

# HSA Custodians

**A Vimo Ratings™ Report**

Expert, independent and objective health product ratings and analysis

**Compiled by the Vimo Research Group**  
Edited by Kurt Stammberger  
October 2006

## Objectives and Highlights

### The Best HSA Interest Rates

1. Patelco Credit Union
2. Exante Bank
3. Home State Bank
4. National City Bank
5. Bank of Cashton

**J**ohn Bogle, the Founder of Vanguard and father of the index fund, says the following of financial intermediation: “the overarching reality is simple: gross returns in the financial markets minus the costs of financial intermediation equal the net returns actually delivered to investors.” In other words: cost matters. Mr. Bogle provides wise counsel—particularly from the standpoint of the financial services consumer.

From Vimo’s perspective, there is a direct analogy to be drawn between the “investors” referred to above and the healthcare consumer who is shopping for a Health Savings Account: both are financial services customers and both should carefully consider cost when purchasing any product or service.

Cost consideration, however, is premised on the notion of “price transparency,” or the ease with which the average consumer can find and compare the prices of various goods and services. Price transparency has traditionally been rare in the healthcare sector, and HSAs present additional challenges to the consumer because they are so new.

This Vimo Ratings™ Report focuses on the world of HSA Custodians: the banks and other organizations that offer Health Savings Accounts to consumers. In this report, we evaluate HSA custodians based upon cost (fee structures) and return (interest rates) offered to consumers, and present the data in a format that is meaningful and actionable. The Report ranks interest rates on account balances of \$2,500. More formal investment product offerings such as mutual funds and money market accounts were not included in the analysis, but will be a part of future Reports.

This Vimo Ratings™ Report is the first of many more to come, and is intended to supplement and enhance the health product feature and price data located at [www.vimo.com](http://www.vimo.com). Together, we hope the Reports and our site deliver on our mission of consumer advocacy, price and quality transparency and fairness in healthcare pricing and delivery.

*“Price transparency has traditionally been rare in the healthcare sector, and HSAs present additional research challenges to the consumer because they are so new”*

## Background

Health Savings Accounts (HSAs) were introduced through the Medicare Modernization Act of 2003, and they serve as a foundation for consumer driven healthcare (CDH). An HSA is used to fund healthcare spending, and all HSA funding arrangements share two basic features:

1) The high deductible health plan (HDHP): HSAs must be used in conjunction with a qualified HDHP. An HDHP offers reduced health insurance premiums but still provides protection from unexpected, catastrophic healthcare expenses.

2) The Health Savings Account: an HSA is an individually owned, highly tax-advantaged account that is used to make tax free deposits and withdrawals for qualified healthcare expenditures. Any person below Medicare eligibility age (65) can open an HSA, and any employer—regardless of size—may implement an HSA.

HSAs are provided by legal “custodians” or “trustees” (referred to throughout this report as “custodian”). The differences between a custodian and a trustee are minor, and what constitutes a trust or custodial arrangement is a matter of state law. Banks, credit unions, insurance companies and other financial institutions are permitted to be custodians of these accounts, and all three types of entities are represented in this Report.

In addition to the basic legal and record keeping functions, HSA custodians may provide a wide range of services features such as: debit cards, online enrollment and statements, insurance plan and claim integration, advisory services and investment options.

Although an HSA cannot exist independently of an HDHP, the individual consumer is not required to use an HSA that is offered through their current health plan or employer, regardless of their current insurance plan, employer or state in which they reside.

The bottom line is that each individual has vast freedom of choice in comparing and selecting HSA products from a diverse nationwide pool of providers.

***Most importantly: many consumers do not realize that they are free to choose from any HSA custodian, regardless of their chosen health insurance plan.***

## Methods

This Vimo Ratings Report is based on a sample of 84 HSA custodians. Vimo gathers data through published HSA custodian materials (both print and Web) and through phone verification. HSA custodians can provide their own data updates to Vimo by downloading the following worksheet from the Vimo website: <http://www.vimo.com/hsa/HSATemplate.xls>.

Although Vimo presents a broad range of comparative information on HSA custodians and their HSA product offerings, this report focuses on the *quantitative* areas of cost and rate of interest on funds within the HSA. An evaluation of the more *qualitative* (service) differences between HSA offerings

will be the subject of a future Vimo Ratings™ Report. Data used to calculate results has been updated and verified within the past 30 days.

Five cost categories are included as criteria within this report: 1) annual fees; 2) account set-up fees; 3) monthly account maintenance fees; 4) transaction fees, and; 5) account closing fees. Other cost categories do exist for some HSA custodians, but were not used as bases for report results.

In the rankings, annual interest rates are used as a proxy for rate of return. It should be noted that many HSA custodians provide a tiered interest rate structure where the rate increases as account balances increase. For comparative purposes, this report focuses on the level of interest rates offered on a fairly typical account balance of \$2,500.

This report does not address many of the more qualitative aspects of the services provided by HSA custodians. It should be noted that fee structures and interest rates are not the only criteria that should be used when selecting an HSA custodian. Some HSA custodians are able to maintain a lower cost profile precisely because they provide relatively few value-added services - services that might be very important to some consumers. Conversely, more “soup-to-nuts” products like those of HSA Bank and Health Equity have fee structures that are a reasonable reflection of their relatively broad and deep service offerings. Look for these qualitative features of HSA custodial offerings to be the subject of a future Vimo Report.

Vimo is committed to an objective, open and comprehensive comparison shopping experience for HSA custodians, and we welcome suggestions, updates and corrections from consumers and the HSA community. While this report was fairly comprehensive - the total of 305 HSA custodians surveyed represent a large portion of the HSA market in the United States - many offerings were excluded because verifiable (through phone, print or web) data sources were not available. HSA custodians can provide their own product updates directly to Vimo by downloading the following worksheet from the Vimo website: <http://www.vimo.com/hsa/HSATemplate.xls>.

## Results

*“For many of the HSA accounts surveyed, it will be difficult for the average HSA consumer to keep their head above water”*

At the highest level, the survey produced results that reinforced two fundamental themes. First, there is an enormous amount of **variance** in the fee structures of HSA custodians. For example, annual fees range from \$0 to \$185 per year, with the average fee at \$13.30. More dangerous to the consumer, however, is the fact that because HSAs are new, there are no standard “fee disclosure notices” like there are with credit cards. Many custodians don’t disclose the full range of fees associated with a given HSA product in their marketing materials or website, and those that do often provide less-than-adequate explanations of those fees, making side-by-side product comparisons fiendishly difficult. For this reason, Vimo cautions consumers to make absolutely sure that they understand all the fees associated with a given HSA before signing on the dotted line.

The second theme evident in the survey is that **cost matters**—especially when placed in the context of overall returns. For many of the HSA accounts surveyed, it will be difficult for the average HSA consumer to keep their head above water. The Vimo Rankings Report results indicate that on an account balance of \$2,500, the average annual cost of an HSA is \$84... while the average annual return is only \$48.50. Therefore consumer with an average HSA would actually lose \$35.50 a year.

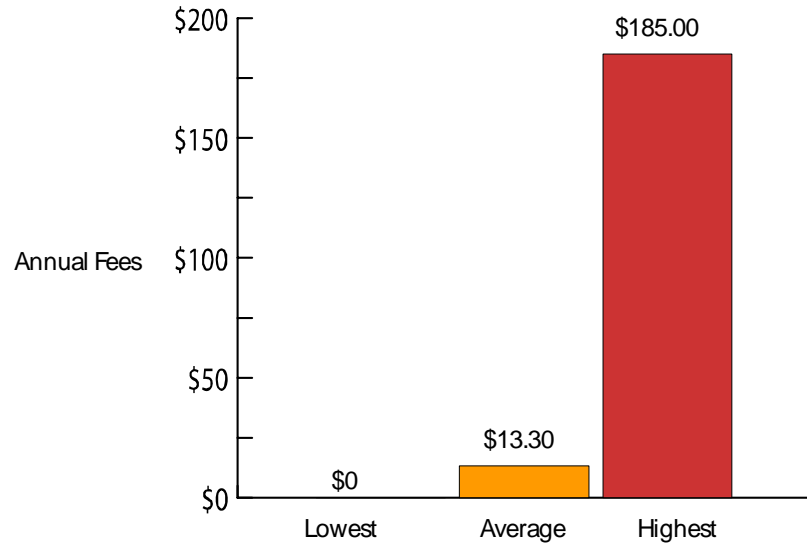
It is certainly possible to achieve positive returns on your money in an HSA, but the Report makes it clear that 1) it’s certainly not a given, like consumers might assume for a regular savings account and 2) it takes some digging. There is a clear payoff for doing your homework: the optimal HSA custodial offering in the Vimo study has a cost of \$12 per year and provides a return of \$125 on the same \$2,500 account balance.

## Fees

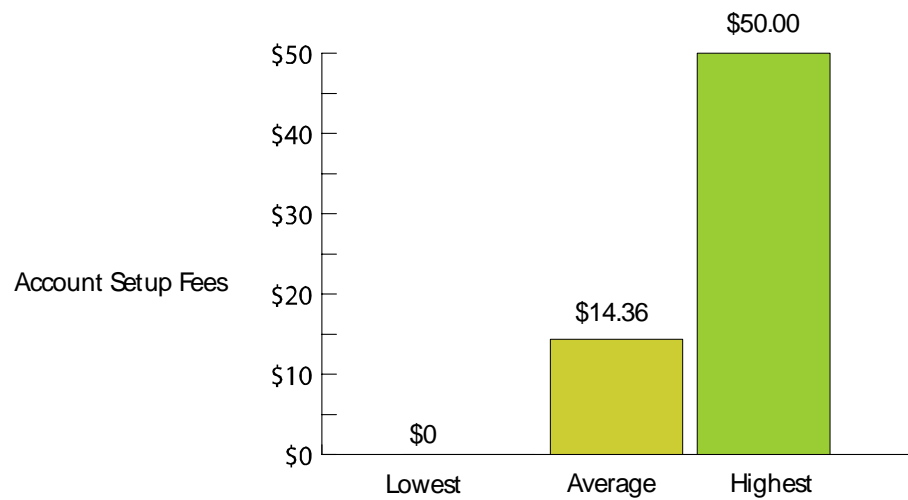
### The Least Expensive HSAs

Banks	Annual Fee	Account Setup	Closing Fee	Transaction Fee	Monthly Maintenance
1. <b>American Chartered Bank, tied with:</b> <b>Assurant Health, Black Hawk Bank, First American Bank, Gilmore Bank, Heartland Bank, Keystone Bank</b>	\$0	\$0	\$0	\$0	\$0
2. <b>Patelco Credit Union</b>	\$0	\$0	\$0	\$0	\$1.00
3. <b>Thoroughbred Health Bank</b>	\$0	\$15	\$0	\$0	\$0
4. <b>Home State Bank tied with Saturna Capital</b>	\$25	\$0	\$0	\$0	\$0
5. <b>Chamber Solutions</b>	\$0	\$0	\$0	\$0	\$2.50

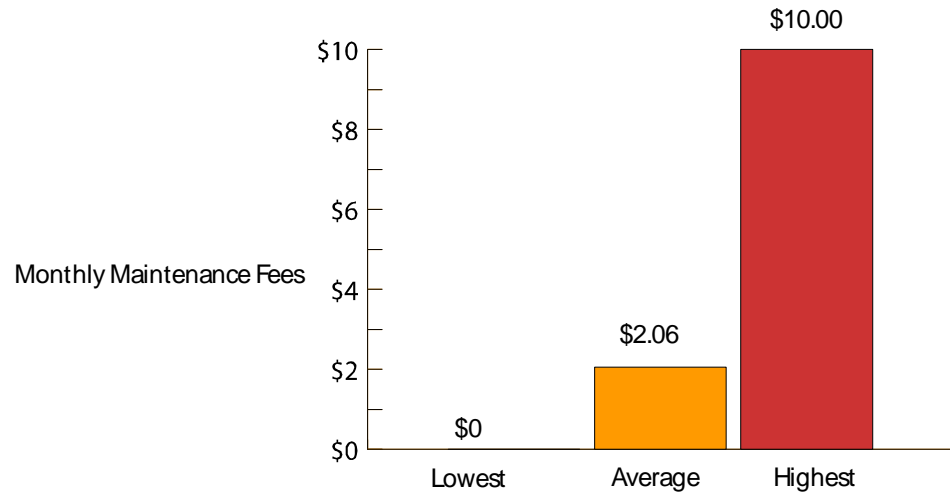
## Annual Fees



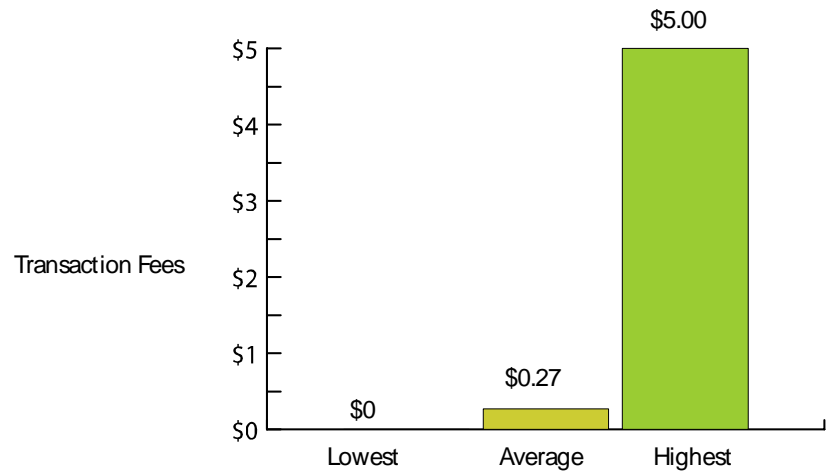
## Account Setup Fees



## Monthly Maintenance Fees

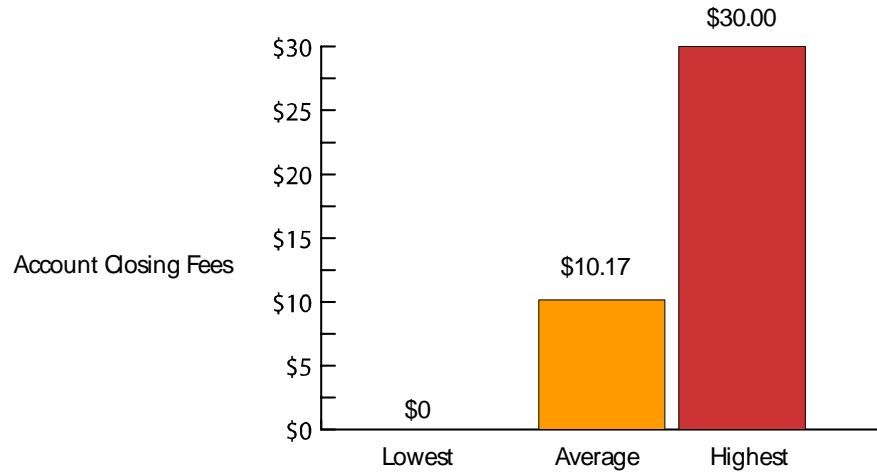


## Transaction Fees



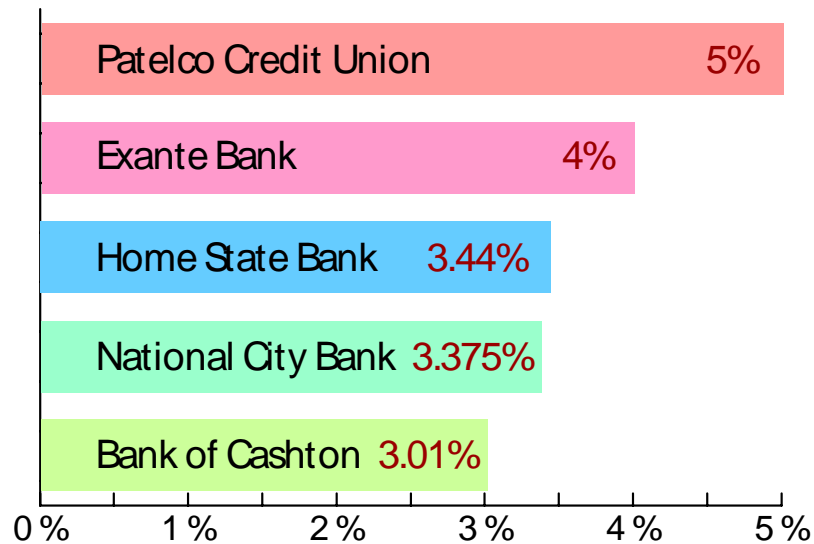
## Account Closing Fees

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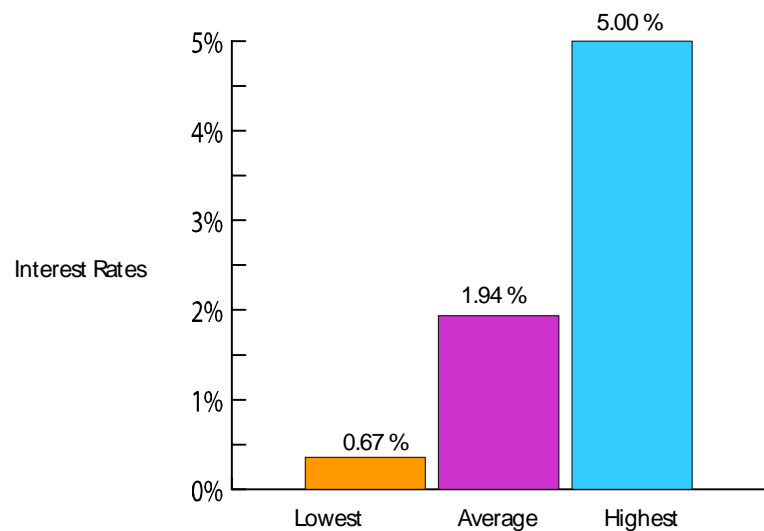


## Rates of Return

### HSA with the Best Interest Rates



### HSA Interest Rates : Lowest, Average and Highest Rates



## Three Case Studies

### Placing the Results in Context

#### Alan Average - Average Cost, Average Return

Alan Average chooses an HSA custodian that just so happens to have a fee structure and interest rate that precisely matches the averages from the Vimo Ratings™ Report. It is assumed that the account is new, and therefore, that it is subject to account opening fees but not an account closing fee. It is also assumed that Alan Average makes 6 transactions during the course of the year and that his average account balance is \$2,500.

During the first year, Alan's account actually loses \$35.50:

<b>Annual Cost</b>	\$84
<b>Annual Return</b>	\$48.50
<b>Annual Deficit</b>	\$(35.50)

#### William Worstcase - High Cost, Low Return

William unfortunately chooses an HSA offering that matches the highest fee structure and lowest interest rate from the Vimo Ratings™ Report. Again, it is assumed that the account is new, and therefore, that it is subject to account opening fees but not an account closing fee. It is also assumed that Mr. Worstcase makes 6 transactions during the course of the year and that his average account balance is \$2,500.

William's HSA custodian has a cost structure that significantly exceeds the return it provides to customers.

During the first year, William's account loses \$121:

<b>Annual Cost</b>	\$152
<b>Annual Return</b>	\$31.00
<b>Annual Deficit</b>	\$(121.00)

## Susan Shoparound - Low Cost, High Return

Ms. Shoparound sets out to select the optimal—from the standpoint of cost and return—HSA custodial offering. As a result, Susan is able to zero-in on the HSA offering that matches the combination of lowest fees and highest interest rate from the Vimo Ratings™ Report. Again, it is assumed that the account is new, and therefore, that it is subject to account opening fees but not an account closing fee. It is also assumed that Ms. Shoparound makes 6 transactions during the course of the year and that her average account balance is \$2,500.

Susan's HSA custodian provides a financial return that significantly exceeds its cost structure.

During the first year, her account gains \$113:

<b>Annual Cost</b>	<b>\$12</b>
<b>Annual Return</b>	<b>\$125.00</b>
<b>Annual Surplus</b>	<b>\$113.00</b>

## About Vimo

Vimo is the nation's first integrated comparison-shopping portal for healthcare products and services. On January 24, 2006 we launched a website that allows businesses and consumers to research, rate and purchase health insurance plans and Health Savings Accounts (HSAs), and choose doctors from across the country. Vimo brings together a variety of private and public data sources so that shoppers can find a physician and compare hospital prices for medical procedures. Vimo users can read and post reviews about any of the services or products available.

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