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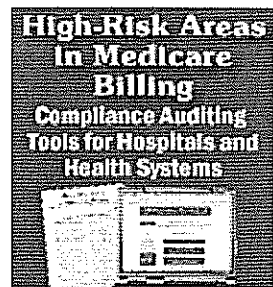
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Featured Story October 10, 2008

Shock and Awe on Wall Street May Pressure Custodians of Health Savings Accounts to Drop Their Rates, Consolidate

Reprinted from *INSIDE CONSUMER-DIRECTED CARE*, a biweekly newsletter with timely news and insightful analysis of benefit design, contracts, market strategies and financial results.

By Steve Davis, Managing Editor, (sdavis@aispub.com)

The economic nuke that nearly leveled Wall Street this month could lead to new pressure for financial firms to lower the interest rates they pay on health savings accounts (HSAs) and/or increase or add administrative fees, industry observers suggest. Some HSA custodians, however, say they expect to feel few, if any, tremors.

With a rate of return of less than 1% on 90-day Treasury bills — and a low albeit unchanged federal key rate of 2% — financial firms will see even thinner profit margins for HSAs, says Dennis Triplett, president of Kansas City, Mo.-based UMB Healthcare Services. "There just is not a lot of yield, and I don't think that is going to change," he tells ICDC. "If anything, the federal government is looking for ways to either hold interest rates steady or to lower them even further. The inclination is not to raise [interest] rates. And that could put rate pressure on HSA custodians." Triplett also suggests that some custodians will be less likely to decrease or drop account fees for HSAs given the already-low profit margin for that line of business. UMB has \$140 million in HSA assets.

Investment banking firm Lehman Brothers Holdings, Inc. on Sept. 15 filed for Chapter 11 bankruptcy protection after it couldn't find a buyer and was unable to get the government

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to agree to a bailout. The filing marks the largest bankruptcy in U.S. history. A day later, the Federal Reserve Board agreed to lend as much as \$85 billion to American International Group, Inc. (AIG) in return for up to 80% ownership of the firm. Financial markets have been in turmoil all month.

Over the past 12 to 15 months, Illinois-based American Chartered Bank has adjusted its product pricing in response to the falling prime lending rate (PLR). The bank's deposit pricing across its product portfolio has always been sensitive to PLR, says Larry Deegan, vice president of business development. Any additional decreases in that rate, he tells ICDC, "would lead to lower depository rates for our HSA program." On Sept. 16, the Federal Reserve said the PLR, which applies largely to home-equity lines of credit and other loans, would remain at 5%. However, Deegan asserts that his firm has no immediate plans to make changes to its pricing strategy or fee structure. "Internally, we will continue to look at technology such as e-statements, enhanced enrollment tools and improved electronic funding to improve operating efficiencies, which subsequently lower our operating costs per unit," he says.

Unlike some large financial firms, OptumHealth Bank, a subsidiary of UnitedHealth Group, says it does not issue mortgages or have personal accounts other than those dedicated to health care benefits such as HSAs, health reimbursement arrangements (HRAs) and flexible spending accounts (FSAs). "While rates are subject to change at any time, we do not expect any significant rate changes, says spokesperson Brad Lotterman. OptumHealth Bank holds about \$633 million in HSA deposits.

Interest-rate fluctuations are difficult to predict and can be affected by the market in general as well as by actions taken by the Federal Reserve, says Kim Datzman, chief technology officer at Indiana-based Fowler State Bank. However, she anticipates very few ramifications of the financial-markets meltdown on Fowler's health care accounts.

But not raising rates could make HSAs a less desirable line of business for financial firms that are modest players in the space, Triplett says. "There is always quite a bit of consolidation in the financial services business in general, especially as firms try to raise capital," he says. "I think that for the right price, some people will sell off [their HSA business] to get capital. It wouldn't surprise me, especially if HSAs aren't really a core business. They might also consider the political climate and whether HSAs will continue to grow."

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