
2022 Health Savings Account Landscape

Morningstar Manager Research

27 September 2022

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Executive Summary

Health savings accounts have grown at a blistering 31% annual clip over the past 15 years. HSAs' unmatched tax treatment and the increasing adoption of the high-deductible health insurance plans to which they are tied has provided a persistent tailwind. Meanwhile, HSA providers have matured since our first HSA landscape report in 2017 by cutting fees, streamlining investment menus, and offering higher-quality funds.

There is still room for improvement, though. Most individuals eschew the investment feature of HSAs, forfeiting the triple tax benefit conferred. The industry's opacity and administrative burdens are partly to blame. The process of signing up for, opening, funding, using, and investing an individual or employer account is arduous, disjointed, and convoluted. And despite Morningstar's advocacy, fee schedules remain high and vary across providers, most require individuals to meet spending account minimums before they can invest, and fund lineups still offer redundant and complicated niche options that can be hard to use.

Morningstar's annual HSA evaluations encourage progress in these and other areas. They rank 10 of the top HSA providers available to individuals on two use cases: as spending accounts to cover current medical costs, and as investment accounts to save for future medical expenses. The 10 HSAs in Exhibits 1 and 2 below do not include those offered by employers, since the fees charged by the same HSA plan can vary among workplaces that offer it, making comparisons difficult. HSA providers typically have one standard individual offering.

This year's report adds First American Bank and UMB's HSAs. The former is a smaller provider with a compelling spending account. UMB's offering, meanwhile, attempts to retain individuals whose prior employers custodied their HSAs at the firm. Industry consolidation continued over the past year; previous participants Bend, HealthSavings, and PayFlex were acquired. All 10 providers responded to Morningstar's information requests.

In this report we will examine HSAs from the individual and the provider perspectives, providing actionable advice for the former, and recommendations for further improvement for the latter.

Exhibit 1 Morningstar Assessments of HSAs as Spending Accounts

Provider	Overall	Score	Maintenance Fee	Score	Interest Rate	Score	Additional Fees	Score
Fidelity	High	5.0	High	5	High ↑	5	High	5
First American Bank	Above Average	4.4	High	5	Average	3	Average	3
HSA Bank	Above Average ↓	4.4	High	5	Average	3	Above Average	4
HealthEquity	Above Average ↓	4.1	High	5	Below Average ↓	2	Average	3
Lively	Above Average ↓	4.1	High	5	Below Average ↓	2	High	5
The HSA Authority	Above Average ↓	4.1	High	5	Below Average ↓	2	Below Average	2
Optum	Average	3.4	Above Average ↑	4	Below Average ↓	2	Above Average	4
Associated Bank	Average	2.7	Average	3	Below Average ↓	2	Above Average	4
UMB	Average	2.7	Average	3	Below Average ↓	2	Average	3
Bank of America	Below Average	2.0	Below Average	2	Below Average ↓	2	Above Average ↓	4

↑ = Upgrade since last year, ↓ = Downgrade since last year.

Source: Morningstar, Inc. Assessments as of Aug. 31, 2022. Note: High or Above Average assessments for Maintenance Fee and Additional Fees indicate attractive fees, while Low or Below Average assessments indicate unattractive fees. Additional Fees score is listed above for investors' convenience but are not considered in the overall assessment.

Exhibit 2 Morningstar Assessments of HSAs as Investment Accounts

Provider	Overall	Score	Menu Design	Score	Quality of Investments	Score	Price	Score	Investment Threshold	Score
Fidelity	High	4.6	Above Average	4	Above Average	4	High	5	High	5
HealthEquity	Above Average ↑	4.2	Average	3	Above Average	4	High ↑	5	Above Average	4
Lively	Above Average ↑	4.0	High	5	Above Average	4	Average ↑	3	High	5
The HSA Authority	Above Average ↑	3.8	Below Average	2	Above Average	4	Above Average ↑	4	High	5
Associated Bank	Average ↓	3.4	High	5	Above Average	4	Below Average ↓	2	Above Average ↑	4
Bank of America	Average ↓	3.2	Average	3	Above Average	4	Average ↓	3	Average	3
HSA Bank	Average	3.2	Average	3	Above Average	4	Average	3	Average	3
First American Bank	Average	3.0	Below Average	2	Above Average	4	Average	3	Average	3
Optum	Average ↑	3.0	Average	3	Above Average	4	Below Average ↑	2	Above Average ↑	4
UMB	Average	2.8	High	5	Above Average	4	Low	1	Average	3

↑ = Upgrade since last year, ↓ = Downgrade since last year.

Source: Morningstar, Inc. Assessments as of Aug. 31, 2022. Note: High or Above Average assessments for Maintenance Fee and Additional Fees indicate attractive fees, while Low or Below Average assessments indicate unattractive fees. A High assessment for Investment Threshold indicates no investment threshold exists, while a Low assessment indicates an investment threshold of \$2,000.

Part I: Individuals

Morningstar has long pressed HSA providers to cut fees, eliminate or reduce investment thresholds, and bolster investment lineups. HSA user behavior needs work, too.

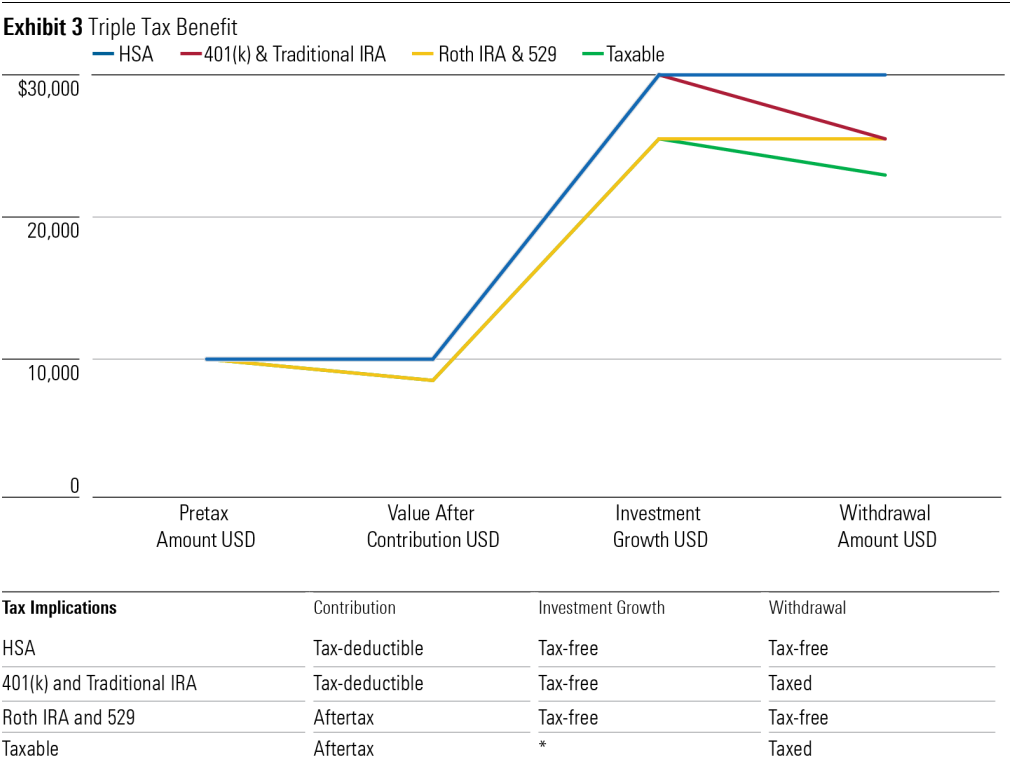
HSAs are the most sheltered of tax-advantaged vehicles. They qualify for the triple tax benefit: contributions are tax-deductible; investment growth, interest, and dividends are tax-exempt; and withdrawals for qualified medical expenses are tax-free.

Yet plenty of eligible workers do not take full advantage. HSA users with bigger balances are more likely to use investment options¹, yet just 9% of HSA accounts have investment assets, according to Morningstar's surveys. HSA users overall would be better off if more of them took advantage of their accounts' investment features as well as their flexible spending policies.

The Unparalleled Tax Benefits of HSAs

HSAs have more tax benefits than 401(k)s, 529 education-savings plans, and traditional and Roth IRAs. Exhibit 3 illustrates the tax impact on the growth of \$10,000 in each vehicle, plus a taxable option, assuming a marginal tax rate of 15% at the time of contribution and withdrawal, a 200% cumulative gain over 20 years, and that the withdrawal is for qualified medical purposes.

¹ Trends in Health Savings Account Balances, Contributions, Distributions, and Investments and the Impact of COVID-19



The Roth IRA/529 and Traditional 401(k)/IRA end up in the same place due to the 15% tax, which the former pays at contribution and the latter at withdrawal. Meanwhile Uncle Sam does not touch the HSA. Further, there is no penalty for having excess savings in an HSA, at least in the participant's lifetime (more on that later). For users age 65 or older, the government treats nonmedical HSA withdrawals like traditional 401(k)/IRAs.

HSAs let savers set aside money for retirement healthcare costs, freeing up 401(k)s and IRAs for other uses. A special, tax-advantaged healthcare bucket would come in handy for most retirees. Fidelity Investments projects that the average 65-year-old couple will spend \$315,000 on healthcare and medical expenses, not including long-term care.²

² Fidelity Releases 2022 Retiree Health Care Cost Estimate: 65-Year-Old Couple Retiring Today Will Need an Average of \$315,000 for Medical Expenses

Strengthening the Case for High-Deductible Health Plans

HSAs are only available to those with qualifying HDHPs. Exhibit 4 displays the IRS' 2023 contribution maximums, which count both employee and employer contributions.

Exhibit 4 2023 Contribution Limits for HSAs and HDHPs

2023 HSA/HDHP Details	Single (\$)	Family (\$)
HSA Contribution Limit (Aged 54 or Lower)	3,850	7,700
HSA Contribution Limit (Aged 55 and Above)	4,850	9,700
Minimum Deductible for Qualifying HDHP	1,500	3,000
Maximum Out-of-Pocket Expenses for HDHP	7,500	15,000

Source: Internal Revenue Service.

HDHPs have grown considerably over the past 15 years; 28% of covered workers selected a HDHP in 2021, up from 4% in 2006.³ HSAs were designed to make HDHPs more palatable, and the numbers show they make a strong argument for them. Exhibit 5 shows average 2021 Preferred Provider Organization (PPO) and HDHP family plan premiums, according to a Kaiser Family Foundation survey.

Exhibit 5 Comparing the Average HDHP and PPO Insurance Plans

Insurance Plan	Annual Deductible (\$)	Annual Worker Contribution to Premium (\$)	Employer Contribution to HSA (\$)
Average PPO	3,000	6,428	0
Average HDHP	4,705	5,129	987
Difference	-1,705	1,299	-987

Source: 2021 Employer Health Benefits Survey - KFF.

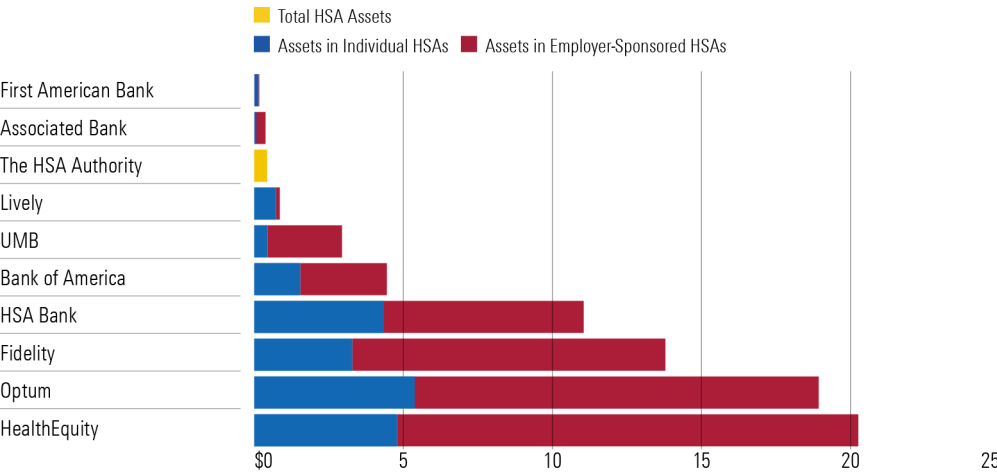
In the average PPO, an employee spent an additional \$1,299 in premiums to avoid a potential \$1,705 in extra out-of-pocket expenses. If the worker had chosen a HDHP and added the \$1,299 saved to the employer's HSA contribution, the employee would have had \$2,286, more than covering the difference between the PPO and HDHP deductibles. Depending on whether the family hit the higher or lower deductible, the employee who chose the PPO could have forfeited \$581 to \$2,286. Furthermore, if a HDHP plan family didn't need to spend \$4,705 in medical expenses that year, it kept a balance in the HSA.

This assumes, however, the family has no big medical expenses early in the year as it builds its HSA balance via the regular paycheck deferrals that typically fund HSAs. Then the family may have to pay out of pocket if it was new to HDHPs and HSAs or had not carried an HSA balance from previous years. Employees and individuals should consider these scenarios annually during open enrollment as they decide which healthcare plan works for their preferences and budget.

Considering Your Employer's Option

Since employer HSAs continue to garner the lion's share of industry assets, participants should also regularly compare their employer-sponsored plans to those available to individuals discussed in Part II. Exhibit 6 outlines the split between employer and individual plan assets by providers surveyed (The HSA Authority did not provide the breakout between the two plans).

Exhibit 6 Assets in Individual and Employer Accounts (USD Billions)



Source: Morningstar, Inc. Data as of June 30, 2022. HealthEquity assets as of April 30, 2022. The HSA Authority only provided total assets.

If you don't like your 401(k), you can't roll it over into a new plan, and moving it into an IRA is difficult and costly. HSA assets are more portable. Participants can periodically transfer or roll over their HSA deposits and employer contributions from their workplace plans to outside options without changing employers. So, it makes sense for participants to evaluate their workplace HSAs and, if they are subpar, shop for better, supplementary retail options. Our HSA assessments methodology can help.

HSA transfers are not taxable if the money stays in HSAs, though some providers charge transfer fees. This tactic requires more hands-on management, but the cost savings could be worth it. Exhibit 7 shows HSA transfer options.⁴

Exhibit 7 HSA Transfer Options

Method	Account Funding	Transfer Mechanism	Tax Implications	Frequency
Transfer	Payroll Deduction	Provider-->Provider	No	As needed
Rollover	Payroll Deduction	Provider-->Employee-->Provider	Potentially	Once every 12 months
Self	Self-Funded	Employee-->Provider	Yes	As needed

Source: Morningstar.

4 Don't Settle for a Subpar Health Savings Account

Exploring the Flexible Use Cases

HSA have many uses. They can be used for current, expected and unexpected, healthcare needs, longer-term investing and saving, and varied combinations of both. The right balance between spending and investing depends on individual preferences, but investing HSA assets for the long term has advantages for those who can cover at least a portion of their healthcare costs out of pocket.

HSA reimbursement guidelines are flexible and attractive. Users do not need to time their account withdrawals with their medical expenses, as long as they have prior, unreimbursed healthcare costs. For instance, an HSA account owner who has a 2006 receipt for an \$1,000 out-of-pocket medical expense can use the HSA for a tax-free reimbursement in 2022. So, savvy HSA users can use the accounts as catch-all emergency reserves for any expense provided they have countervailing out-of-pocket medical expenses somewhere.

HSA's tax treatment makes them attractive investment vehicles. While they were created for healthcare savings, the IRS does not penalize those who save more than their medical costs, and taxes withdrawals made after age 65 like those from traditional IRA/401(k)s. There are some caveats. There is a 20% tax penalty—plus income tax—on HSA withdrawals made before age 65 that aren't tied to healthcare costs. That's a bigger potential penalty and higher age criteria than the IRS' 10% charge on 401(k) withdrawals made before age 59½. HSAs also lose some tax appeal if anyone but the account owners' spouses inherit them: Their distributions become taxable. So, it makes sense for retirees to tap their HSAs before other retirement accounts after age 65, especially if they can link them to unreimbursed medical costs.

Building an Investment Plan

HSA use affects HSA investment strategy. Consider two investors with the same risk profiles and investment preferences. They should have similar retirement account allocations. One may be tapping the HSA for ongoing expenses while the other is using it for long-term savings. Those are very different investment time horizons and goals that demand different approaches.

The Bucket Approach

A [portfolio bucket approach](#), such as the one Morningstar director of personal finance Christine Benz has proposed, could work in HSAs. It entails divvying assets into three needs-based "pails" that can segregate HSA ready spending money from longer-term investing assets. Money for near-term expected healthcare expenses goes in very conservative cash, money markets, and short-term bonds. Dollars not needed for the next seven to 10 years are stashed in higher-quality bonds. Anything you put away for more than a decade can go into more-aggressive equities.

This approach simplifies and streamlines portfolio allocation. It also gives savers a framework for annually reviewing and rebalancing their portfolio, either by shifting assets among buckets or using fresh contributions to replenish those in most need. As savers enter their drawdown phases, they can draw on the buckets methodically over time, starting with stocks and followed by the higher-quality bonds.

One-Stop Shop

For those who do not want to manage multiple funds in multiple buckets in another investment account, balanced and target-risk strategies, such as the Vanguard LifeStrategy series, are simple, one-stop alternatives. All providers offer versions of the strategies that typically include stocks and bonds. They are good for intermediate to long-term money. Investors still may need to shift money between them and cash for immediate needs, but the strategies' managers take care of the asset allocation and rebalancing. They afford savers less ability to build up or draw down individual buckets—short-term first, then high-quality bonds, then equities on the way up, vice versa when on the way down—because they invest or redeem money proportionally across asset classes. But allocation strategies offer better growth opportunities for those building up HSA balances.

Investing for the Long Haul

For those planning to use HSAs for long-term saving, reproducing their 401(k)'s or IRA's allocation would seem like the easiest method, but it's too simplistic. Investors cannot touch most retirement accounts before age 59 1/2 without incurring penalties and taxes, while they can tap HSAs at any time for medical expenses or any other emergency funding (provided the user kept unreimbursed medical receipts) at any moment.

Consider a 40-year-old saver with a \$14,000 HSA account (roughly the average investing account balance). With 25 years to retirement, conventional wisdom would prescribe an aggressive approach with more in equity or a longer-dated target date fund for the investor. While that is true for retirement, it isn't for healthcare savings. Investors often must call on the latter sooner or at unpredictable times, so they are more sensitive to bear markets. Exhibit 8 shows the impact some recent market selloffs would have had on the \$14,000 balance if it were all in longer-term investments.

Exhibit 8 Balancing Risk Profile and Tolerance With Potential HSA Needs

Fund Name	Ticker	Morningstar Analyst Rating	Equity Target (%)	2018 Q4 Selloff Sept. 18 – Dec. 24		2020 COVID Turmoil Feb. 20 – Mar. 23		2022 Inflation Concerns Jan. 1 – June 30	
				Return (%)	Ending Balance (\$)	Return (%)	Ending Balance (\$)	Return (%)	Ending Balance (\$)
Vanguard 500 Index	VFIAX	Gold	100	-19.4	11,287	-33.8	9,268	-20.0	11,203
Vanguard Target Retirement 2050	VFIFX	Silver	90	-16.2	11,734	-31.3	9,612	-19.1	11,331
Vanguard LifeStrategy Growth	VASGX	Gold	80	-14.3	11,995	-28.5	10,006	-18.2	11,453
Vanguard LifeStrategy Moderate Growth	VSMGX	Gold	60	-10.5	12,524	-22.4	10,859	-16.2	11,730
Vanguard LifeStrategy Conservative Growth	VSCGX	Gold	40	-6.6	13,072	-15.9	11,777	-14.2	12,010
Vanguard LifeStrategy Income	VASIX	Gold	20	-2.6	13,640	-8.9	12,750	-12.1	12,299

Source: Morningstar Direct.

One lesson is don't be a forced seller. Avoid tapping HSA balances during market downturns because doing so depletes reserves and principal that could compound when the markets recover and over the long term. Another lesson: It's OK to use a retirement plan allocation as a starting template for an HSA, but then you should consider dialing down the equity risk.

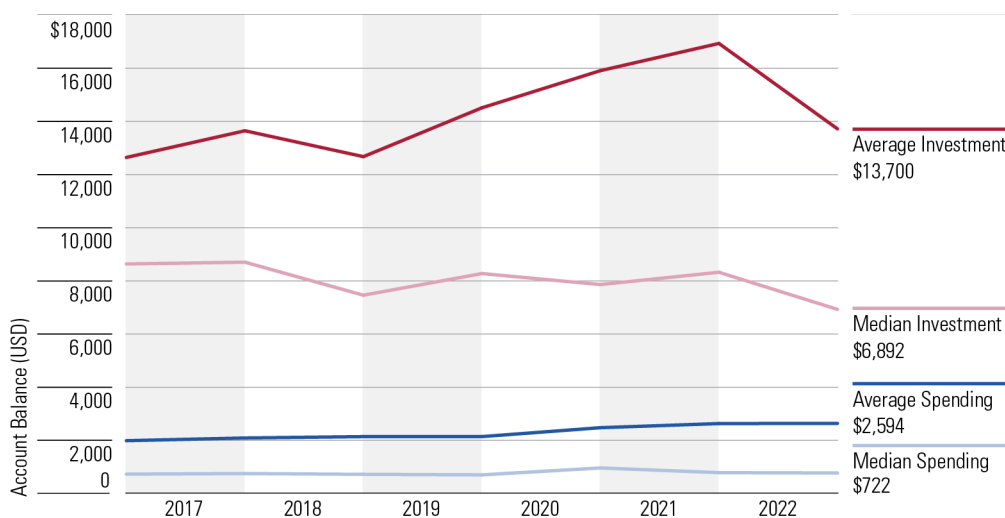
Providers and Regulators Have Room for Improvement, Too

Considerable administrative burden limits HSA promotion and adoption. While regulators allow employers to contribute to their employees' HSAs, they have not ruled on whether employers can automatically enroll employees in the plans.⁵

This contrasts with the government's stance on employer-sponsored retirement plans. It defines, approves, and even promotes auto-enrollment in workplace retirement plans.⁶ Employees have to opt out of most employer-sponsored retirement plans if they don't want to participate. This has a dramatic impact on savings behavior. A recent Vanguard analysis⁷ showed plans with auto-enrollment had a 92% participation rate, versus 62% for those with voluntary enrollment.

Switching HSA contributions to a default option likely would increase employee participation but would not close the chasm between those using HSAs as investment vehicles and those treating them like a healthcare checking account, as Exhibit 9 shows.

Exhibit 9 Average and Median Investing and Spending Account Balances (USD)



Source: Morningstar, Inc. Data as of June 30, 2022.

The average investing account balance is more than five times larger than the average spending account. Yet only 9% of users utilize the investing feature of HSAs, according to our surveys. Further, only a very small portion of users have maximized the triple tax benefit of HSAs, as evidenced by the significantly smaller median plan balance.

Part of the issue is investor awareness. Savers must explicitly opt for the investment vehicle at most providers, rather than both spending and investing accounts opening at account inception. HSA

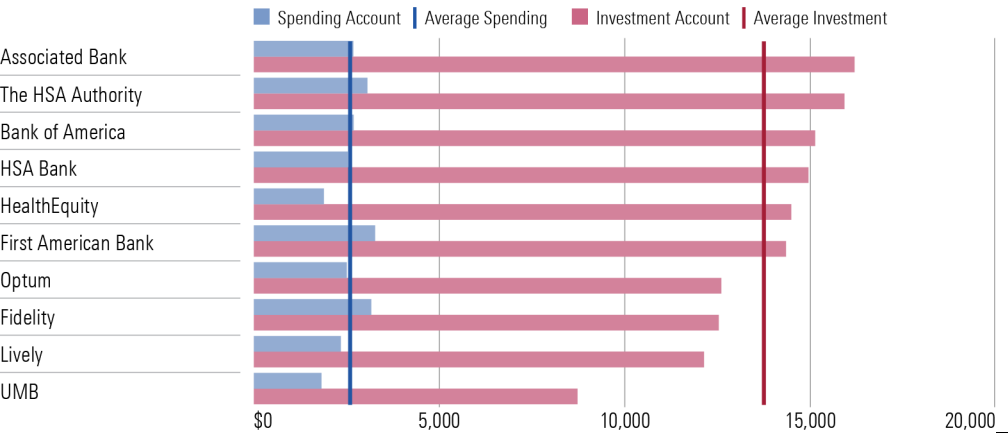
⁵ [How to make sure an HSA avoids ERISA](#)

⁶ [IRS Retirement Topics - Automatic Enrollment](#)

⁷ [Vanguard How America Saves 2021](#)

providers should streamline account opening (ideally opening both spending and investing accounts at inception), outline the process for transferring assets between the two, and regularly surface the benefits of investing HSA dollars. Bank of America, Fidelity, and Lively, for instance, offer relatively robust tools and guidance, which helps explain the higher adoption of investment vehicles on their platforms.

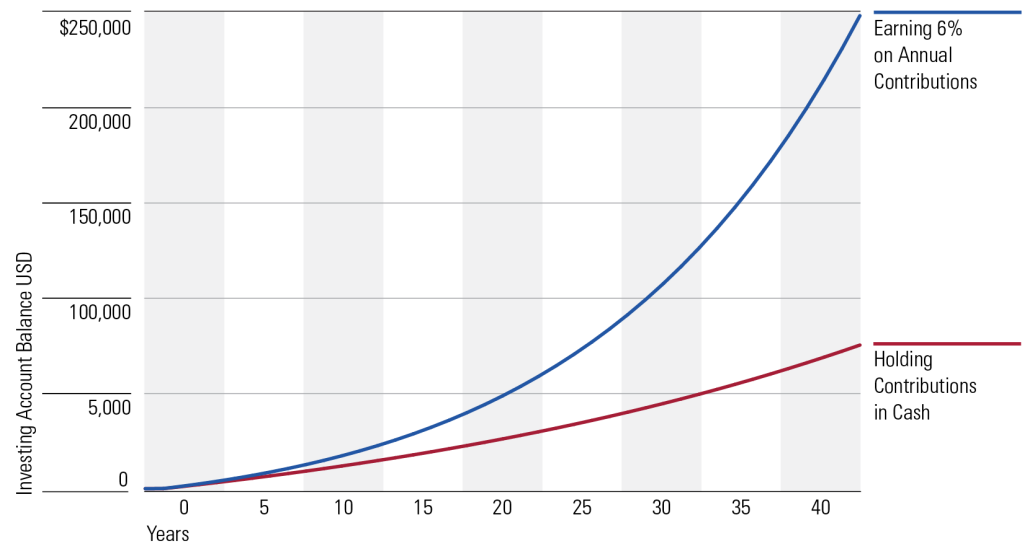
Exhibit 10 Average Account Balances (USD)



Source: Morningstar, Inc. Data as of June 30, 2022. HealthEquity assets as of April 30, 2022.

Yet opening and funding an investment account is not enough; investors need to then make explicit investment elections, both at inception and for ongoing contributions. Again, regulators should consider porting over the relevant guidance and policies on retirement savings plans. Not only does the government recommend default savings rates for employer-sponsored retirement plans, it also allows employers to automatically place those deferrals into sensible investments. Specifically, the government encourages employers to invest default contributions into allocation or target-date strategies that align with the employee's risk profile.⁸ Consider Exhibit 11, which outlines the growth of an HSA investing account that receives half of an annual \$2,000 contribution (which grows at 3% annually) and compounds at 6%, versus the same deferral amount sitting in cash earning 0.05% interest.

⁸ US Department of Labor: Regulation Relating to Qualified Default Investment Alternatives in Participant-Directed Individual Account Plans

Exhibit 11 The Long-Term Benefits of Compounding

Source: Author's calculations.

Studies have shown default deferrals and investments significantly influence participant behavior and retirement savings.⁹ Fewer employees choose to participate in the plan or in invest in the default strategy on their own, but they stick with them if plans are the default option.

HSA industry dynamics, however, make effecting these changes more cumbersome. While investors can put dollars in employer-sponsored retirement plans to work immediately, some HSA providers require savers to hit specific balances in spending accounts before allowing them to invest. Morningstar has long pushed providers to eliminate investment thresholds and allow immediate investment, but the U.S. Department of the Treasury could move to eliminate investment thresholds entirely.

Finally, the government should consider aligning HSAs' early withdrawal policies with those of other retirement plans. Some users may be hesitant to prioritize HSAs because of their harsher early withdrawal penalties (20% versus 10% for other retirement plans) and higher age limit. Yet dropping the penalty to 10% and reducing the retirement age could have a negligible impact on government revenue given the relatively small size of the HSA industry and the fact that the lower age might encourage users to take more taxable distributions earlier.

In summary, more savers should take advantage of HSAs and their investment option; providers should lower fees, eliminate investment thresholds, and make investment accounts more accessible; and regulators should allow employers to auto-enroll employees that opt for HDHPs into HSAs, then auto-invest HSA contributions by default, and level the difference between HSA and retirement plan withdrawal penalties.

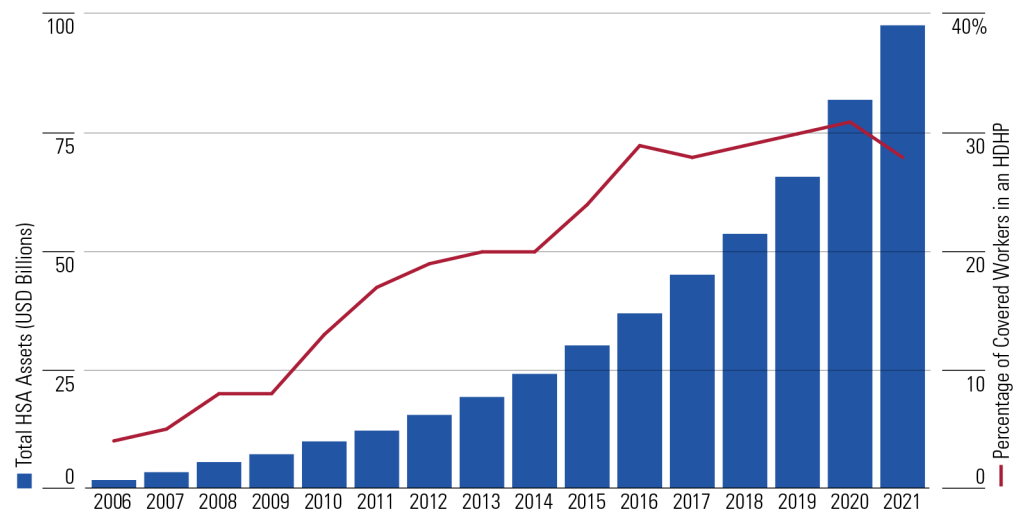
⁹ The Power of Suggestion: Inertia in 401(k) Participation and Savings Behavior: Madrian and Shea

Part II: Providers

Assets and Growth Trends

HSAs and HDHPs have a symbiotic relationship. HSAs were created in 2003 with the express goal of facilitating adoption of HDHPs. HDHP adoption is a leading indicator for HSA asset growth as fresh enrollees build up plan balances by saving, investing, or both. The rapid adoption of HDHPs has helped grow the still-young HSA industry. In 2021, 28% of covered workers opted into a HDHP, up from 4% in 2006. HSA assets swelled to \$98 billion at year-end 2021—a 31% annualized growth rate over the past 15 years.

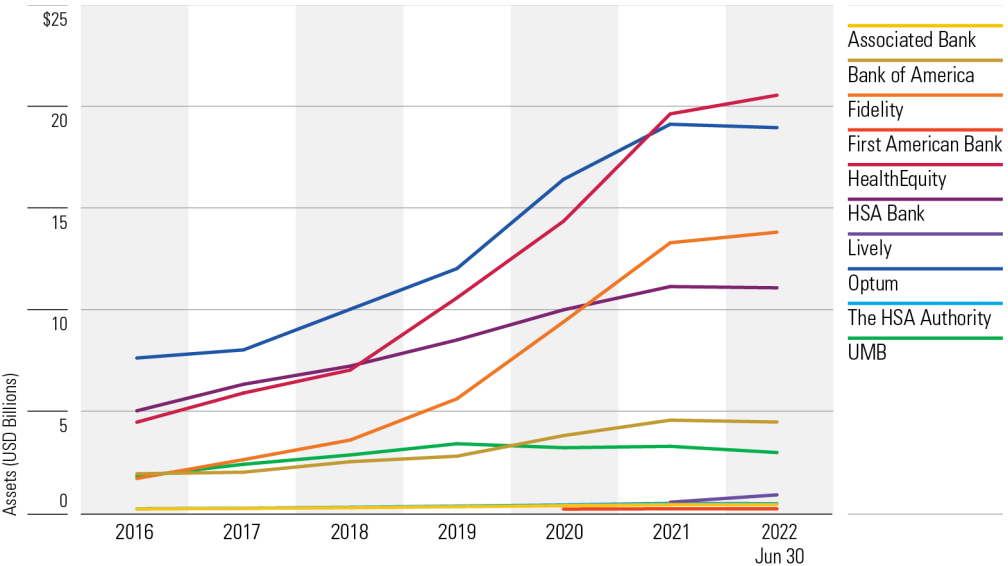
Exhibit 12 Growth of HSA Assets and Percentage of Covered Workers With a High-Deductible Health Plan



Source: Devenir and Kaiser Family Foundation Employer Health Benefits 2021 Annual Survey. Data as of Dec. 31, 2021.

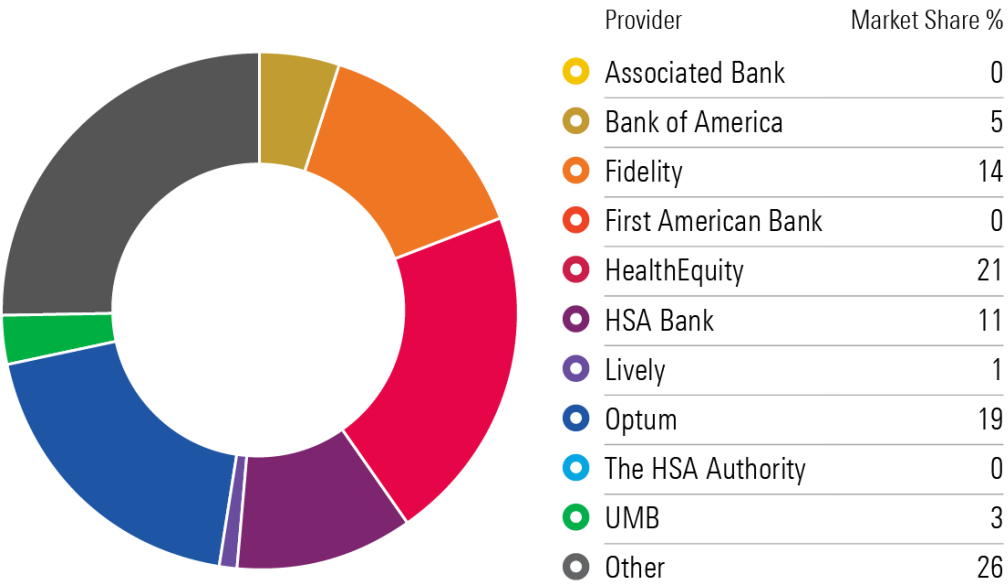
A quartet of providers continue to dominate the market, though the group has been shaken. As of June 2022, HealthEquity, Optum, Fidelity, and HSA Bank had about \$64 billion in assets combined—nearly two thirds of the total HSA market. HealthEquity overtook Optum at year-end 2021 as the industry's largest provider and widened its lead in 2022's first half. And Fidelity's move to offer accounts to individuals in 2018 has paid off: It took third place from HSA Bank earlier this year. Exhibit 13 illustrates the growth of the 10 HSA providers in this report.

Exhibit 13 Total HSA Assets by Provider (USD Billions)



Source: Morningstar, Inc. Data as of June 30, 2022. HealthEquity assets as of July 31, 2022.

Exhibit 14 HSA Market Share Breakdown



Source: Morningstar, Inc., Devenir. Data as of June 30, 2022. HealthEquity assets as of July 31, 2022.

Industry growth and market appreciation explain most of the increase since Morningstar first started monitoring HSAs, though there has been much consolidation, too. Exhibit 15 shows some of notable recent acquisitions.

Exhibit 15 Notable Acquisitions in Recent Years

Date	Acquirer	Acquiree	HSA Assets (\$USD Billions)
8/30/2019	HealthEquity	WageWorks	1.7
9/29/2021	HealthEquity	Fifth Third HSA portfolio	0.491
11/1/2021	HealthEquity	Further	1.9
2/18/2022	HSA Bank	Bend	.017*
3/2/2022	HealthEquity	HealthSavings HSA portfolio	1.3
6/1/2022	Millennium Trust	PayFlex	3.7*

Source: Corporate Filings.

* As of June 2021.

Spending Account Analysis

Strong spending accounts share many of the same characteristics as attractive savings and checking accounts:

- ▶ Competitive interest rates on deposits.
- ▶ No maintenance fees.
- ▶ Limit or eliminate hidden additional fees.
- ▶ Offer FDIC insurance.

Summary of Spending Account Assessments and Changes

While HSAs may provide unmatched tax advantages for investors, most account holders use them to fund current healthcare spending.

Most HSA providers require account holders to reach and maintain minimum account balances before allowing them to invest. Our sample of industry providers showed a wide range in the proportion of account holders that have chosen to invest. At Fidelity, for example, one in five HSA users invest, while one in 29 do at the HSA Authority.

Evaluating the quality of HSA spending account features is critical. The characteristics of a strong HSA spending account are similar to those of good checking and savings accounts: Low-to-no maintenance fees, minimal hidden or additional fees, and competitive interest rates.

Interest rates were not a differentiating factor among HSA spending accounts when interests hovered near zero in the past decade, but they have become more important as rates have risen in the past year. As shown in Exhibit 16, in 2022 we downgraded the overall Spending Account assessments of four HSA providers. As a result, only Fidelity's spending account earns a High overall assessment.

Exhibit 16 Morningstar Assessments of HSAs as Spending Accounts

Provider	Overall	Score	Maintenance Fee	Score	Interest Rate	Score	Additional Fees	Score
Fidelity	High	5.0	High	5	High ↑	5	High	5
First American Bank	Above Average	4.4	High	5	Average	3	Average	3
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Associated Bank	Average	2.7	Average	3	Below Average ↓	2	Above Average	4
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↑ = Upgrade since last year, ↓ = Downgrade since last year.

Source: Morningstar, Inc. Assessments as of Aug. 31, 2022. Note: High or Above Average assessments for Maintenance Fee and Additional Fees indicate attractive fees, while Low or Below Average assessments indicate unattractive fees. Additional Fees score is listed above for investors' convenience but are not considered in the overall assessment.

Differences in interest rates drove the changes. No other offering approached Fidelity's 1.19%. HSA Bank's 0.50% ranked second, but it paid it only on accounts with balances of more than \$50,000.

Maintenance and other additional fees also play important roles in spending account quality. With neither maintenance nor additional hidden fees, Fidelity cemented its place as the industry's low-cost leader. First American Bank received an inaugural Above Average Assessment as it does not levy a maintenance fee. Optum recently lowered its maintenance fee, to \$33 from \$45 annually, bringing it in line with other HSA providers that charge similar fees. We reintroduced UMB, which was last covered in 2019, and its \$35.40 yearly maintenance fee has not changed.

Methodology

Three factors drive the quality of HSA spending accounts: interest rates, maintenance fees, and additional fees. Exhibit 17 details the scoring and weighting criteria we used.

Exhibit 17 Spending Account Methodology Framework

	Criteria Evaluated	Best Practices	Scoring Framework	Weight
Maintenance Fees	Does the provider charge a monthly fee and waive it when assets hit a certain threshold? If so, does it waive all or part of the fee when assets reach a certain threshold?	Providers do not charge a maintenance fee regardless of the account's balance.	High: No maintenance fee. Above Average: A maintenance fee less than \$50 per year that's waived once assets reach \$2,000. Average: A maintenance fee less than \$50 per year that's waived once assets reach \$5,000. Below Average: A maintenance fee less than \$50 per year that's never waived or only waived once assets exceed \$5,000. Low: A maintenance fee of \$50 or more per year that's never waived or only waived once assets exceed \$5,000.	70%
Interest Rate	What interest rates do providers offer on varying account balances?	The account's assets earn a reasonable interest rate.	Interest-rate scores are determined based on a provider's interest-rate schedule. Interest-rate scores are more subject to change year over year because it is a relative rank to other HSA providers in our report. We also compared interest rates offered by each provider with the average national savings account interest rate.	30%
Additional Fees	Does the provider levy other fees, such as for excess contributions or paper statements?	Providers do not have any one-off fees.	High: No additional fees. Above Average: One to five additional fees. Average: Six to 10 additional fees. Below Average: Eleven to 15 additional fees. Low: Sixteen-plus additional fees.	0%
Overall Assessment	Our evaluations are limited to offerings with FDIC insurance. The HSA industry remains young, and FDIC insurance gives us—and participants—confidence that healthcare spending dollars are protected from a catastrophic event at the provider.		Score = (0.7*Maintenance Fee score) + (0.3*Interest Rate score)	

Source: Morningstar, Inc.

In the past year, we've updated these factors' weighting. Maintenance fees now account for 70% of a spending account's overall assessment, down from 100%, while interest rates make up 30%. As rates have risen, interest earned on spending account cash balances has become more important.

Additional fees still get a 0% weighting, because they are avoidable or infrequent. Less than 1% of HSA users pay any of these charges.

These factors' weights may change in the future as the HSA landscape evolves.

High Assessments

With no maintenance fees, no additional fees, and the highest interest rate paid on cash balances, **Fidelity** is the sole HSA provider with a High Spending Account assessment. Fidelity pays its 1.19% interest on HSA users' entire balance, unlike other providers that sometimes pay higher rates when users reach certain account balances. Still, no one pays even half as much as Fidelity.

Above Average Assessments

Five providers—**First American Bank**, **HealthEquity**, **HSA Bank**, **Lively**, and **The HSA Authority**—earn Above Average Spending Account assessments. All but the newly covered First American Bank were downgraded from last year. None of them charges maintenance fees, but their interest rates are wanting. First American and HSA Bank, however, do pay marginally higher rates than those of their peers, especially on smaller plan balances.

Average Assessments

Optum and **Associated Bank** retain their prior year's assessments. Optum decreased its maintenance fee in the past year, to \$33 annually from \$45, and now waives it on account balances of \$2,000 instead of \$5,000. Still, its meager 0.01% interest rate holds it back. Associated account holders must meet a \$2,500 minimum balance to avoid its \$36 yearly maintenance fee, and the bank also pays a tiny interest rate. **UMB** waives its \$35.40 yearly maintenance fee only when account balances reach \$3,000 and pays interest rates that start at 0.01% and move up a little for higher balances.

Below Average Assessments

Bank of America gets the same score as last year because it charges account holders a \$30 yearly maintenance fee regardless of account size. While it provides somewhat higher interest rates on higher balances, the typical account holder earns just 0.01% annually.

Low Assessments

Similar to 2021, no HSA provider earns a Low Spending Account Assessment.

Supporting Details

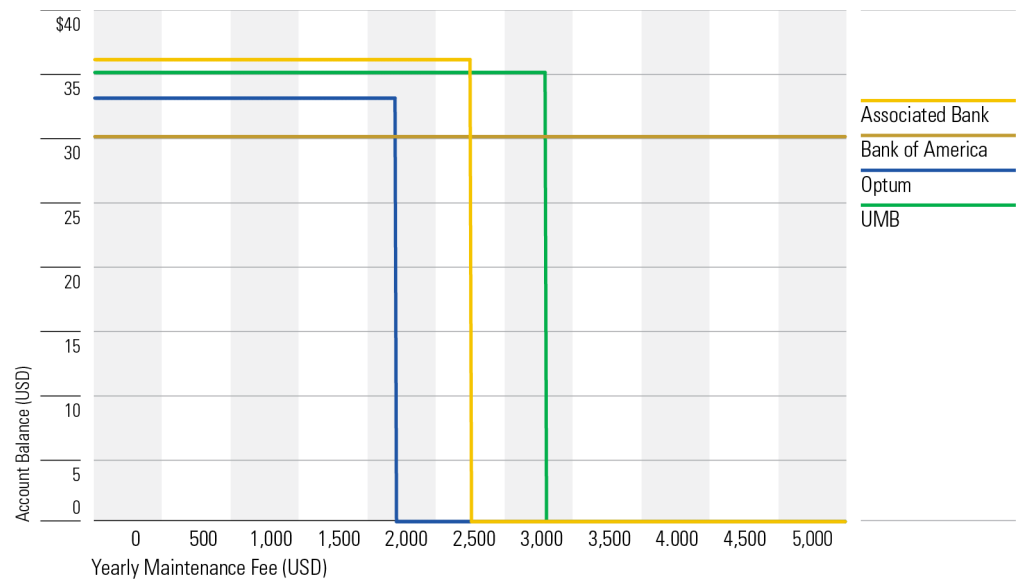
Maintenance Fees

Best Practice

The best HSA providers don't charge maintenance fees regardless of account size.

HSA providers' maintenance fees are often charged monthly. Exhibit 18 annualizes these fees, illustrating how they change as account sizes grow. In the past year, Optum decreased its annual fee (to \$33 from \$45) and also decreased the account size qualifying for a waiver (to \$2,000 from \$5,000).

Exhibit 18 Annual Maintenance Fees on Different Account Balances



Source: Morningstar, Inc. Fees received from the providers or pulled from their website. Data as of Aug. 31, 2022. Note: The following have been excluded because they do not charge a maintenance fee: Fidelity, First American Bank, HealthEquity, HSA Bank, Lively, and The HSA Authority.

Interest Rates

Best Practice

With interest rates increasing, topnotch HSA providers pay interest rates that increase with market shifts.

So far, Fidelity has been the sole HSA provider to adjust its interest rates with changing market rates and the only one whose rates are higher than the average national savings account rate of 0.17%¹⁰ across all account balances. Other providers increase rates for higher account balances, though none come close to Fidelity's. First American's highest rate of 0.25%, for example, requires a \$100,000 spending account balance. Exhibit 19 shows each provider's rates schedule.

10 FDIC National Rates and Rate Caps. As of Sept. 19, 2022.

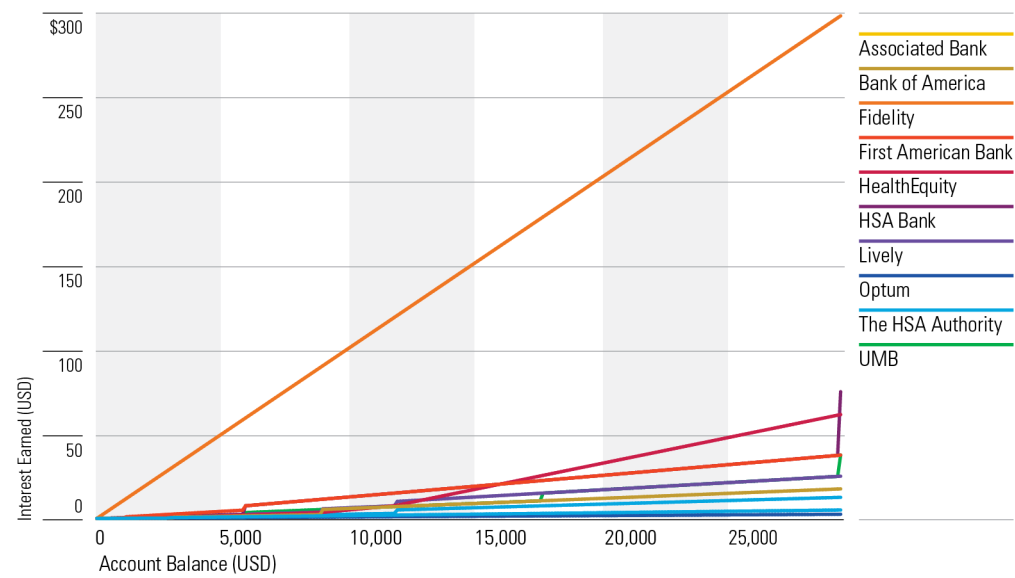
Exhibit 19 Interest-Rate Assessments

Provider	Assessment	Interest Schedule Type	Interest Rate Schedule					
Fidelity	● High	Entire Balance	1.19%					
			\$1					
First American Bank	● Average	Entire Balance	0.05%	0.10%	0.15%	0.20%	0.25%	
			\$1	\$1,000	\$5,000	\$50,000	\$100,000	
HSA Bank	● Average	Entire Balance	0.05%	0.15%	0.30%	0.50%		
			\$1	\$5,000	\$25,000	\$50,000		
Associated Bank	● Below Average	Entire Balance	0.01%	0.02%	0.02%	0.02%		
			\$1	\$2,500	\$7,500	\$15,000		
Bank of America	● Below Average	Entire Balance	0.01%	0.03%	0.07%			
			\$1	\$2,500	\$7,500			
HealthEquity	● Below Average	Progressive	0.01%	0.06%	0.16%	0.36%		
			\$1	\$2,000	\$7,500	\$10,000		
Lively	● Below Average	Entire Balance	0.01%	0.03%	0.05%	0.08%	0.10%	
			\$1	\$2,501	\$5,001	\$7,501	\$10,001	
Optum	● Below Average	Progressive	0.01%	0.01%	0.01%	0.01%	0.01%	0.01%
			\$1	\$500	\$1,000	\$2,000	\$5,000	\$15,000
The HSA Authority	● Below Average	Entire Balance	0.01%	0.03%	0.05%			
			\$1	\$5,001	\$10,001			
UMB	● Below Average	Entire Balance	0.01%	0.07%	0.10%	0.15%		
			\$1	\$5,000	\$15,000	\$25,000		

Source: Morningstar, Inc. Interest rates received from the providers or pulled from their websites. Data as of Aug. 31, 2022. HSA Bank and Lively's interest-rate schedules go into effect on Oct. 1, 2022.

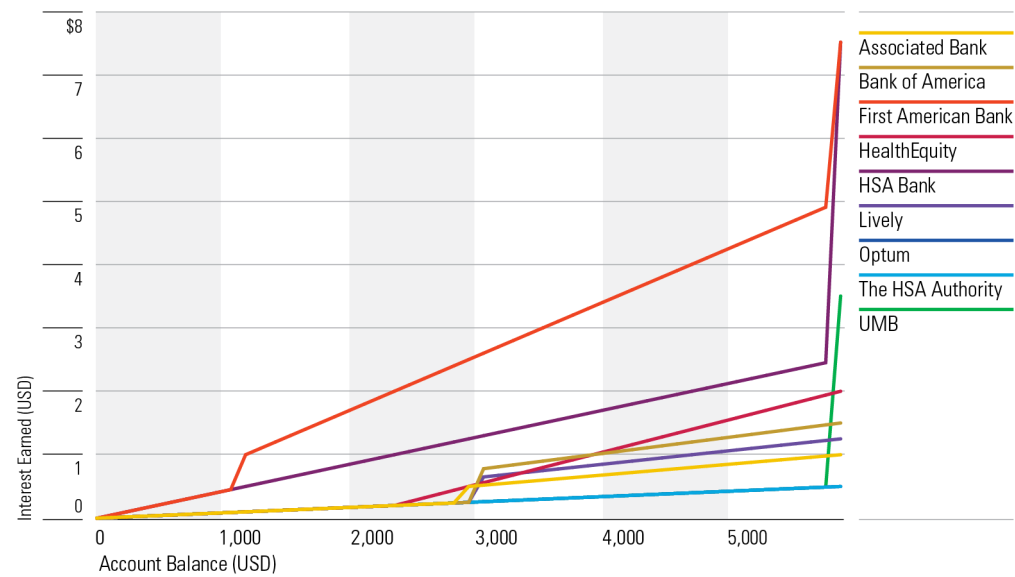
Exhibit 20 shows the interest earned on balances up to \$25,000 (the average HSA spending account balance is roughly \$2,000). Given Fidelity's much higher rate, Exhibit 21 excludes Fidelity and shows the interest earned on balances up to \$5,000 to better differentiate among providers paying lower rates on more-typical account balances. Among this group, First American and HSA Bank are the next best options after Fidelity.

Exhibit 20 Interest Dollars Earned on Different Account Balances



Source: Morningstar, Inc. Interest rates received from the providers or pulled from their websites. Data as of Aug. 31, 2022. HSA Bank and Lively's interest-rate schedules go into effect on Oct. 1, 2022.

Exhibit 21 Interest Dollars Earned on Different Account Balances, Excluding Fidelity



Source: Morningstar, Inc. Interest rates received from the providers or pulled from their websites. Data as of Aug. 31, 2022. HSA Bank and Lively's interest-rate schedules go into effect on Oct. 1, 2022.

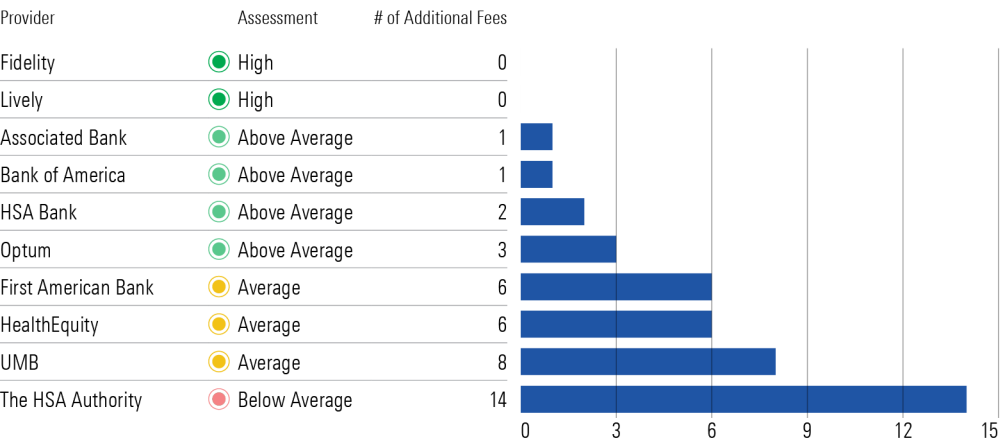
Additional Fees

Best Practice

Top providers limit or eliminate additional fees.

Exhibit 22 summarizes the additional fees that HSA providers can charge. They include, for example, the \$25 account transfer fee Bank of America charges to transfer an HSA to another custodian. Neither Fidelity nor Lively charge any of these additional fees. The HSA Authority's users, in contrast, could pay up to 14 of them.

Exhibit 22 Number of Additional Fees



Investing Account Analysis

Investors benefit when HSAs follow these best practices:

- ▶ Offer investment strategies in all core asset classes while limiting overlap.
- ▶ Provide strong investment strategies that earn Morningstar Medals.
- ▶ Charge low fees for active and passive strategies.
- ▶ Don't require investors to keep money in spending accounts before investing.

Summary of Investing Account Assessments and Changes

Spending accounts comprise most HSA accounts and assets, but investing accounts realize the vehicles' potential. While just 9% of HSA accounts had made investment elections across the providers surveyed, investing account assets accounted for over 36% of total assets.

Constructing an HSA investment account is like building a retirement plan; it should consider investor needs and psychology. Providers can offer a vast array of investment options, but more is not always better. Too many choices can lead to decision paralysis.

So, providers should offer compact, yet diverse investment lineups of high-quality strategies at the lowest possible prices, regardless of whether they are active or passive. Yet providers should not make investors maintain minimum spending account balances to invest.

The endless combination of investment options and account features can make HSAs difficult to navigate. As shown in Exhibit 23, only Fidelity has struck the right balance and remains the only provider with a High overall Investment Account assessment. Three providers earn Above Average assessments: HealthEquity, Lively, and The HSA Authority, all upgraded from Average this year.

Exhibit 23 Morningstar Assessments of HSAs as Investment Accounts

Provider	Overall	Score	Menu Design	Score	Quality of Investments	Score	Price	Score	Investment Threshold	Score
Fidelity	High	4.6	Above Average	4	Above Average	4	High	5	High	5
HealthEquity	Above Average ↑	4.2	Average	3	Above Average	4	High ↑	5	Above Average	4
Lively	Above Average ↑	4.0	High	5	Above Average	4	Average ↑	3	High	5
The HSA Authority	Above Average ↑	3.8	Below Average	2	Above Average	4	Above Average ↑	4	High	5
Associated Bank	Average ↓	3.4	High	5	Above Average	4	Below Average ↓	2	Above Average ↑	4
Bank of America	Average ↓	3.2	Average	3	Above Average	4	Average ↓	3	Average	3
HSA Bank	Average	3.2	Average	3	Above Average	4	Average	3	Average	3
First American Bank	Average	3.0	Below Average	2	Above Average	4	Average	3	Average	3
Optum	Average ↑	3.0	Average	3	Above Average	4	Below Average ↑	2	Above Average ↑	4
UMB	Average	2.8	High	5	Above Average	4	Low	1	Average	3

↑ = Upgrade since last year, ↓ = Downgrade since last year.










Source: Morningstar, Inc. Assessments as of Aug. 31, 2022. Note: High or Above Average assessments for Maintenance Fee and Additional Fees indicate attractive fees, while Low or Below Average assessments indicate unattractive fees. A High assessment for Investment Threshold indicates no investment threshold exists, while a Low assessment indicates an investment threshold of \$2,000.

Changes to the Price methodology discussed below account for most of the assessment changes. Notably, Bank of America and Associated Bank were both downgraded to Average from Above Average because of a drop in their Price scores. Optum was upgraded to Average from Below Average owing to improvements in both their Price and Investment Threshold scores. First American Bank receives an inaugural Average assessment. UMB's strength is its menu design, but it has the worst price tag among providers, leading to an Average assessment. For the first year since Morningstar began covering HSAs, no provider received an overall Below Average Investment Account assessment, indicating improvement among the largest providers' offerings.

Methodology

Exhibit 24 outlines our criteria for evaluating investment accounts and how their scores were calculated.

Exhibit 24 Investment Account Methodology Framework

	Criteria Evaluated	Best Practices	Scoring Framework	Weight												
Menu Design	The asset classes available to investors through the investment menu.	Offer investment strategies in all core asset classes while limiting overlap among options.	<p>High: Covers all the core asset classes and offers essentially no overlap.</p> <p>Above Average: Leaves modest room for improvement, such as overlap in several asset classes or the presence of one niche fund.</p> <p>Average: Overlap across the menu and/or more than one niche sector strategy available.</p> <p>Below Average: Large lineups with excessive overlap and/or multiple niche funds available.</p> <p>Low: An overwhelming amount of options that makes the menu very difficult to navigate.</p>	20%												
Quality of Investments	A forward-looking assessment of how the funds in the investment menu will perform.	Provide strong investment strategies that earn Morningstar Medals.	<p>Utilizing Morningstar Analyst Ratings and Morningstar Quantitative Ratings, we created a numerical scale to calculate an Average Quality Score.</p> <table><tr><td>Score</td><td>5</td><td>4</td><td>3</td><td>2</td><td>1</td></tr><tr><td>Rating</td><td> Gold</td><td> Silver</td><td> Bronze</td><td>Neutral</td><td>Negative</td></tr></table> <p>Scores correspond to the following ratings:</p> <p>High: 4.50 to 5.00</p> <p>Above Average: 3.50 to 4.49</p> <p>Average: 2.50 to 3.49</p> <p>Below Average: 1.50 to 2.49</p> <p>Low: 0 to 1.49</p>	Score	5	4	3	2	1	Rating	 Gold	 Silver	 Bronze	Neutral	Negative	20%
Score	5	4	3	2	1											
Rating	 Gold	 Silver	 Bronze	Neutral	Negative											
Price	The total cost imposed on an investor, including maintenance fees, investment fees, and underlying fund fees.	Charge low fees for both active and passive strategies.	Price scores are determined based on a provider's total fees (including underlying fund fees, maintenance fees, and investment fees). We converted dollar-based fees to percentage terms, assuming an investment account balance of \$14,000 and a spending account balance of \$2,000. Then we calculated the average expense ratio of all strategies offered by a provider--counting one target-date fund per series where offered--to determine the underlying fund fee. Price scores are more subject to change year over year because it is a relative rank to other HSA providers included in our report.	40%												
Investment Threshold	The amount of money required to be kept in an investor's spending account prior to putting dollars toward investments.	Don't require investors to keep money in the spending account before investing, which creates an opportunity cost.	<p>High: No investment threshold</p> <p>Above Average: \$500</p> <p>Average: \$1,000</p> <p>Below Average: \$1,500</p> <p>Low: \$2,000+</p>	20%												
Overall Assessment	Score = (0.2 *Menu Design score) + (0.2 *Quality of Investments score) + (0.4 *Price score) + (0.2 *Investment Threshold score)		<p>High ≥ 4.5</p> <p>Above Average = 3.5 < 4.5</p> <p>Average = 2.5 < 3.5</p> <p>Below Average = 1.5 < 2.5</p> <p>Low < 1.5</p>													

Source: Morningstar, Inc. Assessments as of Aug. 31, 2022.

Morningstar altered the price scoring methodology this year, which affected the overall assessments. We previously created three different hypothetical 60/40 portfolios—passive, active, and equal-weighted—using each provider's lineup, then analyzed the fees associated with those portfolios along with the usual maintenance, investment, and custodial fees. Yet, as discussed in Part I, there are myriad ways to use HSA investment accounts, and the previous methodology excluded many providers' pricier

funds. Instead, we've determined the underlying fee expense by calculating the average expense ratio of all strategies offered by each provider, with one exception: We counted target-date series as one strategy. That underlying fund figure is then combined with administrative fees and weighed using hypothetical account balances of \$2,000 in the spending account and \$14,000 in the investing account, which is similar to last year's assumptions and close to this year's surveyed average plan balances.

Menu Design

Best Practice

Providers should offer a sensible, easily navigable menu of funds that covers the core asset classes with minimal overlap.

The fund menu should enable investors to hold a well-diversified portfolio while avoiding niche or overlapping strategies. Many studies have shown that too many options lead to poor investment choices. So, providers should offer a best-in-class option for each asset class. For the core of most investors' portfolios, such as U.S. large-caps and intermediate-term bonds, offering an active and a passive option makes sense. They should also include an allocation fund for hands-off investors.

Exhibit 25 depicts the asset classes that we believe HSA lineups should include.

Exhibit 25 Investment Menu Design

Allocation

Target-Date Series	At least one
Target-Risk Series	
Other Allocation	

Equity

	Value	Blend	Growth
U.S. Large Cap	At least one		
U.S. Mid Cap	At least one		
U.S. Small Cap	At least one		
International Developed	At least one		
World Stock	At least one		
Emerging Markets	Optional		
Specialty Equity	Optional		

	Cash Equivalent / Short Term	Core	Specialty Fixed Income
Fixed Income	At least one	At least one	Optional
Alternatives / Other	Optional		

Source: Morningstar, Inc.

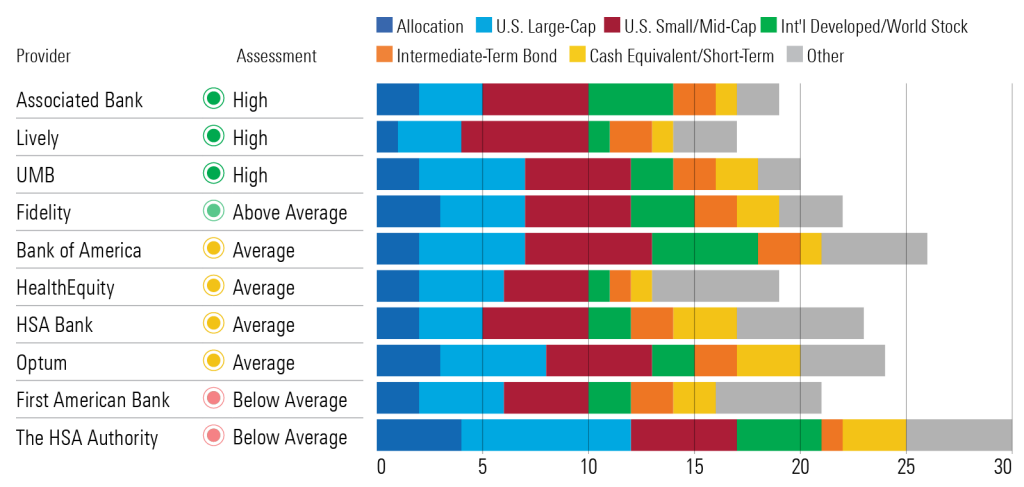
The ideal number of investment offerings is between 12 and 24. The providers we evaluate have improved their investment menus since our initial 2017 HSA Landscape report. Now, all have options in each of the core asset classes, and the number of offerings ranges from 17 (Lively) to 30 (The HSA

Authority)¹¹. There's still room, however, for providers to streamline their lineups, primarily in mid- and small-cap funds and among specialty funds.

Menu Design Assessments

Asset-class coverage and investment overlap determined menu design assessments. Providers receiving High assessments offer investment strategies in core asset classes and have few redundancies or niche strategies, such as sector funds. Above Average assessments often have more overlap and/or niche strategies. An Average assessment indicates the provider omits one core asset class or has moderate offering overlap. An overly large lineup or the omission of multiple core asset classes merits a Below Average or Low assessment. Exhibit 26 shows each provider's assessment and menu.

Exhibit 26 Menu Design Assessments



Source: Morningstar, Inc. Data as of Aug. 31, 2022. Note: A target-date series and a target-risk series each count as one option.

Over the past year, most providers made marginal changes, such as adding and/or removing one or two funds. These adjustments did not merit any menu design assessment changes.

High Menu Design Assessments

Associated Bank's lineup features well-regarded investment managers including American Funds, T. Rowe Price, and Vanguard, and offers plenty of passive and active options. It also includes simple and straightforward allocation funds. **Lively** offers a compact lineup that avoids overlap within asset classes. It includes strong options, such as the Vanguard LifeStrategy series and Pimco Total Return, which both earn Morningstar Analyst Ratings of Gold. It is one of two providers that does not include a target-date series, a drawback for investors using their HSA to save for healthcare costs in retirement. **UMB's** easy-to-navigate lineup offers each core asset class, including Vanguard's target-risk and Target Retirement series, and Gold-rated environmental, social, and governance option Parnassus Core Equity.

11 A target-date series and a target-risk series each count as one option.

Above Average Menu Design Assessments

Fidelity made small tweaks to its lineup this year after making positive changes in 2021. Like UMB, it includes Parnassus Core Equity but also mixes in non-U.S. ESG stock offering Calvert International Equity. Fidelity's menu has some overlap, though, including redundant active large-growth and mid-value strategies. It also offers Fidelity Health Savings, which aims to keep up with healthcare inflation.

Average Menu Design Assessments

Bank of America's large menu includes several redundancies. It reduced its small-cap funds to three from four, but two are still in the small-blend category. The plan also includes Pimco Commodity Real Return Strategy, which is too esoteric for an HSA. **HealthEquity's** almost all-index lineup, meanwhile, is compact but narrow. While it shortened the step between its target-date vintages to five years from 10, it continues to be in the minority by not offering a target-risk series. HealthEquity also includes Silver-rated ESG fund Vanguard FTSE Social. **HSA Bank** still offers all but the most conservative of Vanguard's four target-risk funds and Vanguard Target Retirement funds at 10-year increments rather than the industry standard of five years. The menu also has some overlap with two strategies in the foreign large-blend category. It inexplicably includes two real estate funds, though HSA Bank removed a niche healthcare sector fund this year. **Optum** includes three of the four Vanguard target-risk funds and the Schwab Target Index series at 10-year increments. Its relatively deep menu also has redundancies—two actively managed large-value and global large-stock blend strategies apiece—and esoteric choices like Vanguard Real Estate Index and Lord Abbott High Yield.

Below Average Menu Design Assessments

First American Bank includes the Vanguard Target Retirement series in 10-year increments and strategies in risky areas like emerging markets and high yield. It also offers specialized and complex options that might be hard for HSA investors to use well, such as Virtus Duff & Phelps Water, the only Negative-rated strategy offered by any provider, and Pimco All Asset, a Neutral-rated tactical allocation strategy. **The HSA Authority's** lineup, the largest and most redundant of any provider, offers eight large cap funds and comprises esoteric strategies, like derivative dependent Pimco StocksPLUS Small.

Low Menu Design Assessments

No HSA provider earns a Low Menu Design score.

Brokerage Window and Robo-Advisor Availability

Some providers also offer brokerage windows or robo-advisors. Brokerage windows appeal to do-it-yourself investors who seek specific funds or stocks. The windows that offer access to thousands of securities, however, also can overwhelm investors and lead to poor decisions or no decisions at all. Five of the 10 providers evaluated this year offer brokerage windows: Fidelity, First American Bank, HSA Bank, Lively, and Optum. Each of them comes at no additional cost and can help investors avoid paying an investment fee, but their utilization varies. More than half of the HSA investors at Fidelity, HSA Bank, and Lively select the brokerage window option while the other two have a less than 5% utilization rate.

Meanwhile, robo-advisors appeal to investors looking to outsource their HSA investment management and oversight. Robo-advisors come with additional costs—the median advisory fee among robo-advisors surveyed in Morningstar's 2022 Robo-Advisor Landscape was 0.30%¹²—and are difficult to evaluate given the plethora of portfolios offered based on a variety of risk tolerances and goals. It also is not clear if a robo-advisor's advice is better than that embedded in the well-rounded allocation and target-date options that each of the evaluated providers offers. The presence or absence of brokerage windows and robo-advisors does not affect menu design assessments.

Quality of Investments

Best Practice

Providers should include strong investment strategies that earn Morningstar Medals.

Providers continue to populate their investment menus with high-quality funds. All 10 providers surveyed earn Above Average assessments based on the Morningstar Analyst Ratings and Morningstar Quantitative Ratings of the funds available in each lineup. HealthEquity's mostly passive lineup earns the highest average score: More than 60% of its lineup earns Gold ratings.

First American Bank offers the Negative-rated Virtus Duff & Phelps Water, the lowest-rated fund in any lineup we evaluated. In the past year, Bank of America removed Negative-rated Nuveen Small Cap Value.

Utilizing a numerical scale, with 1 as Negative and 5 as Gold, the lineups score an average of 4.11. Funds Under Review were omitted from the Average Quality Score. Morningstar Medalists make up at least 88% of each lineup, up from 85% last year.

Exhibit 27 Quality of Investment Assessments

Provider	Assessment	Average Quality Score	Morningstar Medalist %				
			Gold	Silver	Bronze	Neutral	Negative
HealthEquity	Above Average	4.47	63.16	21.05	15.79	0.00	0.00
The HSA Authority	Above Average	4.31	55.17	27.59	10.34	6.90	0.00
UMB	Above Average	4.16	36.84	42.11	21.05	0.00	0.00
Optum	Above Average	4.14	40.91	31.82	27.27	0.00	0.00
HSA Bank	Above Average	4.14	40.91	36.36	18.18	4.55	0.00
Lively	Above Average	4.13	37.50	43.75	12.50	6.25	0.00
Associated Bank	Above Average	4.05	47.37	21.05	21.05	10.53	0.00
Fidelity	Above Average	4.00	38.10	28.57	28.57	4.76	0.00
First American Bank	Above Average	3.95	30.00	50.00	10.00	5.00	5.00
Bank of America	Above Average	3.73	23.08	38.46	26.92	11.54	0.00
Average		4.11	41.30	34.08	19.17	4.95	0.50

Source: Morningstar, Inc. Data as of Aug. 31, 2022. Note: Includes both Morningstar Analyst Ratings and Morningstar Quantitative Ratings. Funds Under Review were omitted. A target-date series and a target-risk series each count as one option.

¹² Morningstar 2022 Robo-Advisor Landscape

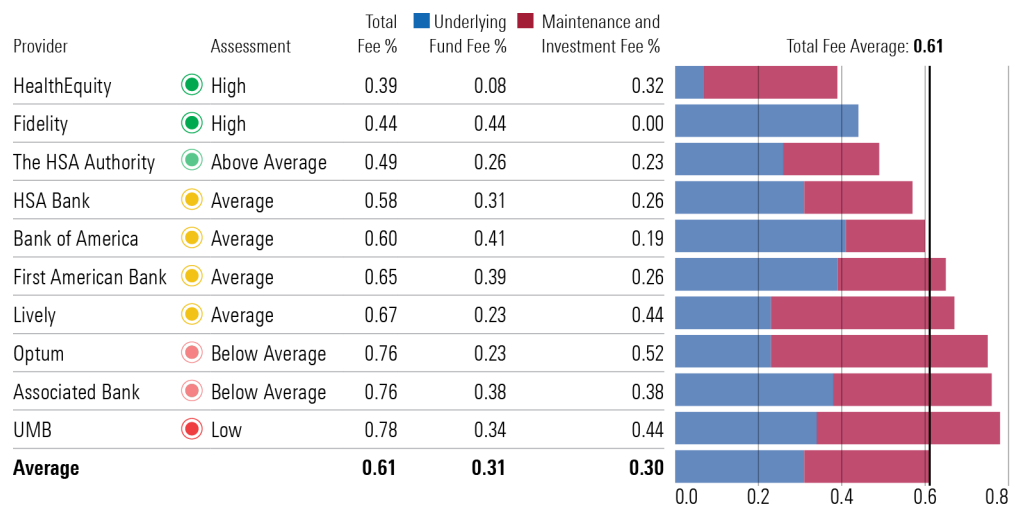
Price

Best Practice

Providers should charge low fees for investment options.

The Price assessment is based on the average total fee an investor would incur in the investment account. The total fee includes the underlying fund, maintenance, and investment fees. The evaluation calculated the average expense ratio of the funds each provider offered to determine the costs of the underlying funds. It then assumed a \$14,000 investment account balance and \$2,000 spending account balance to determine each provider's maintenance and investment fees. Price assessments range from High (the cheapest) to Low (the most expensive). Exhibit 28 shows each provider's Price assessment along with the calculated fees.

Exhibit 28 Price Assessments



Source: Morningstar, Inc. Data as of Aug. 31, 2022. Note: Assumes \$14,000 investment account balance and \$2,000 spending account balance. Total Fee numbers may appear slightly larger or smaller than the sum of the two components due to rounding.

HSA fees have evolved since Morningstar first evaluated the accounts in 2017. Then, Bank of America distinguished itself by offering an investment account at no additional cost. Fidelity followed suit two years later when it launched a retail account that also eschewed an investment charge. Unlike Bank of America, Fidelity does not charge a maintenance fee. Other providers also have altered their fees. HSA Bank still levies a 0.30% annual fee on investment account assets, a hefty price for those with larger account balances, but its maintenance fee waiver has helped lower costs.

Account balances often influence fees. Providers charge varying maintenance fees that may be waived at different asset levels, and investment fees can be dollar-based or percentage-based. All else equal, investors with large account balances should favor providers with cheap, dollar-based investment fees. Those costs remain static, while percentage-based investment fees become increasingly unattractive as they increase in terms of total dollars paid with asset growth. Exhibit 29 shows the maintenance and

investment fees charged by each provider. It also shows the total fee in dollars and as a percentage assuming a \$14,000 investment account balance.

Exhibit 29 Maintenance and Investment Fees

HSA Provider	Annual Fees			Fees assuming a \$2,000 balance in Spending Account and \$14,000 in Investing Account	
	Maintenance Fees (\$)	Investment Fee (\$)	Custodial Fee (%)	Total Annual Fee (\$)	Equivalent Expense Ratio (%)
Fidelity	—	—	—	—	—
Bank of America	30	—	—	30.0	0.19
The HSA Authority	—	36	—	36.0	0.23
First American Bank	—	—	0.30	42.0	0.26
HSA Bank	—	—	0.30 ⁴	42.0	0.26
HealthEquity	—	—	0.36 ⁵	50.4	0.32
Associated Bank	0-36 ¹	24	—	60.0	0.38
Lively	—	—	0.50	70.0	0.44
UMB	0-35 ²	36	—	71.0	0.44
Optum	0-33 ³	—	0.36 ⁶	83.4	0.52
Average				48.5	0.30

Source: Morningstar, Inc. Data as of Aug. 31, 2022.

1 Associated Bank's maintenance fee is waived when spending account assets surpass \$2,500.

2 UMB's maintenance fee is waived when spending account assets surpass \$3,000.

3 Optum's maintenance fee is waived when spending account assets surpass \$2,000.

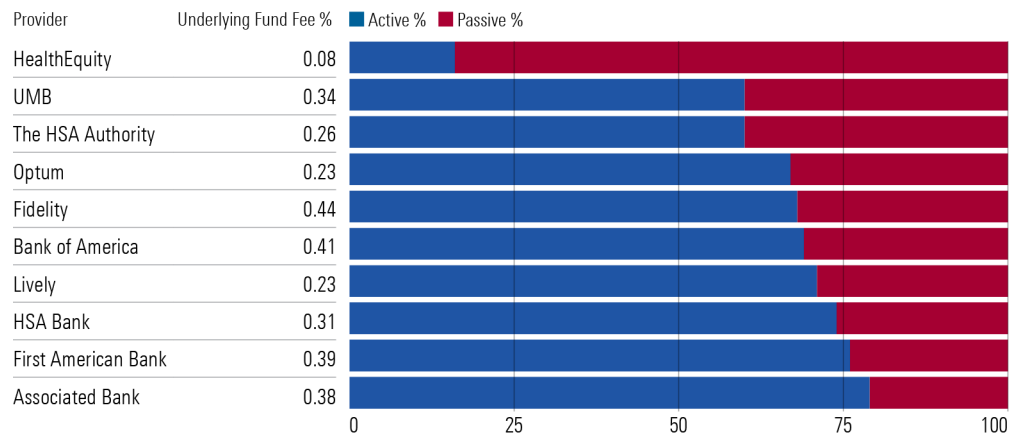
4 HSA Bank's custodial fee is charged on the first \$50,000 of investment assets.

5 HealthEquity's custodial fee is capped at \$10 per investor per month.

6 Optum's custodial fee is capped at \$10 per investor per month.

High Price Assessments

Fidelity and **HealthEquity** took two different routes to win top marks. The former does not levy any expenses outside of the underlying fund fees, giving it a significant advantage over competitors. HealthEquity, meanwhile, levies an Above Average custodial fee but earned an upgraded rating this year because it packs its lineup with passive options that charge rock-bottom fees. Since passive strategies tend to have lower price tags, the balance between active and passive strategies correlates with the average underlying fund fee, as shown in Exhibit 30.

Exhibit 30 HealthEquity's Mostly Passive Lineup Charges Low Fees

Source: Morningstar, Inc. Data as of Aug. 31, 2022.

Above Average Price Assessments

The HSA Authority's fees scored better under the new methodology. It has not charged a maintenance fee since our initial 2017 HSA report, though it does levy a \$36 investment fee that cannot be waived. Still, The HSA Authority's underlying fund fee of 0.26% and administrative charges were lower than the norm.

Average Price Assessments

HSA Bank eliminated its maintenance fee last year, but still levies a 0.30% investment charge, and the price for its underlying funds is merely average. **Bank of America's** invariable \$30 maintenance fee and nonexistent investment fee makes it relatively attractive, especially for those with larger plan balances, though its investment lineup is one of the priciest. **First American Bank** also has a relatively expensive group of funds and levies a 0.30% investment fee. **Lively**, meanwhile, has a cheaper fund lineup but heftier 0.50% investment charge. HSA Bank, First American Bank, and Lively's plans all offer brokerage windows without additional costs.

Below Average Price Assessments

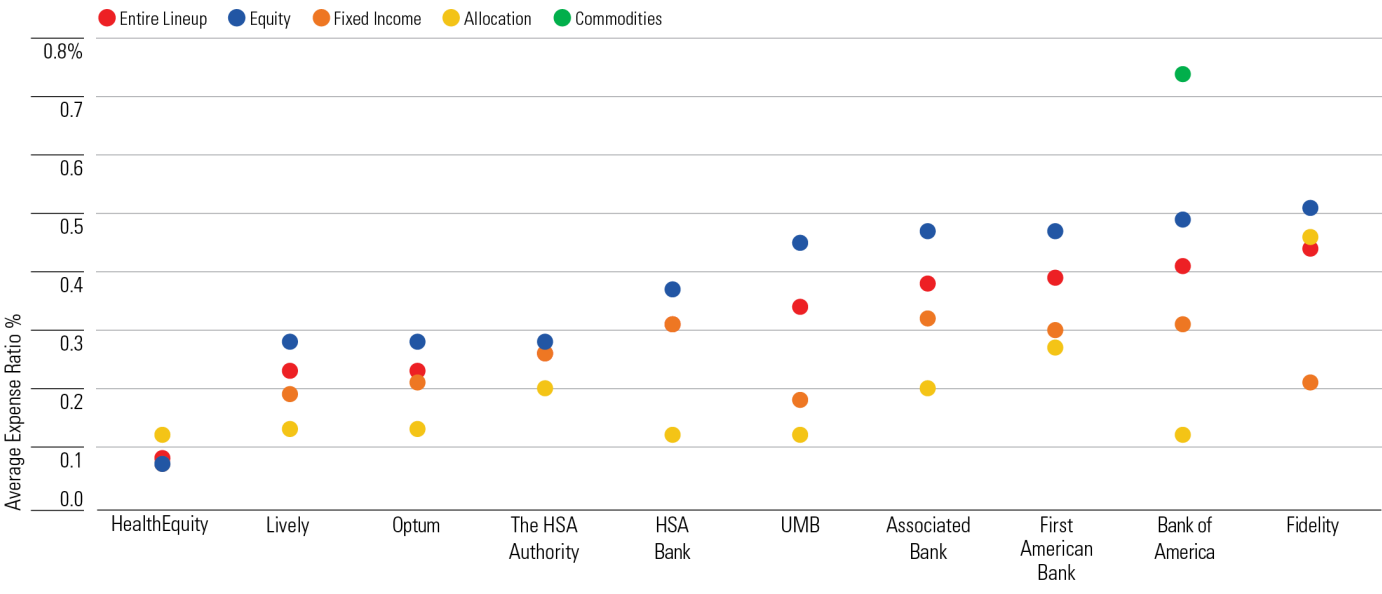
Optum's \$33 yearly maintenance fee (which it waives once checking account balances surpass \$2,000) and 0.36% investment fee overwhelm its relatively inexpensive investment lineup. Investors can opt for the brokerage window to bypass the administrative fees, though. **Associated Bank** charges maintenance (\$36) and investment (\$24) fees—it waives the former once spending account assets surpass \$2,500—and its investment roster is pricey.

Low Price Assessments

UMB does not levy the highest administrative or underlying fund fees, but scores poorly when combining the two components. It charges a \$36 investment fee, a \$35 maintenance fee (but waives it once spending account assets surpass \$3,000), and an average of 0.34% for its underlying funds.

While savers cannot control administrative fees, they have more say over what they pay for underlying funds. Exhibit 31 divvies the average expense ratios of the providers by broad category group. As investment lineups have improved, savers can access low-cost, broadly diversified investment options at all providers—even those that receive Below Average and Low Price assessments. This is especially prevalent in the allocation category that comprises various target-risk, target-date, and balanced strategies.

Exhibit 31 All Providers Surveyed Offer Relatively Cheap, Broadly Diversified Allocation Strategies



Source: Morningstar, Inc. Data as of Aug. 31, 2022.

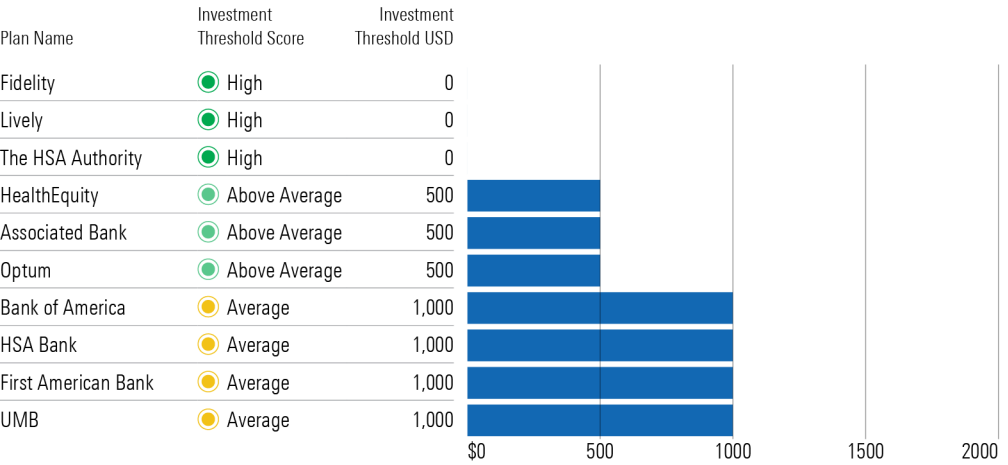
Investment Threshold
Best Practice

Accountholders should be able to invest without meeting a minimum balance requirement.

Investment thresholds impose an opportunity cost on HSA users by requiring them to maintain a certain spending account balance before they can begin investing. To quantify its impact, consider the average HSA investor, who has \$16,000 in their account. Assuming they can earn 6% annually and using the median interest rate of 0.01%, the opportunity cost of parking \$1,000 in the checking account is 0.37% annually, or \$59.90. These are hidden expenses that can weigh on long-term results. HSA investors are better off selecting providers with a low or no investment threshold.

Fidelity, Lively, and The HSA Authority maintain their High assessments for not imposing investment thresholds. Associated Bank and Optum were upgraded to Above Average from Average and Low, respectively, after they slashed their thresholds to \$500. Exhibit 32 shows each provider's investment threshold. ■■■

Exhibit 32 Investment Threshold Assessments



Source: Morningstar, Inc. Data as of Aug. 31, 2022.

Appendix

HSA Terms, Definitions, and Tax Advantages

- ▶ **High-Deductible Health Plan:** A health insurance plan with lower premiums and higher deductibles than other plan types, such as a preferred provider organization.
- ▶ **Health Savings Account:** A tax-privileged medical savings account available to HDHP enrollees.
- ▶ **Health Savings Provider:** A firm that offers HSAs.
- ▶ **Deductible:** As of 2022, to qualify for an HSA, an HDHP must have a deductible of at least \$1,400 for self-only coverage or \$2,800 for family coverage. The HDHP's annual out-of-pocket expenses, including deductibles but not premiums, cannot exceed \$7,050 for self-coverage and \$14,100 for family coverage. For 2023, an HDHP must have a deductible of at least \$1,500 for self-only coverage or \$3,000 for family coverage, and annual out-of-pocket expenses, including deductibles but not premiums, cannot exceed \$7,500 for self-coverage and \$15,000 for family coverage.
- ▶ **Contributions:** HSA participants have annual contribution limits. In 2023 those covered by an individual plan can contribute up to \$3,850 annually, while those covered by a family plan can contribute up to \$7,700. If offered, employer contributions count toward these maximums. Individuals aged 55 and older can save an additional \$1,000 each year. All contributions are deductible from taxable income. Unlike an FSA, there is no limit to how much money may be rolled over from year to year in an HSA, providing the opportunity for accountholders to accumulate significant HSA assets.
- ▶ **Withdrawals:** Funds withdrawn for nonhealthcare expenses are taxed at the accountholder's marginal tax rate. If the funds are withdrawn before age 65, the funds are subject to an additional 20% penalty.
- ▶ **Portability:** Much like an IRA, HSAs are tied to the accountholder and are independent of the workplace, though workers must be currently enrolled in an HDHP to contribute to one. Thus, workers can open and maintain an HSA outside of their employer-provided one that fits best with their financial goals.

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