



Consumer Driven Market Report

Research On HSAs And Health Benefit Accounts



Industry Leader Update Alegus In 2021

June 2021 Alegus held a mid-2021 conference and expo this year, rolling out both enhancements and major new product features across tens of millions of CDH accounts. This report is an overview of the event plus our own analysis of what the news indicates for the future of the industry in a post-pandemic world.

Alegus now has the biggest estimated CDH account base in the world of non-bank custodian portals, tens of millions of consumers accessing the Alegus engine serving health plans, financial institutions, and third party benefit administrators. It is the only company out of six market leaders that is privately-held.



New Alegus CEO **Leif O'Leary** envisions a clear mission in his first annual conference. He observes that the Alegus client base touches as much as 40% of privately-insured consumers, a mandate to be the technology leader and go beyond simply maintaining the status quo.

"The first and foremost goal is to be number one in the white label product and never compete with clients," i.e. doubling down on the white label model. "We're not just traditional CDH competitors. We aim to be first in the market with a modern investment experience. Clients will be able to provide this without having to step out to a third party."



Brian Colburn, Alegus SVP of Corporate Development and Strategy, adds that Alegus clients are now growing 40% in HSAs - a much faster rate than the market average. "This will be a really healthy market for the next decade."

But Colburn predicts that consumer funding vehicles will change for TPAs and health plans as the public migrates to new apps and consumer tastes. "There will be a need to 'follow the money' and offer rewards programs and new ways of sharing savings by aligning accounts with real incentives." TPAs may adopt many of these innovations the fastest due to their size and more flexible ownership.



New Chief Customer Officer **Mark Waterstraat** calls for a major new company-wide effort to monitor client input on a systematic basis. He cites examples where a client request is reviewed by Alegus during discussions, then fully-endorsed by the client.

New healthplan and TPA advisory boards will soon provide constant roadmap updates versus once a year versus annual pronouncements of product changes. "It's not just about the inside, but a circle asking did we deliver the value."

Major Rollout Taps Post-Covid Customer

Alegus unveils a long-awaited investment account revamp that in our opinion is an industry game-changer. Rather than treating HSA investors as disinterested in managing their portfolios, Alegus argues that HSA assets can be given a full-featured website identical or better than major sites like Fidelity, AmeriTrade or a half dozen recent web stars.

This change in attitude allows HSA investors to view their HSA investments as a tradeable asset, including stocks and all the trading features they take for granted. The technology now allows this to happen in a white-labelled site provided by a TPA, employer or individual health plan -- for HSAs.

• **Connected Cash** is another new approach that provides plan members and client employees with a faster benefit account reimbursement option and quicker access to their funds, even if there's a gap. An early pilot two years ago has been upgraded at the perfect moment for such a product.

The upgrade adds in a smarter AI refund logic, the ability of the admin to turn off the feature without interrupting existing cash balances, unique fraud rules allowing higher balances and a new rewards program that credits back card spending.

Alegus partners with **MasterCard** to provide the new customized rewards program available in August 2021 allowing consumers to connect their cards to a lot more merchants, earning extra cash back for these purchases.



"By delivering real cost savings and a built-in rewards program that includes cash rewards for participating employees, *Connected Cash* offers clients an opportunity to truly differentiate their offering," says **Chris Rodkey**, Head of New Product Solutions and a 10-year Alegus veteran

responsible for the strategic direction of Alegus CDH products and services. Cost reductions in both labor and reimbursements will be a real incentive to adoption.

• **ICHRA** The new Alegus partnership with the biggest ICHRA vendor **HealthSherpa** is rising. After just one year it serves more than 20 admins managing thousands of accounts and hundreds of employers. Alegus now has more business in the model than even the dedicated solo ICHRA players.

Rodkey notes that from an administrator's viewpoint an ICHRA "is a sort of pivot from a benefit to a payment out of pocket" which both benefits the employee and eliminates barriers to payment using cash. "This is a multi-year rollout over two to 10 years and is growing steadily while adding another choice. But it could end up being the ultimate model."

• **LSA Lifetime Spending Accounts** The Covid law created the option for an open-ended employee spending account for employers to respond to the pandemic. Alegus is seeing this expand into a new iteration of the Employee Care Card called Lifetime Spending Accounts. "We saw an appetite for more of a general purpose account for hybrid workforces as a sandbox, with employers, brokers, TPAs and HPs able to do it on the same card you already access."

There is lots of experimentation given that the accounts have variable spending levels with no set budget amounts and no restricted population limits. But there is a growing demand for employers to try to differentiate their benefit package in a more fluid op. And LSAs may create workforce stickiness.

Another attraction is the fact that a card is linked to a notional account, unlike an existing Amazon gift card where the employer already spent the money. This makes LSAs in effect tangential to ICHRA accounts as an co-offered benefit.

Medicare Advantage? Another potential business line connected to the other new products is the massive existing market for Medicare Advantage supplemental products. HPs and TPAs are finding that U.S. employers and plans still use a legacy claims-based system not even able to provide cards and accounts or real-time interaction. Basically, TPAs could boost revenue big time by providing the CDH digital experience to MA benes from the same employer struggling with MA.



Alegeus Award For Investments

Interpro Publications Inc. is giving its latest *Pioneer Award* to the Alegeus leadership for their new HSA investment technology allowing the company to be a "Pioneer In Consumer Health Investments"

CDMR Market Review And Outlook

Alegeus Plays It Just Right

The new playbook from Alegeus is a breath of fresh air at a time when things are in flux. It's a very smart move given current market conditions, and a real testament to the new CEO and management team's perception of the environment.

It's fairly safe to assume that HSA account growth has slowed long-term despite a big rise in total contributions. Few believe that HSAs will become ubiquitous, and 35% to 40% market penetration has always been a very decent objective. Remember that HMOs maxed out at 32%, and 401ks maxed at a peak not that much higher after decades.

The good news is that the investment side is finally gaining ground. HSA investments are booming, yet it's hard to say that it's a huge linear uptrend given the massive excess consumer savings that accumulated during the pandemic. It's a sure bet though that savings were shifted into HSAs.

So it's also indisputable that some sort of turning point has been reached, and the rate of invested savings is on a permanent upswing. Basically, the HSA account biz has shifted to investment savings, and Covid was the push.

Is the industry ready for this? Year after year people have had to paint a positive picture as health "savings" accounts turned out to be only spending accounts. So the quality of the assets became a low priority -- after all, most of the consumers with investments didn't take them seriously.

One way to look at this now is a three-phased adoption.

The first phase was getting HSAs to survive early attacks, consumer lethargy and employer skepticism. That took a

decade, but was achieved by the time the Cadillac Tax threat made HSAs mainstream after lobbying groups played it just right and aligned with large employers and health plans.

The second Phase was keeping the ball rolling after health insurance premiums flattened. For almost a decade the average PHI employer and employee premium contribution fell to low single-digits. Rich benefits became a top employer priority over high deductibles and low premiums. The spread between HSA-eligible plans and PPOs narrowed sharply.

Alegeus was instrumental in helping this along by deeply penetrating the white label platform space, creating a high enough standard that no employer, TPA or health plan ever needed to try and administer HSAs with home grown coding. Tens of millions of consumers dived into smarter accounts that in many cases were a better interface than their banks.

We have to say at this point that this quality improvement period was not due to uniform industry-wide performance. Some of the biggest HSA account platforms such as HSA Bank and others never advanced much beyond the early days. Their reliance on links to FIs was always just an afterthought.

But to be fair, the HSA consumer was complacent. Assets to invest were non-existent until about 2015, so the standard remained checking accounts and debit cards. With account growth in the upper teens for years, it made no sense for many competitors to do anything but tabulate transactions. Health plans, TPAs and FIs never demanded much else.

The new Alegeus HSA investment solution by contrast offers features and functionality never before seen in the HSA market. A decision was made to innovate a new approach that is not dependent on a legacy HSA standard of using a third-party tool tied to one broker versus a dozen or more app-based tools available to a new generation of investors.

"We found a myriad of strengths and weaknesses across the HSA investments market," Chris Rodkey explains. "We want to do something that brings us in line with market parity, asking where are people *not* investing in HSAs take their money. Where are millennials and where are the Gen Z folks."

Research found that a majority of HSA user questions to Alegeus admins involve delays in finding out things, like investment account balances or how to access metrics and tools. In the new product *everything* is in real-time. Period.

Repeat that: in the next iteration of HSA investments all functions from signing up to seeing return on investment will be in real-time and look exactly like a Fidelity for HSAs.

Alegeus wisely allows the two legacy options for consumers to be selected -- the no-brainer model where a pre-selected group of safe mutual funds is automatically picked, or what is euphemistically called a self-directed model. But allowing HSA owners with building assets to access and view their HSA investments -- and trade stocks -- is a critical new standard.

Features like real-time and fractional trading, a fully automated robo advisor, and a full range of investing models for every investor experience level. Fully integrated with the Alegeus HSA solution, the investment experience allows administrators to fully support consumers through all stages of healthcare transactions -- spending, saving and investing.

This will be hard to adapt to for a lot of traditional (i.e. bank) executives who insist that HSAs should only be allowed to invest in mutual funds. And real-time everything will be a tough nut to crack for anybody not totally dedicated to it.

But in the midst of a tough period of consolidation in HSA admin as smaller players cash out, the changes in ownership will have to include moving millions of accounts from mediocre platforms to advanced sites. That's a *good* thing. ☆

Alegeus Client Recognition & Awards



Jen Irwin
SVP, Marketing
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Alegeus

HSA Balance Growth

Independence
American Fidelity
CareFlex

Operational Efficiency

American Benefits Group
IGOE
Murphee Meadows

Innovation Award

alight
NueSynergy
Lane Health

Partnership Excellence

Humana
Flores
Omnify

COBRA Kai Award

Employee Benefits
Corporation
NBS National Services
OCA

Overall Growth

Alight
Melody Benefits
Rippling

New Logo Growth

London Health Administrators
The Difference Card
JW Terrill

Customer Retention

First Financial Group
FBA National
Flex Plan Administrators

HSA Growth

Cigna
Tri-Ad
Benefit Resources Bri