

## Data Analysis

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# Emerging Usage Patterns for Health Savings Accounts: Understanding Behavior of Spenders, Savers, and Investors

## Executive Summary

Based on research from Exante Bank, the nation's largest administrator of Health Savings Accounts, HSA accountholders typically can be categorized into one of three basic patterns of account usage: Health Spenders, Health Savers and Health Investors.

Today, roughly half of Exante's 290,000 accountholders are Spenders and most of the remaining are Savers. Investors, however, are emerging as a unique and growing group. While less than 5 percent of today's HSA population, they may someday be the largest balance group based on early, accelerating balance trajectories.

Exante's Spenders carry balances that hover between \$400 and \$600, spend 80 percent of contributions on current medical expenses and contribute an average of \$133 per month. As a result, the average HSA Spender saves \$44 per month in federal, state and local taxes if they are in a combined tax bracket of 33 percent.

➤ *Conclusion: Spenders are likely to value convenience and low cost over interest rates and investment options.*

Exante's Savers held a bank deposit balance of nearly \$1,500 on average, with the earliest Exante customers (from 2005) nearing an average of \$3,000 on deposit, and some MSA rollover accounts as high as \$50,000. Saver balances start lower than Spenders on average, match them in the second month, and surpass by month three, growing an average of \$100 per month thereafter. Savers spend less than 10 percent of contributions. Savers earn more in interest than they pay in fees and are more likely to utilize Exante's no cost investment capability, but usually prefer the safety of FDIC-insured bank interest. Their average contributions of \$124/month save them over \$40/month at a combined 33 percent tax rate.

➤ *Conclusion: Savers are likely to value tiered interest rates and no-cost access to investments. An all-purpose, convenient account that increases rewards as balances rise remains a viable alternative for this segment.*

Exante's Investors are a small but growing group, comprising less than 5 percent of Exante's current HSA population. They are the most active contributors with the highest total balances and highest expected tax savings. Investors held over \$2,000 in bank balances. They invest, on average, another \$3,000 in any combination of Exante's eight highly regarded non-proprietary mutual funds. Investors tend to be early adopters; they often maximize yearly funding immediately and utilize electronic bill pay or auto-sweep investing (balances over a threshold move automatically into the investments) very early in the life of the account.

➤ *Conclusion: Investors will accumulate the highest balances over time and demand more choice. Some investors will clearly want to maximize the portion of their HSA that is in the market and will value the option to buy down to a lower investment threshold or the expansion of other aspects of the investment offering.*

## How Was The Analysis Conducted?

*The analysis was drawn from a study of 212,400 individuals with open Exante Bank Health Savings Accounts for at least three months as of Dec. 31, 2006. The purpose of the analysis, conducted by Exante Bank's HSA business, is to improve understanding of consumer behavior and preferences in order to provide tools and product capabilities to better meet their health care financial needs. By analyzing contribution, disbursement, balance and investing patterns, this analysis profiles these three emerging groups along the following dimensions:*

1. *What are the contribution patterns and sources?*
2. *What are the disbursement patterns and methods?*
3. *What are the balance growth implications?*
4. *What product features are likely to be more valued by each segment?*
5. *What impact do other factors have on the segments?*
  - a) *effect of a linked group or individual HSA plan*
  - b) *effect of employer size*
  - c) *presence of a rollover from previous HSAs/MSAs*

*Exante uses a proprietary method to categorize account behavior into 16 separate segments based on contributions, withdrawals, and balance trajectory and periodically updates its analysis and tracks segment changes among individual accounts over time.*

*Exante offers its HSA capability directly to the public at [www.ExanteBankHSA.com](http://www.ExanteBankHSA.com) and through 17 independent payers, TPA's, and financial firms. While all data was analyzed, most balance and activity data is derived from those accountholders who have grown their balances with Exante without rolling over funds from other HSA/MSA providers.*

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## Spenders

Spenders constituted 50 percent of Exante's HSA population. They carry lower balances that hover between \$400 and \$600 on average, but spend about 80 percent of contributed balances on current medical expenses.

Surprisingly, Spenders start with about 25 percent higher balances and contribute more money each year to their accounts than Savers (\$133/month in contributions). Thus, Spenders actually gain more tax savings than Savers (equalizing for tax bracket), averaging more than \$44 tax savings per month at a combined 33 percent federal/state/local tax bracket.

Spenders tend to have a higher rate of employer contributions (45 percent of total contributions are from their employer, compared to 40 percent for Savers.) Employer contributions generally increase overall bank balances modestly; those accountholders tend to spend more frequently and contribute less of their own money. An employer contribution has a dramatic effect on employee adoption of the HSA account, boosting employee penetration rates to over 90 percent, based on a recent Definity Health study done with Exante Bank (January 2007).

When an account was rolled over from another HSA provider, balances are higher in general and Spenders are somewhat less prevalent, comprising only 39 percent of the total. Rollover Spenders averaged nearly \$1,200 and displayed similar contribution behavior to the average Spender.

Spenders make 12 withdrawals from their HSAs per year on average, with over 90 percent using their HSA debit card. They use the ATM cash reimbursement feature more often than Savers, and like Savers, tend to use electronic bill pay or checks less than 10 percent of the time, but for much higher average dollar amounts.

Based on demonstrated low balances, high transactions, and high tax savings, Spenders are likely to value convenience and low cost over interest rates and investment options. They will likely choose to offset small interest earned at low balance levels for lower fees and lower fee waiver thresholds in order to maintain access to convenient withdrawals and high tax savings.

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## **Savers**

Savers account for nearly 50 percent of the population. Exante Savers with no rollovers held nearly \$1,500 in bank deposits on average, with the earliest Exante customers (from 2005) nearing \$3,000 on average, and some MSA rollover accounts as high as \$50,000. Saver balances start lower than Spenders on average, meet them in the second month, and surpass by month three, growing bank deposits an average of \$100/month thereafter.

About half of this group has never withdrawn from the account, but those who do use the account for periodic current medical expenses tend to carry higher balances and contribute more each month than those who never spend. Savers spend only 8 percent of their contributions on average, making only one withdrawal every five months.

Saver account disbursement methods are nearly identical to Spenders, also using a debit card 90 percent of the time, but using electronic bill pay or checks for larger ticket items. The average withdrawal is slightly over \$100, nearly identical to Spenders.

Savers earn more in interest than they pay in fees and are more likely to utilize Exante's no cost investment capability, but usually prefer the safety of FDIC-insured bank interest. Their average contributions of \$124/month save them over \$40/month at a combined 33 percent tax rate.

Savers are likely to value tiered interest rates and no-cost access to investments. An all-purpose, convenient account that increases rewards as balances rise remains a viable alternative for this segment.

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## **Investors**

Investors are a small but growing group, comprising less than 5 percent of Exante's current HSA population. They are the most active contributors with the highest total balances and highest expected tax savings.

Investors held over \$2,000 in bank balances. They invest, on average, another \$3,000 in Exante's list of eight highly regarded non-proprietary mutual funds.

Nearly one-third of current Investors are categorized as Spenders, maintaining lower bank balances while carrying excess funds in mutual funds. Investors transact more than average Savers, spending 28 percent of contributions.

The contributions made by Investors are twice as high as the others, driven by a much stronger reliance on individual contributions. Accountholders who maximize tax savings by contributing strongly beyond employer contributions or without employer contributions, have a higher propensity to invest. Once an investor meets the required bank deposit threshold, most of the future contributions tend to be directed to the non-FDIC insured investment component of the HSA.

Investors tend to maximize yearly funding immediately and utilize electronic bill pay or auto-sweep investing very early in the life of the account.

Approximately one-third of Investors begin investing within the first three months, ramping up required bank balances much faster than the average account. Investors who maintain only the minimum required bank balance invest roughly two times their remaining bank balance, whereas those with larger remaining bank balances generally invest an amount equal to their FDIC-insured portion.

A new group of investors referred to Exante by a large investment firm is averaging \$3,500 in bank deposits and \$5,500 in mutual funds after only three months of the new program. They have come to Exante expressly to take advantage of a unique investment option, and are adopting all aspects of the account at unprecedented speed. Only half of these accountholders with balances eligible for investment have invoked that feature and those who have invested still keep an extra \$1,000 in the FDIC-insured bank portion.

Investors will accumulate the highest balances over time and demand more choice. Exante has seen the industry cater strongly to Investor needs, despite the small numbers at this point in the HSA adoption curve. Some Investors will clearly want to maximize the portion of their HSA that is in investments and will value the option to buy down to a lower investment threshold or expand other aspects of the investment offering.

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## **Effect of a Linked Group or Individual HSA Medical Plan**

The observed behavior of Spenders, Savers and Investors exists throughout Exante's account base regardless of the source of the account. In fact, individual behavior seems to be largely independent of the group or individual plan affiliation with a few notable exceptions.

Individuals who come to Exante through an affiliation with an individually-based medical plan are much more likely to be Savers versus Spenders (70 percent Savers), even without rolling over money from another administrator. This indicates that those customers who are saving on their own tend to be more future savings minded than those participating as part of an employer based plan.

Those who come directly to Exante or after disengaging from a medical plan default tend to be Spenders (60 percent) generally due to the fact that many can no longer contribute new money to the account without an active HSA medical plan.

The presence of Spenders increases as the size of employer decreases. Accountholders associated with large employers are 53 percent Spenders; medium-sized businesses 52 percent Spenders; and smaller employer account holders jump to 60 percent Spenders.

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## In Summary

The following findings can be used to better inform prospective users of HSAs:

- HSA accountholders are increasingly demonstrating different patterns of contribution and spending and could be better served by product choices designed to meet the needs of each segment.
- At this point in the product evolution, the ability to link HSA accounts to medical enrollment, service, and employer-based contributions remains paramount, but employee needs will soon drive more desire for customization at the bank account level.
- The recent tax legislation that increased contribution limits is likely to accelerate this trend, as average individual balances grow to be large enough to take full advantage of the rewards associated with high-balance HSA accounts such as tiered interest rates and investment options.
- This desire for more complex product choice is at odds with the need for simple, understandable enrollment processes, which currently hamper account adoption. Careful attention must be paid to the integrated process to enroll and engage the individual in both the HSA medical plan and HSA account, working closely with the medical insurer and employer to design a process that introduces individual information at the right time to maximize the benefits to each unique user group.