created to give small employers the opportunity to offer health care at a lower cost to their employees when they previously couldn't afford it. What happened, ironically, is that only a handful of small employers began offering health care, but many large employers began converting their traditional HMOs and PPOs to the HDHPs to cut costs. This drove the explosion of HDHPs and HSAs from 2004 to today. To put HSA growth into perspective, industry sources report that in 2006, HSAs held approximately $1.7 billion. At the end of 2012, that number had risen to $15.4 billion, nearly a ten-fold increase. Even more amazing is that the dollar growth more than doubled every two years—even at the height of the Great Recession. Since 2008, the number of individuals with HDHP/HSA coverage expanded from 6.1 million to 15.5 million.

All of this is ancient history—or is it? The employer-provided health care marketplace still is driving towards HDHPs with HSAs. Even without the new health care law, this trend would have continued into the future. Under ACA, all Americans are required to be enrolled in a health insurance plan or face tax penalties. While these penalties are not severe in 2014, the penalties will increase in the years ahead. Many young Americans will need to enroll in health plans, particularly individuals turning 27 years old who are no longer covered on their parents' plans. Quite likely, the number of HDHPs and HSAs will continue to accelerate, which makes it quite probable that the proliferation of HDHPs and HSAs will continue to accelerate.

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Younger, healthier Americans may look to the new health care exchanges to purchase the most affordable health care insurance they can. The various state health care exchanges and the federal exchange are now "open for business" and allowing people to shop and enroll for health care in 2014. This presents a whole new touch point for financial organizations that are looking to attract new customers, accounts, and revenue streams. With individuals buying their health plans directly from the exchanges, they have more freedom to choose where to place their HSAs—is your organization equipped and ready?

The Opportunity

HSA stands for health savings account, but when examining the direct and indirect revenue opportunities of these accounts, we should rename them to align with the HSA strategy for the post-ACA world.

HSA = having something available. It does not cost much to offer HSAs to your customers. Financial organizations need to offer forms, documents, and have the ability to do the required tax reporting. Offering HSAs opens the door to more than new HSA accounts; it shows new customers that your institution has all of the financial products and services that are important to them.

So where is the revenue? In a direct sense, HSAs can drive some noninterest revenue for your organization through a variety of fees. Most deposit HSAs are housed in DDA accounts and tied to a debit or check card. According to a recent study by Devenir, HSA accounts with check cards are swiped an average of eight times a year, with an average transaction amount of approximately $120. This is quantifiable exchange fee revenue, along with any low-balance, account closing or transfers fees that your organization could impose. Another real revenue opportunity, is in that 27-year-old, "just fell off of my parents' insurance" crowd. These individuals likely are a targeted demographic group by your financial organization today— albeit not for HSAs. As you expand your customer base and drive revenue, particularly through lending, this generation of Americans is the future of your lending and deposit programs. HSAs can, at best, give you a competitive edge in acquiring and retaining customers. At worst, the lack of offering HSAs could send a loyal customer down the street potentially taking other lending business and accounts with them.

HSAs are not going to drive massive revenue for your institution. What they can do is be a profitable niche product that enables you to round out your portfolio of financial products that you make available to prospective and existing customers. It's a small game, but there are few, if any, downsides to not getting into it. The upsides always will be difficult to quantify, but the downsides of not offering HSAs are not. So, I ask again, with HSAs poised for even greater expansion and availability in 2014, is your financial organization in the game or on the sidelines?

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