
2023 Health Savings Account Landscape

Morningstar Manager Research

26 October 2023

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Executive Summary

Health savings accounts have grown at a furious pace in recent years. Total assets rose by a factor of 21 from 2006 through mid-2023 to roughly \$116 billion.¹ The increasing usage of high-deductible health insurance plans, or HDHPs, the only place in which participants can use HSAs, coupled with the accounts' plentiful tax benefits, have fueled this growth.

HSA features have improved as the industry has matured—fees have declined, for example, and the quality of investment options has risen. But HSAs still fall short on issues such as transparency and ease of use, and costs could stand to drop further. The process of investigating account details, signing up for one, and funding it remains complicated. Some of the top providers still charge maintenance and/or investment fees and require a minimum account balance before participants can invest. And most providers pay paltry interest rates on account balances that are below relatively lofty levels. Thus, this version of Morningstar's annual review of HSA plans continues to advocate for more improvements. Morningstar evaluated 10 of the top HSA providers offered to individuals on two different use cases: As spending accounts to cover current medical costs and as investment accounts to save for the long term. Just two providers—Fidelity and HealthEquity—earned assessments of Above Average or better on both use cases. New to this year's report: Saturna, an asset manager that recently introduced its first retail HSA offering. In 2022, UMB bought HSA Authority, which had regularly appeared in previous years' reports.

Morningstar does not assess HSAs offered by employers, as details can vary depending on relationships and headcount. Each of the 10 providers responded to our surveys with detailed information.

¹ Devenir Midyear HSA Market Statistics & Trends.

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	4.1	High	5	Below Average ↓	2	Average	3
HealthEquity	Above Average	4.1	High	5	Below Average	2	Average	3
HSA Bank	Above Average	3.8	High	5	Low ↓	1	Above Average	4
Lively	Above Average	3.8	High	5	Low ↓	1	High	5
Optum	Above Average ↑	3.8	High ↑	5	Low ↓	1	Above Average	4
UMB	Above Average ↑	3.8	High ↑	5	Low ↓	1	Average	3
Associated Bank	Average	2.7	Average	3	Below Average	2	Above Average	4
Saturna	Below Average	2.4	Average	3	Low	1	Above Average	4
Bank of America	Below Average	2.0	Below Average	2	Below Average	2	High ↑	5

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

Source: Morningstar. Assessments as of Aug. 31, 2023. Note: High or Above Average assessments for Maintenance Fee or Additional Fees indicate attractive fees, while Low or Below Average assessments indicate unattractive fees. The Additional Fees score is listed above for investors' convenience but is not considered in the overall assessment. Overall scores may appear slightly larger or smaller than the sum of the components because of rounding.

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
Associated Bank	Above Average ↑	3.8	High	5	Above Average	4	Average ↑	3	Above Average	4
HealthEquity	Above Average	3.8	Average	3	Above Average	4	Above Average ↓	4	Above Average	4
Lively	Average ↓	3.5	High	5	Above Average	4	Below Average ↓	2	High	5
UMB	Average	3.4	Below Average ↓	2	Above Average	4	Above Average ↑	4	Average	3
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
Optum	Average	3.1	Average	3	Above Average	4	Below Average	2	Above Average	4
Saturna	Average	3.0	Above Average	4	Above Average	4	Low	1	High	5
First American Bank	Average	2.7	Below Average	2	Above Average	4	Below Average ↓	2	Average	3

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

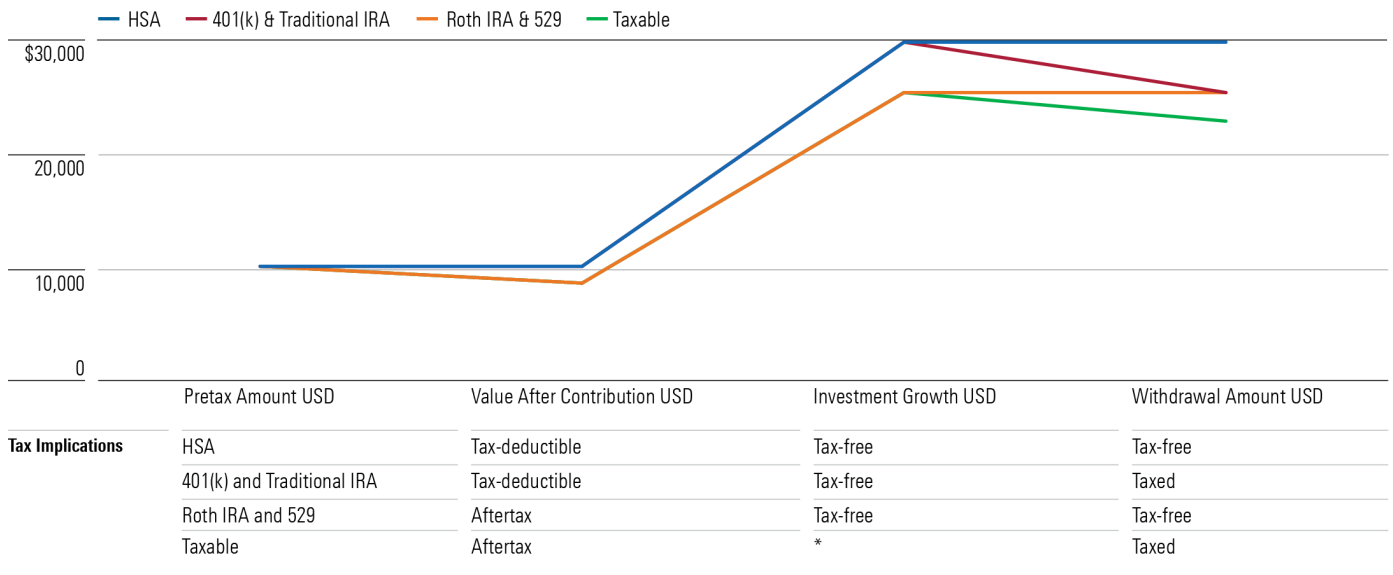
Source: Morningstar. Assessments as of Aug. 31, 2023. Note: High or Above Average assessments for Maintenance Fee or Additional Fees indicate attractive fees, while Low or Below Average assessments indicate unattractive fees. A High assessment for Investment Threshold indicates no investment threshold exists, while a Low assessment indicates an investment threshold of \$2,000. Overall scores may appear slightly larger or smaller than the sum of the components because of rounding.

HSA Features

Tax Benefits

HSA contributions are tax deductible and growth, dividends, and interest are all tax-exempt. Furthermore, withdrawals for qualified medical expenses incurred at any time are tax-free. Exhibit 3 shows the impact of taxes on a \$10,000 investment in each of those accounts as well as a regular taxable account, assuming a consistent marginal tax rate of 15% and a cumulative return of 200% over 20 years. Also, there's no penalty for having money saved over and above medical expenses in an HSA during the participant's lifetime, and withdrawals after age 65 are taxed at the same rate as IRAs and 401(k)s. One caveat: Withdrawals before age 65 that aren't for qualified medical expenses trigger a 20%-plus income tax.

Exhibit 3 Triple Tax Benefit



Source: Author's calculations. Regular distributions (dividends and interest) are taxed; unrealized capital gains grow tax-free.

Contribution limits for HSAs are rising, thus broadening the accounts' appeal. Exhibit 4 shows the caps for 2024. And pending legislation in the U.S. House of Representatives would widen the potential user base for HSAs. The bill, as approved by the House Ways and Means Committee for consideration by the full House, would allow individuals to contribute to an HSA even if their spouse currently uses a flexible spending account, or FSA. It would also allow participants to roll over funds from certain FSAs or health reimbursement arrangements into HSAs.

Exhibit 4 2024 Contribution and Limits for HSAs and HDHPs

2024 HSA/HDHP Details	Single (\$)	Family (\$)
HSA Contribution Limit (Aged 54 or Lower)	4,150	8,300
HSA Contribution Limit (Aged 55 and Above)	5,150	10,300
Minimum Deductible for Qualifying HDHP	1,600	3,200
Maximum Out-of-Pocket Expenses for HDHP	8,050	16,100

Source: Internal Revenue Service.

HDHPs have become far more common in recent years. (See Exhibit 11 for more details.) Health savings accounts make such plans more attractive, on average. As Exhibit 5 demonstrates, the combination of HDHPs' lower insurance premiums and the employer's contribution to an HSA outweighs the lower maximum deductible of a preferred provider organization, or PPO, type of health insurance plan. And if a participant in an HDHP didn't hit the maximum deductible each year, that money has to stay in the HSA either earning interest or seeking higher returns in other investment options. That said, high medical costs early in the year could prevent participants from building up a balance in their HSAs.

Exhibit 5 Comparing the Average HDHP and PPO Insurance Plans

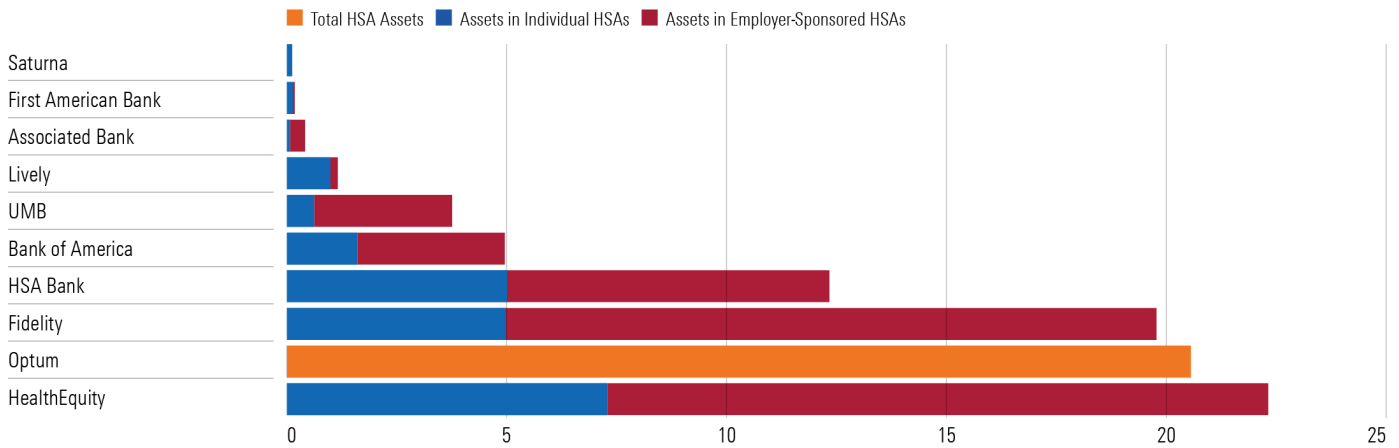
Insurance Plan	Annual Deductible (\$)	Annual Worker Contribution to Premium (\$)	Employer Contribution to HSA (\$)
Average PPO	2,908	6,383	0
Average HDHP	4,766	5,363	1,117
Difference	-1,858	1,020	-1,117

Source: The Kaiser Family Foundation's 2022 Employee Health Benefits Survey.

Employer HSA Options

Those eligible to start an HSA should consider their employer's HSA features, as many employers contribute to those accounts, which can help participants build savings. Exhibit 6 shows that such accounts tend to garner most HSA assets. (Optum did not provide the split between individual and employer accounts.)

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



Source: Source: Morningstar. Data as of June 30, 2023. Optum only provided total assets.

Even after choosing an HSA, it makes sense to regularly compare it to other options. That's because HSAs are more portable than 401(k)s for participants who stay with the same employer. (See Exhibit 7 for transfer options.) Despite having the ability to move one's assets from one HSA provider to another, many providers add a transfer fee. Morningstar's HSA assessments can help participants decide whether to stay or switch.

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.

Using an HSA for Investing

Unfortunately, many participants don't or aren't able to take advantage of the investing feature of HSA accounts—an average of 71% of the clients of the surveyed providers use their accounts for spending. That may be due to the minimum account balances that most providers require before participants can invest. With annual healthcare spending in the United States averaging more than \$12,900 per person

as of the end of 2021, according to the Centers for Medicare & Medicaid Services, many participants likely cannot invest because of their current need to spend HSA funds on healthcare goods and services. For 2024, the maximum HSA contribution for an individual aged 54 or younger is \$4,150.

Participants who use their HSAs as long-term investment accounts must consider factors that don't apply to retirement plan investment decisions. Because at least some HSA money may be needed to cover sudden medical expenses, it makes sense to avoid large allocations to aggressive investments. Exhibit 8 runs through three recent market-downturn scenarios using mutual funds with varying risk levels; each of these funds regularly shows up in HSA providers' investment menus. In each case, we assumed an HSA balance of \$14,000, which is close to the average among the providers surveyed. If participants need to tap that money during downturns, they can lose principal that could have grown in the future.

Exhibit 8 How Recent Selloffs Affected HSA Investing Account Balances

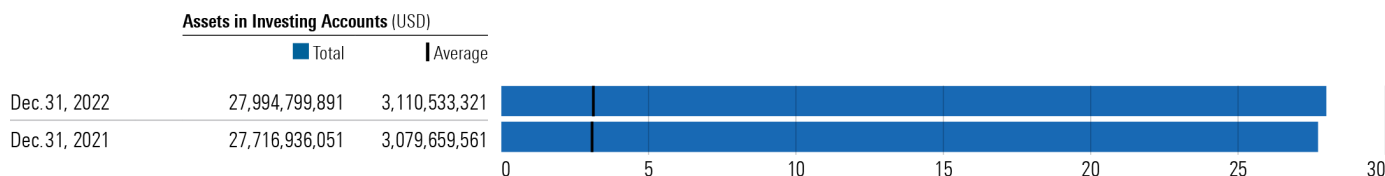
Fund Name	Ticker	Morningstar Medalist Rating	Equity Target (%)	2018 Q4 Selloff Sept. 18 – Dec. 24		2020 COVID Turmoil Feb. 20 – Mar. 23		2022 Inflation Concerns Jan. 1 – Dec. 31	
				Return (%)	Ending Balance (\$)	Return (%)	Ending Balance (\$)	Return (%)	Ending Balance (\$)
Vanguard 500 Index	VFIAX	Gold	100	-19.4	11,287	-33.8	9,268	-18.2	11,459
Vanguard Target Retirement 2050	VFIFX	Silver	90	-16.2	11,734	-31.3	9,612	-17.5	11,556
Vanguard LifeStrategy Growth	VASGX	Silver	80	-14.3	11,995	-28.5	10,006	-17.1	11,607
Vanguard LifeStrategy Moderate Growth	VSMGX	Silver	60	-10.5	12,524	-22.4	10,859	-16.0	11,760
Vanguard LifeStrategy Conservative Growth	VSCGX	Silver	40	-6.6	13,072	-15.9	11,777	-15.0	11,901
Vanguard LifeStrategy Income	VASIX	Silver	20	-2.6	13,640	-8.9	12,750	-13.9	12,050

Source: Morningstar Direct.

Investors in HSAs Showed Resiliency in 2022

Broad equity and bond indexes, such as the S&P 500 and the Barclays U.S. Aggregate Bond Index, suffered double-digit declines in 2022. Despite these losses, both the total and average assets in HSA investing accounts among the providers Morningstar surveyed rose from the end of 2021 to the end of 2022. Those figures also continued to grow in the first half of 2023. Most providers did not disclose average contributions and withdrawals in 2022, but most reported that the percentage of participants that started investing increased in 2021, 2022, and the first half of 2023.

Exhibit 9 HSA Investing Account Assets Rose Through 2022's Market Decline

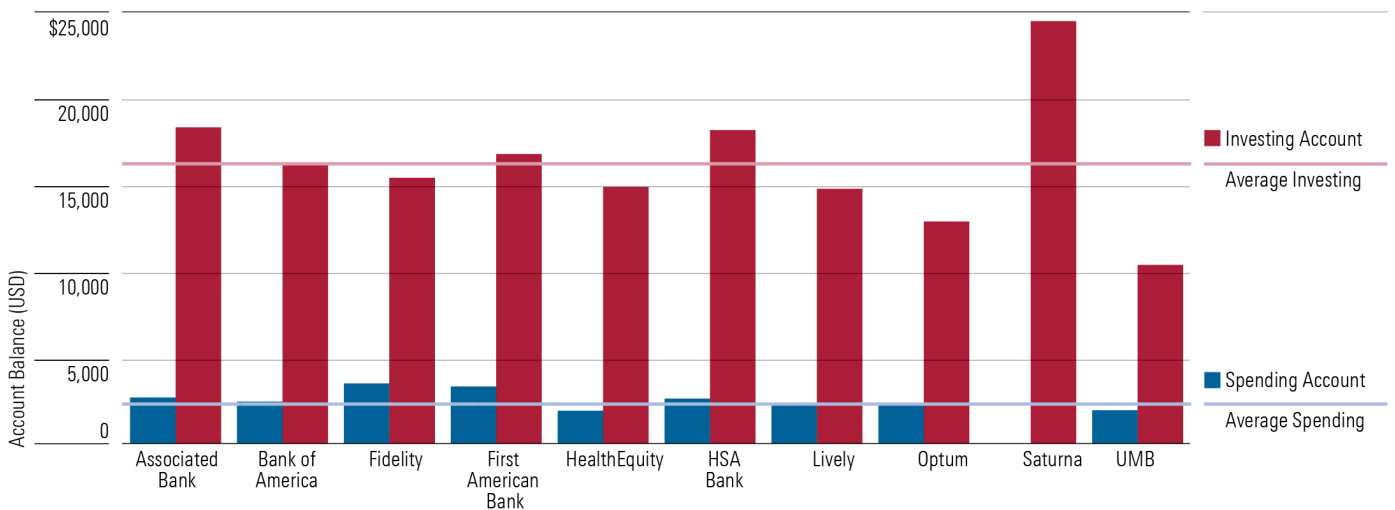


Source: Morningstar. Data as of June 30, 2023.

Encouraging More Participation

HSA providers and regulators could do more to encourage HSA participants to use their accounts as investment vehicles. While employers are allowed to automatically enroll employees in employer-sponsored retirement plans, the government has not ruled whether they can do the same for employees eligible for HSAs. Automatic enrollment has led to much higher participation in retirement plans.² Another barrier to increased investing within HSAs is that participants aren't always aware of the investment-account option. Providers could simplify the account-opening process and give participants more educational materials to help them navigate the process of transferring between the two account types and to better learn the benefits of long-term investing. Providers that offer better guidance and tools tend to have higher average investment account balances. Exhibit 10 shows investing and spending account balances for the surveyed providers; note that Saturna offered an investing-only HSA before launching a new offering in 2023.

Exhibit 10 Average Account Balances (USD)



Source: Morningstar. Data as of June 30, 2023.

A third stumbling block is that many HSA providers require participants to meet minimum account balances before they can invest. Given the relatively low average spending account balance among the providers surveyed (just under \$2,500), many participants likely fall short of those investment thresholds.

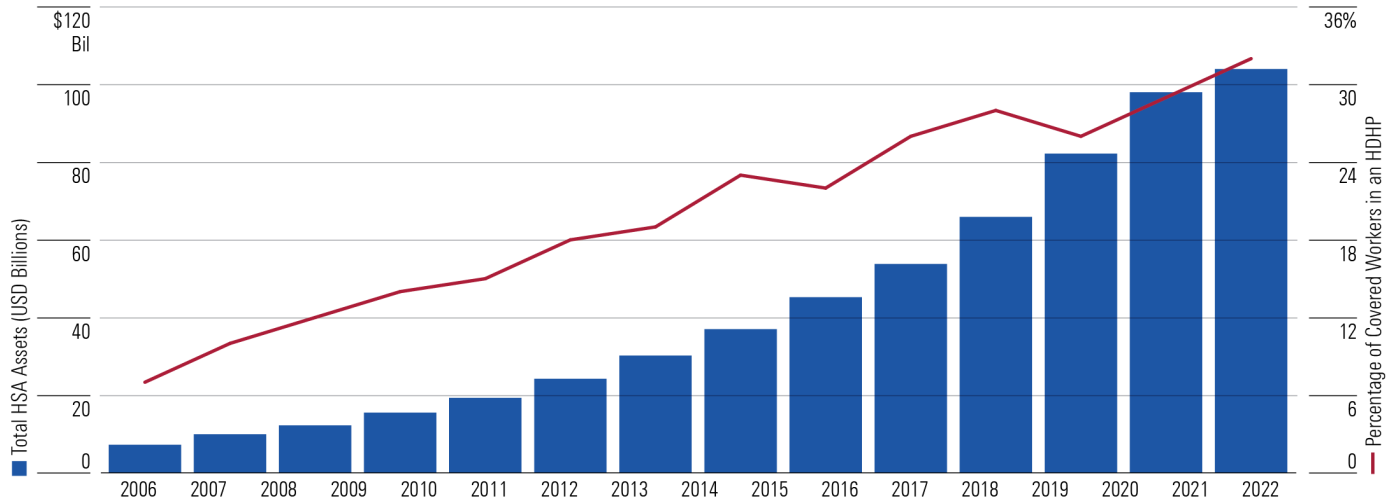
Industry Leaders and Asset Growth

Health savings accounts were introduced in 2003 to make high-deductible health insurance plans more attractive. As Exhibit 11 suggests, that strategy has worked. The increasing adoption of HDHPs and the growth of HSA assets have gone together. The percentage of workers who are covered by employer-sponsored medical insurance and have chosen an HDHP grew from roughly 7% in 2006 to 32% by the

² Automatic Enrollment's Impact On Retirement Savings, T. Rowe Price Retirement Plan Services.

end of 2022. Meanwhile, HSA assets over the same period rose from close to \$5 billion to more than \$100 billion.

Exhibit 11 Growth of HSA Assets and Percentage of Covered Workers With a High-Deductible Health Plan

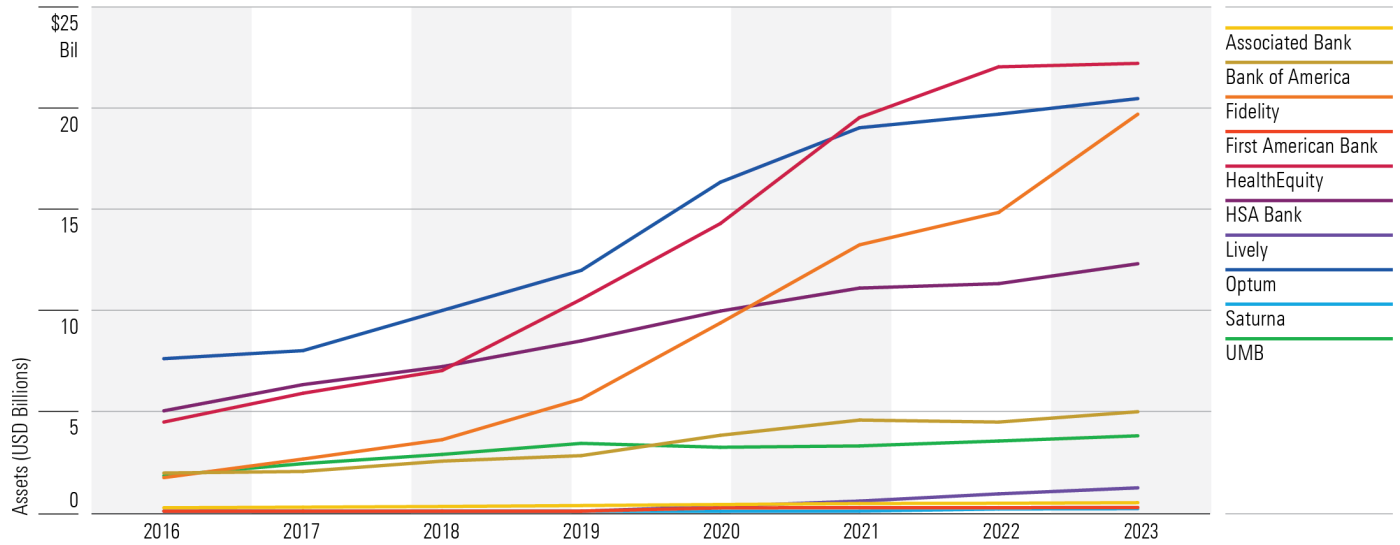


Sources: Devenir and the Kaiser Family Foundation's Employer Health Benefits 2022 Annual Survey. Data as of Dec. 31, 2022.

Four providers have dominated the HSA industry in recent years: HealthEquity, Optum, Fidelity, and HSA Bank. However, Exhibit 12 shows that the latter provider is losing ground to the other three.

HealthEquity, which has grown in part through multiple acquisitions, passed Optum in 2021. And while Fidelity ranked third at the end of June 2023, its asset growth has found a new gear. If this pace continues, it soon may become the leading provider. The firm began offering accounts to individuals in 2018, and as interest rates have risen in the past 18 months, Fidelity's industry-leading payout to HSA participants has gained an even bigger edge over rivals.

Exhibit 12 Total HSA Assets by Provider (USD Billions)



Source: Morningstar. Data as of June 30, 2023.

Even beyond HealthEquity's deals, the industry has continued to consolidate. UMB acquired HSA Authority in 2022; last year's HSA landscape paper covered both.

Exhibit 13 Ongoing Consolidation in the HSA Industry

Date	Acquirer	Acquiree	HSA Assets (\$USD Billions)
8/30/19	HealthEquity	WageWorks	1.70
9/29/21	HealthEquity	Fifth Third HSA portfolio	0.49
11/1/21	HealthEquity	Further	1.90
2/18/22	HSA Bank	Bend	0.02
3/2/22	HealthEquity	HealthSavings HSA portfolio	1.30
6/1/22	Millennium Trust	PayFlex	3.70
6/27/22	UMB	HSA Authority	0.50

Source: Corporate filings. Data as of June 30, 2023.

Spending Account Analysis

Best practices for spending accounts:

- ▶ No ongoing maintenance fees.
- ▶ Competitive interest rates on account balances.
- ▶ Few or no additional fees.
- ▶ FDIC insurance on the spending account.

Summary of Spending Account Assessments

Participants use HSAs as spending accounts far more often than they do as investment platforms, so it's important to evaluate spending account features. Some aspects of such accounts are becoming more attractive. Rising interest rates have allowed them to pay higher interest, and fewer providers charge an ongoing maintenance fee now than in the past.

Exhibit 14 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	4.1	● High	5	● Below Average ↓	2	● Average	3
HealthEquity	● Above Average	4.1	● High	5	● Below Average	2	● Average	3
HSA Bank	● Above Average	3.8	● High	5	● Low ↓	1	● Above Average	4
Lively	● Above Average	3.8	● High	5	● Low ↓	1	● High	5
Optum	● Above Average ↑	3.8	● High ↑	5	● Low ↓	1	● Above Average	4
UMB	● Above Average ↑	3.8	● High ↑	5	● Low ↓	1	● Average	3
Associated Bank	● Average	2.7	● Average	3	● Below Average	2	● Above Average	4
Saturna	● Below Average	2.4	● Average	3	● Low	1	● Above Average	4
Bank of America	● Below Average	2.0	● Below Average	2	● Below Average	2	● High ↑	5

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

Source: Morningstar. Assessments as of Aug. 31, 2023. Note: High or Above Average assessments for Maintenance Fee or Additional Fees indicate attractive fees, while Low or Below Average assessments indicate unattractive fees. The Additional Fees score is listed above for investors' convenience but is not considered in the overall assessment. Overall scores may appear slightly larger or smaller than the sum of the components because of rounding.

For the second year in a row, Fidelity is the only provider to earn an overall assessment of High. The wide gulf between the interest rate offered by Fidelity—2.69% on all balances—and the rates of the other nine providers (none exceeded even 1.00% for any balance level) drove most scoring differences.

Maintenance fees are an important consideration. Seven of the 10 providers surveyed don't charge such a fee on accounts of any size, up from six in 2022 and five in 2021. Optum dropped its maintenance fee after previously lowering it to \$33 from \$45. The number of additional fees remains stable, with most providers charging for a handful of services that participants may or may not use, such as a debit card replacement or paper statements.

Methodology

Exhibit 15 lays out the precise factors that underlie these assessments.

Exhibit 15 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.	<p>High: No maintenance fee.</p> <p>Above Average: A maintenance fee less than \$50 per year that's waived once assets reach \$2,000.</p> <p>Average: A maintenance fee less than \$50 per year that's waived once assets reach \$5,000.</p> <p>Below Average: A maintenance fee less than \$50 per year that's never waived or only waived once assets exceed \$5,000.</p> <p>Low: A maintenance fee of \$50 or more per year that's never waived or only waived once assets exceed \$5,000.</p>	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.	<p>High: No additional fees.</p> <p>Above Average: One to five additional fees.</p> <p>Average: Six to 10 additional fees.</p> <p>Below Average: Eleven to 15 additional fees.</p> <p>Low: Sixteen-plus additional fees.</p>	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. Assessments as of Aug. 31, 2023

Maintenance fees continue to drive 70% of the overall assessment. Interest rates, which have risen sharply, constitute the other 30%. We document the number of additional fees charged by providers as well, but they don't impact the scoring as very few HSA participants pay any of them. These weightings may change in the future as the industry evolves.

High Assessments

Fidelity stands alone, and with good reason. It recently paid an interest rate of 2.69% on all balances, while most other providers start with very low rates for small balances—and the average spending account was recently modest at roughly \$2,500. Even the rates other providers pay for larger balances don't come close to Fidelity's payout. The firm is also one of seven that don't charge a maintenance fee.

Above Average Assessments

All six HSA providers in this cohort—First American, HSA Bank, HealthEquity, Lively, Optum, and UMB—don't charge maintenance fees, either. But the interest rates they pay on spending account balances are minuscule at low levels. (See Exhibits 16 and 17.) None paid more than 0.25% on a spending account balance of \$2,500. First American pays as much as 1.00% but only on account balances of \$100,000 or more.

Average Assessments

Only Associated Bank landed in this bucket. It waives maintenance fees for the first 12 months and then waives them on an ongoing basis for balances of \$2,500 or more. Balances below that figure may pay as much as \$36 annually. The bank paid an interest rate of 0.15% on a balance of \$2,500.

Below Average Assessments

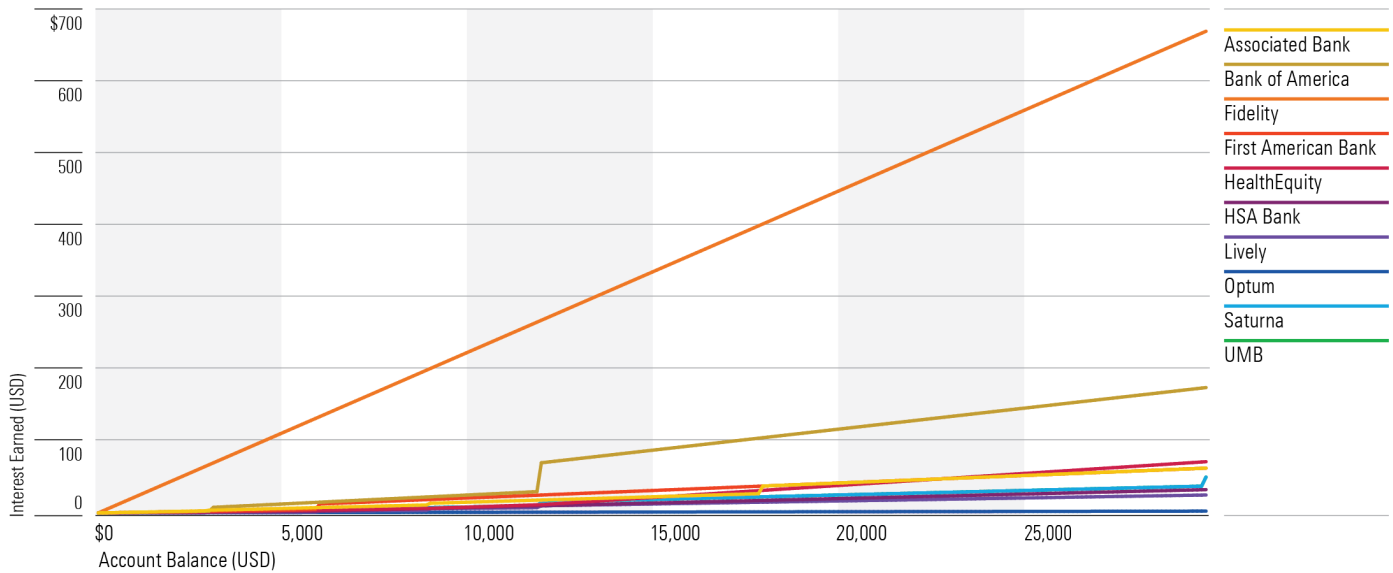
Bank of America and Saturna garner the lowest scores. Both charge a maintenance fee of \$30 annually. But while Saturna waives that fee on account balances of at least \$5,000, Bank of America's is never waived. That provider gains some ground back by paying a 0.30% interest rate when a balance passes the \$2,500 threshold, while Saturna pays just 0.05%.

Exhibit 16 Interest-Rate Assessments

Provider	Assessment	Interest Schedule Type	Interest Rate Schedule					
			Rate	Balance	Balance	Balance	Balance	
Fidelity	High	Entire Balance	2.69%	\$1				
Associated Bank	Below Average	Entire Balance	0.12%	\$1	0.15% \$2,500	0.18% \$7,500	0.25% \$15,000	
Bank of America	Below Average	Entire Balance	0.10%	\$1	0.30% \$2,500.01	0.70% \$10,000		
First American Bank	Below Average	Entire Balance	0.10%	\$1	0.25% \$1,000	0.50% \$5,000	0.75% \$50,000	1.00% \$100,000
HealthEquity	Below Average	Progressive	0.05%	\$1	0.10% \$2,000	0.20% \$7,500.01	0.40% \$10,000	
HSA Bank	Low	Progressive	0.05%	\$1	0.15% \$5,000	0.30% \$25,000	0.50% \$50,000	
Lively	Low	Entire Balance	0.01%	\$1	0.03% \$2,501	0.05% \$5,001	0.08% \$7,501	0.10% \$10,001
Optum	Low	Progressive	0.01%	\$1				
Saturna	Low	Entire Balance	0.05%	\$1	0.10% \$5,000	0.15% \$10,000	0.20% \$25,000	0.50% \$50,000
UMB	Low	Entire Balance	0.05%	\$1	0.10% \$5,000	0.15% \$15,000	0.20% \$25,000	0.50% \$50,000

Source: Morningstar. Interest rates were received from the providers or pulled from their websites. Data as of Aug. 10, 2023.

Exhibit 17 Interest Dollars Earned on Different Account Balances

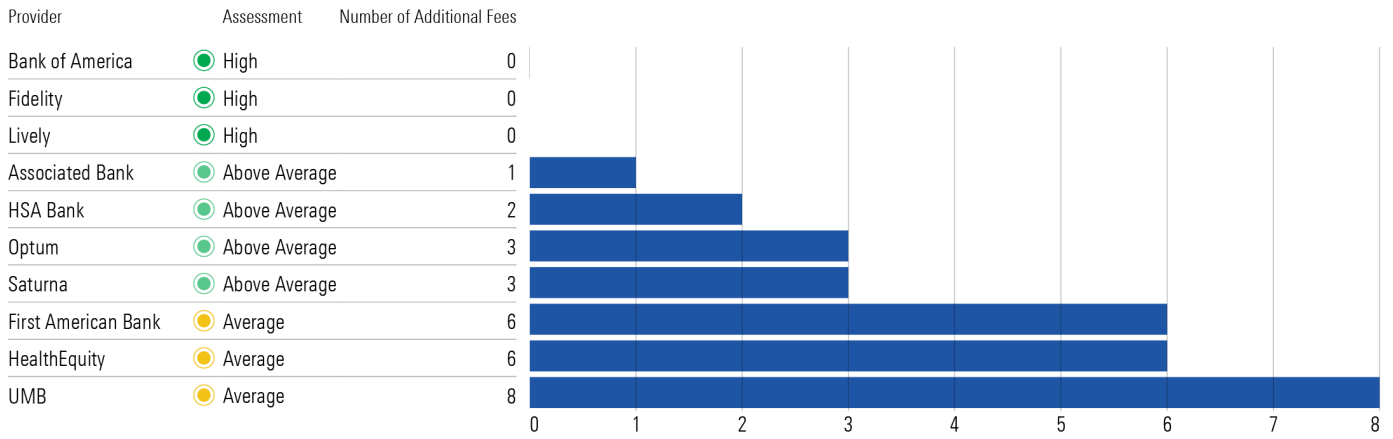


Source: Morningstar. Interest rates were received from the providers or pulled from their websites. Data as of Aug. 10, 2023.

Additional Fees

Three of the HSA providers surveyed don't charge any additional fees. While the other seven listed as many as eight different fees, very few participants make use of those services.

Exhibit 18 Number of Additional Fees



Source: Morningstar. Assessments as of Aug. 31, 2023. Note: High or Above Average assessments for Additional Fees indicate attractive fees, while Low or Below Average assessments indicate unattractive fees.

Investing Account Analysis

Best practices for investing accounts:

- ▶ Investment menus that cover core areas and limit overlap and niche strategies.
- ▶ Investment options that earn Morningstar Medalist Ratings of Bronze or better.
- ▶ Low fees.
- ▶ No minimum balance in a spending account before investing.

Summary of Investment Account Assessments

Fidelity is once again the only HSA provider to earn a High overall assessment for its investment account. Two others get Above Averages: Associated Bank and HealthEquity. (Associated Bank merited an upgrade from Average a year earlier.) The other seven providers we surveyed earn Average assessments.

Exhibit 19 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
Associated Bank	Above Average ↑	3.8	High	5	Above Average	4	Average ↑	3	Above Average	4
HealthEquity	Above Average	3.8	Average	3	Above Average	4	Above Average ↓	4	Above Average	4
Lively	Average ↓	3.5	High	5	Above Average	4	Below Average ↓	2	High	5
UMB	Average	3.4	Below Average ↓	2	Above Average	4	Above Average ↑	4	Average	3
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
Optum	Average	3.1	Average	3	Above Average	4	Below Average	2	Above Average	4
Saturna	Average	3.0	Above Average	4	Above Average	4	Low	1	High	5
First American Bank	Average	2.7	Below Average	2	Above Average	4	Below Average ↓	2	Average	3

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Methodology

We made no changes to last year's assessment methodology, other than (as we did in the spending account analysis) raising the spending account balance to \$2,500 to more closely approximate the average balance in that account type. A modest downward shift in costs, however, led to price

downgrades for providers that did not keep pace. This can impact scores since price accounts for 40% of them. In the case of Lively, this also led to a downgrade of its overall investing account assessment to Average from Above Average.

Consistent with last year's practice, underlying fund fees were averaged, and target-date and target-risk series were counted as a single strategy.

Exhibit 20 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 Medalist Ratings of Bronze or better.	<p>Utilizing Morningstar Medalist Ratings, we created a numerical scale to calculate an Average Quality Score.</p> <table border="1"> <tr> <td>Rating:</td> <td> Gold</td> <td> Silver</td> <td> Bronze</td> <td>Neutral</td> <td>Negative</td> </tr> <tr> <td>Score:</td> <td>5</td> <td>4</td> <td>3</td> <td>2</td> <td>1</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>	Rating:	Gold	Silver	Bronze	Neutral	Negative	Score:	5	4	3	2	1	20%
Rating:	Gold	Silver	Bronze	Neutral	Negative											
Score:	5	4	3	2	1											
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 \$2,500. 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%												

Source: Morningstar, Inc. Assessments as of Aug. 31, 2023.

Exhibit 20 Investment Account Methodology Framework. (Continued)

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.	High: No investment threshold Above Average: \$500 Average: \$1,000 Below Average: \$1,500 Low: \$2,000+	20%
Overall Assessment	Score = (0.2 * Menu Design score) + (0.2 * Quality of Investments score) + (0.4 * Price score) + (0.2 * Investment Threshold score)		High ≥ 4.5 Above Average = 3.5 < 4.5 Average = 2.5 < 3.5 Below Average = 1.5 < 2.5 Low < 1.5	

Source: Morningstar, Inc. Assessments as of Aug. 31, 2023.

Menu Design**Best Practice**

HSA providers should offer an investment menu that is easy to navigate, is focused on high-quality active and passive options, and doesn't include a lot of strategic overlap or numerous volatile niche funds.

Research has shown that investors can get overwhelmed by a plethora of choices, leading to worse outcomes. So, the most attractive menus have one strong core option in each asset class, perhaps one active and one passive for U.S. large-cap stocks and U.S. investment-grade bonds. Exhibit 21 illustrates these concepts.

Exhibit 21 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

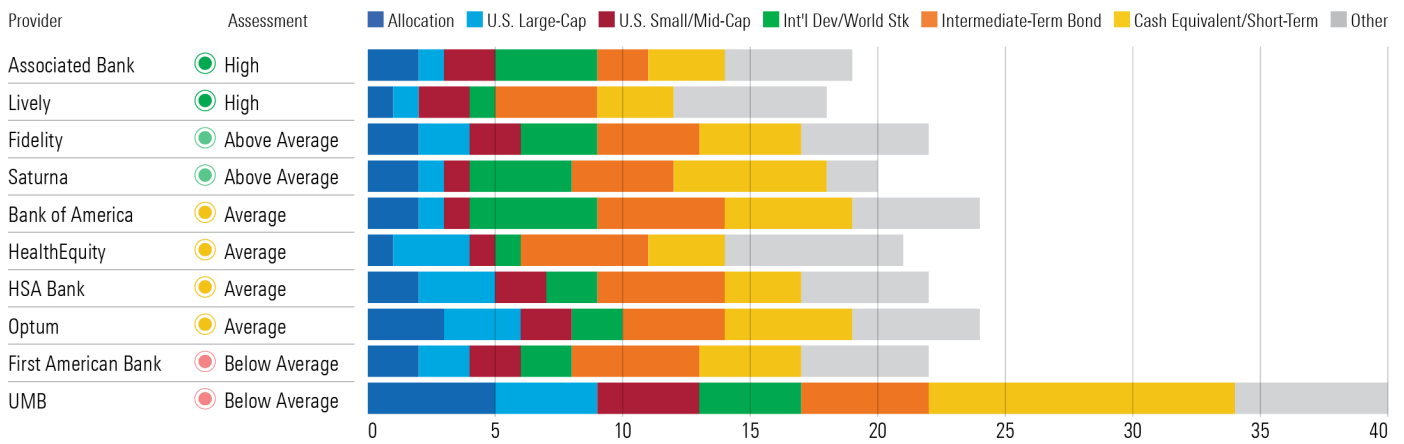
Source: Morningstar.

Menus with 12 to 24 options arguably strike the best balance between offering broad diversification and keeping the number of strategy choices at a manageable amount. Most of the 10 HSA providers land in this range.

Menu Design Assessments

The sheer number of strategies isn't the only factor considered for these assessments. Strategy overlap, coverage of core asset classes, and limiting the number of niche options also matter. Exhibit 22 shows each provider's assessment and menu.

Exhibit 22 Menu Design Assessment



Source: Morningstar. Data as of Aug. 31, 2023. Note: A target-date series and a target-risk series each count as one option.

Most providers made few, if any, changes to their investment menus over the past year. One notable exception is UMB.

High Menu Design Assessments

Associated Bank and Lively retain their High assessments from a year ago. Each offers just under 20 funds that cover all the core areas of equity and fixed income, includes passive choices, limits overlap, and keeps a lid on the list of niche offerings.

Above Average Menu Design Assessments

Fidelity continues to earn an Above Average. Participants can build well-diversified portfolios and don't have too many strategies to sift through. The plan does offer two emerging-markets equity strategies when one strong one would do. Newcomer Saturna snags the other Above Average assessment with a very compact lineup of 11 strategies, including a highly regarded American Funds target-date series. It includes no specialty offerings.

Average Menu Design Assessments

Bank of America, HSA Bank, HealthEquity, and Optum make up this group. Their menus hit most of the essential areas but also have shortcomings. The first three offer more specialty strategies than most. Bank of America's menu is the only one covered that offers a commodities strategy. Optum's menu, on the other hand, covers most bases but lacks a dedicated non-U.S. equity vehicle.

Below Average Menu Design Assessments

No providers earned a Low on this measure, but First American Bank and UMB scored the lowest with Below Average assessments. The menu of the former is broadly diversified but also includes off-the-beaten-path choices such as a water fund and tactical-allocation fund. UMB earned a High mark for its menu design last year, but the provider roughly doubled the size of its menu to more than 40 strategies, making it tougher for individuals to navigate. In addition, there's strategy overlap.

Quality of Investments

Best Practice

HSA providers should offer strong investment strategies that earn Morningstar Medalist Ratings of Bronze or better. The good news is that this group does that. Each of the 10 providers earns an Above Average assessment based on Morningstar Medalist Ratings. HealthEquity earns the highest score as its menu is dominated by cheap, highly regarded index trackers; 87% of its menu earned a Gold or Silver rating as of September 2023, and it featured no Neutral- or Negative-rated options. Indeed, none of the providers had a Negative-rated fund on their menus, and a total of four providers had no Neutral-rated fare.

Utilizing a numerical scale, with 1 as a Negative rating and 5 as a Gold rating, the lineups scored an average of 4.04. Funds placed under review were omitted from the Average Quality Score. Funds with Gold, Silver, or Bronze ratings made up at least 91% of each lineup, up from 88% last year.

Exhibit 23 Quality of Investments Assessments

Provider	Assessment	Average Quality Score	Morningstar Medalist Rating %				
			Gold	Silver	Bronze	Neutral	Negative
HealthEquity	● Above Average	4.26	41.94	45.16	9.68	3.23	0.00
UMB	● Above Average	4.24	39.22	49.02	7.84	3.92	0.00
HSA Bank	● Above Average	4.17	31.03	55.17	13.79	0.00	0.00
Fidelity	● Above Average	4.06	23.53	58.82	17.65	0.00	0.00
Associated Bank	● Above Average	4.00	36.36	36.36	18.18	9.09	0.00
Optum	● Above Average	4.00	31.03	37.93	31.03	0.00	0.00
Saturna	● Above Average	4.00	30.00	45.00	20.00	5.00	0.00
Lively	● Above Average	3.90	25.00	55.00	15.00	0.00	0.00
Bank of America	● Above Average	3.87	16.22	64.86	13.51	5.41	0.00
First American Bank	● Above Average	3.86	25.00	50.00	17.86	3.57	0.00
Average		4.04	30.23	50.50	15.61	2.99	0.00

Source: Morningstar. Data as of Aug. 31, 2023. Note: A target-date series and a target-risk series each count as one option.

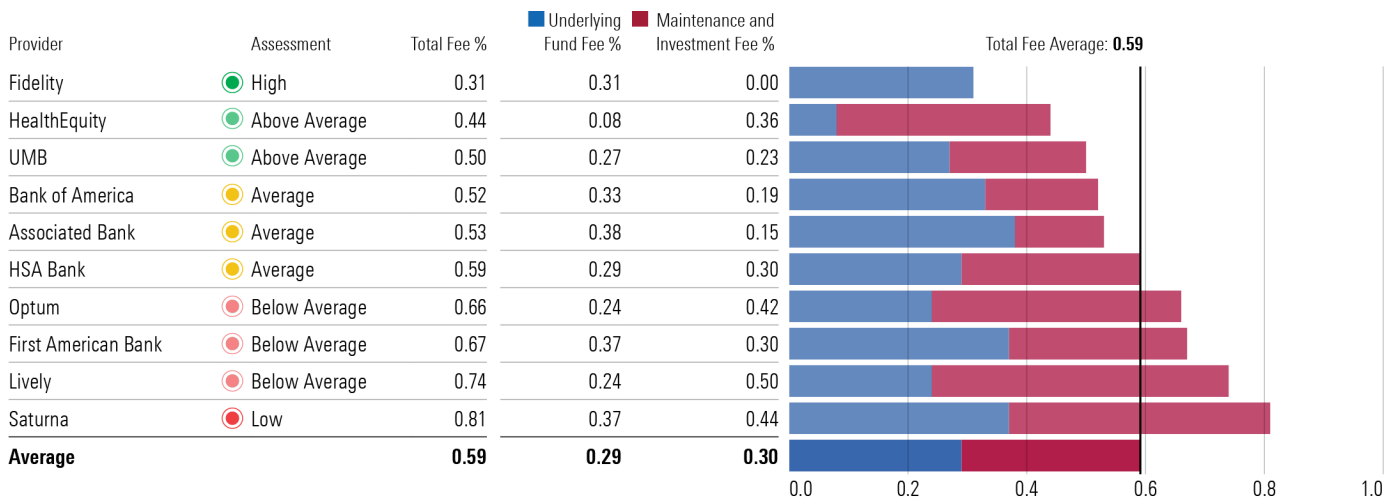
Price

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 a \$2,500 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 24 shows each provider's Price assessment along with the calculated fees.

Exhibit 24 Price Assessments



Source: Morningstar. Data as of Aug. 31, 2023. Assumes a \$14,000 investment account balance and a \$2,500 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 declined since Morningstar began evaluating 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. Other providers have also trimmed 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.

Seven of these 10 providers don't charge a maintenance fee at all. However, Fidelity is the only one that doesn't charge a maintenance, investment, or custodial fee, giving it a leg up on the competition. Exhibit 25 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 25 Maintenance and Investment Fees

HSA Provider	Annual Fees			Fees assuming a \$2,500 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
Saturna	30	42 ²	—	72.0	0.44
First American Bank	—	—	0.30	42.0	0.26
HSA Bank	—	—	0.30 ³	42.0	0.26
HealthEquity	—	—	0.36 ⁴	50.4	0.32
Associated Bank	0-36 ¹	24	—	24.0	0.15
Lively	—	—	0.50	70.0	0.44
UMB	—	36	—	36.0	0.23
Optum	—	12	0.36 ⁵	62.4	0.38
Average				46.8	0.30

Source: Morningstar. Data as of Aug. 31, 2023.

1 Associated Bank's maintenance fee is waived when spending accounts surpass \$2,500. The maintenance fee is also waived in the first 12 months for all customers.

2 Saturna charges a 0.30% fee on non-Saturna managed mutual funds.

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

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

5 Optum's custodial fee is capped at \$10 per investor per month; a 0.35% fee on AUM per year for balances of \$5,000 and above.

High Price Assessments

Fidelity is the cheapest of the bunch. Its menu of underlying funds charges, on average, an expense ratio that lands in the middle of the pack. But its lack of additional fees vaults it to the top of the rankings.

Above Average Price Assessments

HealthEquity and UMB score well on this front. HealthEquity takes a different path than the others. Its 0.36% custodial fee is among the highest account-based charges. But its lineup of passive underlying funds is by far the cheapest of the group. UMB, on the other hand, charges dollar-based fees that are modest for the combined spending and investment account balances being used here, while the cost of its fund lineup is roughly average.

Average Price Assessments

Associated Bank charges a modest investment fee, as well as a maintenance fee that it waives when assets hit \$2,500. Its underlying funds are the priciest of the group, though. Bank of America charges a maintenance fee, and the fees of its underlying funds are roughly average. HSA Bank's 0.30% custodial charge is offset by the lack of a maintenance fee, and its funds' price tags are middling. Optum's fund lineup is on the cheaper side, but investment and custodial fees eliminate any advantage.

Below Average Price Assessments

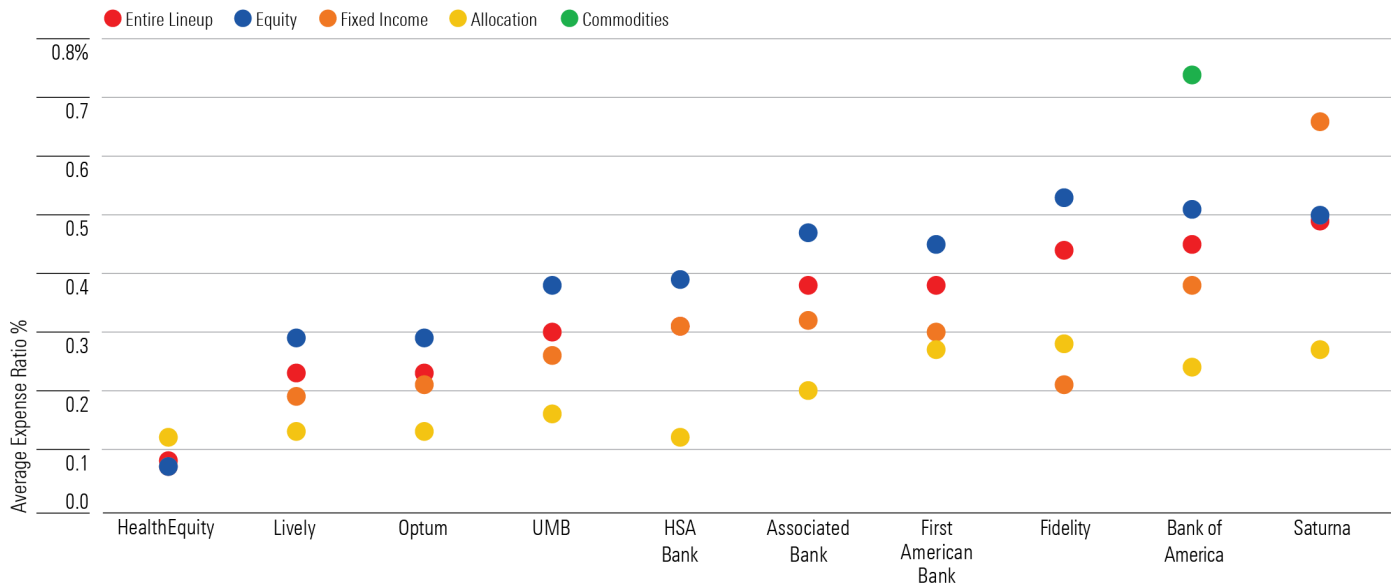
First American's relatively costly underlying funds hurt its score, while Lively's hefty 0.50% custodial fee more than offsets a modestly priced fund lineup. Optum charges an investment fee as well as a custodial fee, and its fund lineup is one of the priciest.

Low Price Assessment

While newcomer Saturna has put together an attractive menu of funds, maintenance and investment fees coupled with above-average fund expense ratios leave the provider at the bottom of the price rankings.

Exhibit 26 illustrates where HSA participants can best cut costs within these providers' fund menus.

Exhibit 26 All Providers Surveyed Offer Relatively Cheap, Broadly Diversified Allocation Strategies



Source: Morningstar. Data as of Aug. 31, 2023. Assumes a \$14,000 investment account balance and a \$2,500 spending account balance. Total Fee numbers may appear slightly larger or smaller than the sum of the two components due to rounding.

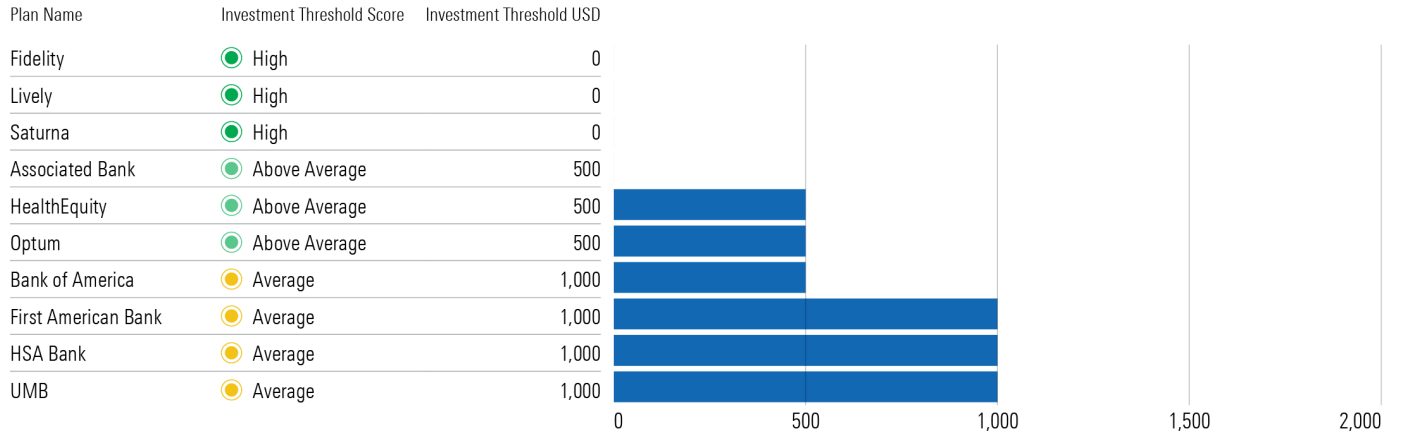
Investment Threshold

Best Practice

HSA providers should allow participants to invest without having to meet an account balance minimum. Consider the opportunity costs imposed by such investment thresholds. While higher interest rates take away some of the prior sting of missing out on using HSA investment account features, hidden expenses can still be substantial. Assume the average HSA investor has \$16,500 in their account, can earn 6% annually, and use the median interest rate of 0.45%. The opportunity cost of parking \$1,000 in the checking account is \$55.50. 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 Saturna each earn a High assessment for not requiring an investment threshold. Associated Bank, HealthEquity, and Optum earn an Above Average for their \$500 minimums. Bank of America, First American Bank, HSA Bank, and UMB each require a \$1,000 balance and thus earn an Average. ■■■

Exhibit 27 Investment Threshold Assessments



Source: Morningstar. Data as of Aug. 31, 2023.

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 PPO.

Health Savings Account: A tax-privileged medical savings account available to HDHP enrollees.

Health Savings Provider: A firm that offers HSAs.

Deductible: As of 2023, to qualify for an HSA, an HDHP must have a deductible of at least \$1,500 for self-only coverage or \$3,000 for family coverage. The HDHP's annual out-of-pocket expenses, including deductibles but not premiums, cannot exceed \$7,500 for self-coverage and \$15,000 for family coverage. For 2024, an HDHP must have a deductible of at least \$1,600 for self-only coverage or \$3,200 for family coverage, and annual out-of-pocket expenses, including deductibles but not premiums, cannot exceed \$8,050 for self-coverage and \$16,100 for family coverage.

Contributions: HSA participants have annual contribution limits. In 2024, those covered by an individual plan can contribute up to \$4,150 annually, while those covered by a family plan can contribute up to \$8,300. 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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