Patpatia & Associates, Inc.

Health Savings Accounts

An Opportunity for Investors and Financial Institutions arising from the Repair of the Affordable Care Act

Bill Limburg
Senior Associate

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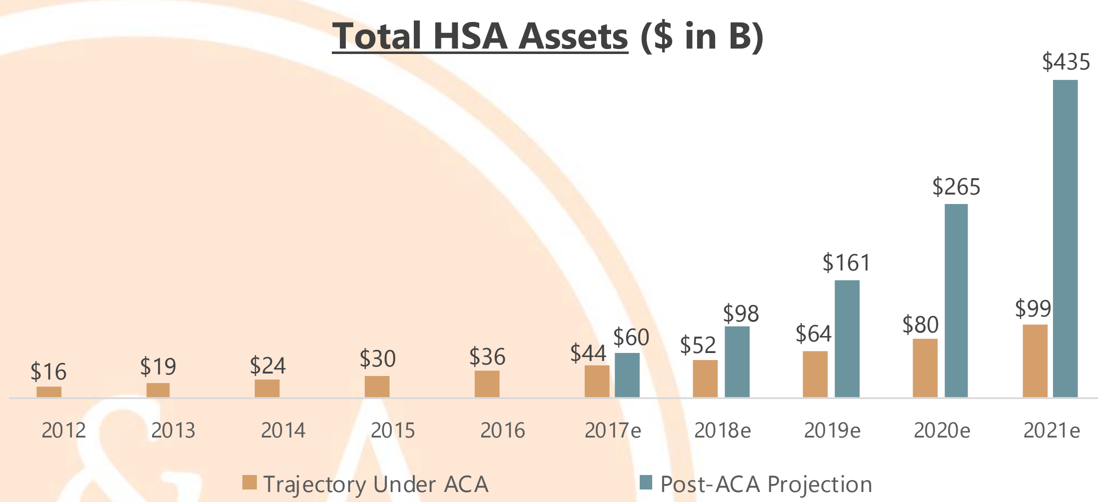
MARKET CONTEXT

Over the last 8 years, the Affordable Care Act's (ACA) insurance plan exchanges have actively limited the availability of the "high deductible" health insurance plans that are required for investors to establish HSAs. However, under the new administration, every Republican ACA repair strategy incorporates a greater reliance upon HSAs. This will allow individuals to increase tax-advantaged savings, while allowing them to take a greater responsibility for their own healthcare decisions.

Loosening of contribution limits and redirection of ACA subsidies into individual HSAs will drive increased contribution rates. The channeling of younger, healthier consumers into HSAs will also result in greater carry-over balances from year-to-year, allowing HSAs to become true accumulation vehicles, rather than largely transactional accounts.

Under the post-ACA regime, HSAs will become increasingly attractive to financial institutions, as these changes are expected to result in a materially faster growth trajectory. HSAs are currently at $36 B in assets and 18.2 MM accounts. Under a continuing ACA, HSAs were projected to grow only to $100 B in assets by YE2021. However, under a Republican healthcare regulatory regime, HSAs are anticipated to become central components of clients' financial plans, employed to fund health & LTCi premiums, as well as cover deductibles. With as many as 20-25 MM more HSA holders entering the market under an ACA replacement, and both deposit and carryover rates increasing, HSAs could easily reach $435 B over the next 5 years.



Sources: EBRI, Devenir, Company Reports, Patpatia & Associates' Proprietary Research & Analysis

BUSINESS DRIVERS

The HSA market has been highly stressed under the existing terms of the Affordable Care Act. With insurance exchanges limited in their ability to offer high deductible health plans, few consumers could employ HSAs.

Without a robust HAS market, many leading institutions (e.g. Wells Fargo, JP Morgan) exited the space. The market has become concentrated – almost 40% of total HSA assets are with 4 companies, the largest of which holds about 14%. Niche players now predominate HSAs, generally focusing on transactional banking-type solutions, rather than long-term investment accounts.

With HSAs poised for a renaissance under an ACA repair, financial providers, from banks to brokerage firms and insurance companies, should all strongly consider reentry into the market. HSAs present multiple opportunities for financial product manufacturers and distributers. Providers may derive revenues both from the assets deposited in the HSA and as consumers spend on insurance and other health benefits:

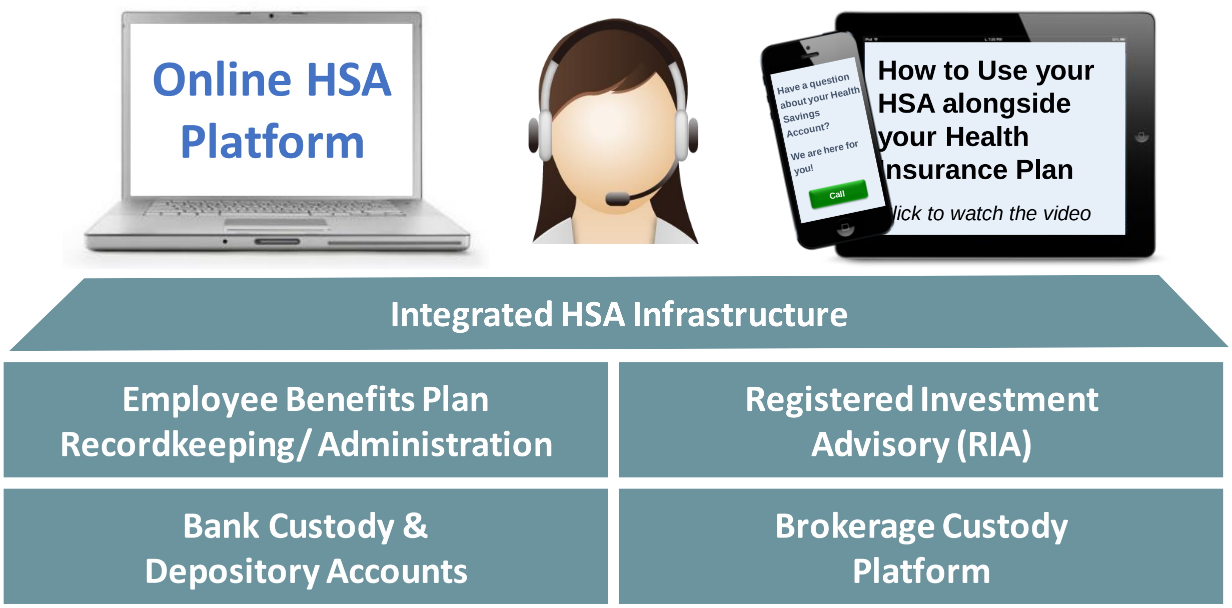
Products may also be offered on a spectrum of asset assurance versus risk, to appeal to a broad range of saver / investor profiles.

MULTI-FACETED BUSINESS ASSEMBLY

Success in the HSA marketplace can be assured through the harmonious deployment of a flexible business platform and proactive sales channels.

A number of infrastructural components are required for an HSA business. Firms may have certain pieces in-house, but need to build out or partner with a third party for other components. For example a bank will have custody and depository accounts, but may need to partner to construct other key elements of the platform.

A Multi-Touchpoint User Experience



HSA purveyors are not limited to their established sales outlets. Supplemental channel opportunities abound, both direct and through third parties:

- Independent retirement plan advisors
- TPA alliances
- Employer relationships
- Independent RIAs
- Individual investor cross-sales
- White label HSAs for institutions
- Worksite marketing
- Insurer partnerships (*e.g. health, LTCi*)

ABOUT PATPATIA & ASSOCIATES, INC.

Patpatia & Associates is a management consultancy that exclusively serves financial institutions and financial technology firms. We provide both strategy development and execution services for clients, ranging from the largest multi-nationals to boutiques.

Our Wealth Management practice's experience includes: new market entry strategies, advisory and customer engagement initiatives, product/platform development, and technology and infrastructure modernization. Through these specializations, our team of industry veterans helps firms get and stay ahead in the marketplace.

Bill Limburg is a Senior Associate, specializing in wealth, insurance, retirement, and investment products; operational platforms; and business growth & market strategies.

www.patpatia.com

patpatia@patpatia.com

510-559-7140