Time For HSAs

profitability business customers funding

Summary: The popularity of HSAs has exploded and roughly 30% of people within the workforce now have them. They can be an attractive line of business for community banks.

Researchers who looked at MRIs and studied people find some of those who go around correcting other people's grammar might just be suffering from a type of obsessive-compulsive disorder (OCD) known as Grammatical Pedantry Syndrome (GPS). Of course, others say correcting poor grammar isn't the disease, but rather not correcting it is. We will leave it to you to decide.

Whatever the disorder or disease, banks play a much bigger role in and around healthcare these days. In fact, bank customers and employees faced with rising medical costs have gravitated more toward health savings accounts (HSAs), in some cases. HSAs can provide flexibility by allowing people to bank unused annual contributions for future expenses. It is therefore no surprise that more than 1,000 banks and credit unions have already moved into HSA administration as a way of boosting overall revenues through what are essentially the equivalent of low cost deposits.

Since their creation in 2003 as part of the Medicare Prescription Drug, Improvement and Modernization Act, the popularity of HSAs has exploded and roughly 30% of people within the workforce now have them. That translates to more than 26mm accounts currently in existence, with assets totaling just shy of $60B, according to Devenir Research. By the end of 2020, Devenir predicts that there will be 30mm HSA accounts with assets totaling $75B.

For banks, HSAs can be an incredibly attractive line of business. For instance, a CT-based community bank has traditionally focused on offerings such as residential mortgages, small business loans and credit card issuance. Some time ago, it moved into HSAs and has grown that business to become the country's 2nd biggest HSA administrator. Since roughly 25% of HSA account holders use their accounts as a savings vehicle for future healthcare expenses, this community bank has benefited from the "stickiness" of some of its HSA deposits, for which it pays only 0.22% to hold.

Given the ease with which banks are able to add HSA administration to their offerings, coupled with the fact that the number of HSAs has grown by roughly 15% annually, community banks may want to consider adding this product line.

HSA administration can be run from one of several areas within a bank's existing product lines, from the retirement or wealth management group, to a commercial lending department.

There is also the added benefit of HSAs providing community banks with yet another way to strengthen relationships with the customer base. Small business customers may be looking for an organization to handle the administration of their HSA plans and other customers that own HSA accounts may be using them to save for retirement.

It appears that HSAs could become even more popular, as the House of Representatives passed legislation this past July that would allow HSA account owners to save an additional $3,250 in the case of single individuals, or

$6,500 for accounts that benefit families. Although it has yet to be passed by the Senate, this may provide a greater opportunity down the road for those community banks interested in adding HSAs to the product mix.

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