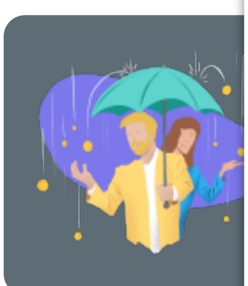
2020 Lively
HSA Persona Report

Insights Into the HSA Account Holder

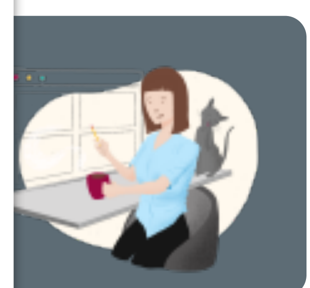
The Monopolist

Cash Is King



Base Jumper

The Typical HSA Account Holder



The Maven

HSAs as a Retirement Vechile

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Methodology

Lively compiled 13 account traits from 40,000 randomly selected Health Savings Accounts (HSA) for our study including accounts with and without active contributions. With this information, Lively's data science team used a machine learning k-means user clustering approach (vector quantization) to organize and delineate the optimal number of HSA personas based on our entire data set of anonymous HSA account holders.

This is our first annual HSA Persona Report.

Overview

An HSA provides a direct way to save pre-tax dollars for qualified out-of-pocket medical expenses. By definition, it is a way to save money for health-related expenses. So why do HSAs suffer from chronic negative perception? Lack of adequate education has long been pigeon-holed as the pain of the HSA experience, but that is just one symptom. The real issue is that there is no average HSA account holder. And the industry's understanding of what the typical HSA account holder looks like is wrong. Individual health savings needs vary greatly. A personalized approach is the only way to combat these concerns and deliver a modern, impactful HSA experience.

The industry's understanding of what the typical HSA account holder looks like is wrong.

The *real* issue is that there is no average HSA account holder.

Looking at a variety of observable data, we can understand expected account value, detailed account usage, and, most notably, how to increase health savings for all types of account holders.

Unlike other behavioral HSA persona studies, our machine learning classifies like groups based on data analysis, not marketing-based segments or assumptions. That also means that data sets can change - and they often do over time. As such, our models and segmentations are configured to change with them. As expected, an HSA account holder can move from one segment to another over the life of their HSA. In fact, from this modeling, we predict the expected path over the lifecycle of an account holder from one persona to the next. Only predictive data modeling, like the one used at Lively, can account for these future iterations.

This first annual report will break down these behavioral-based identifiers from both an account and a demographic perspective. This process allows the needs and expectations of a specific segment to come to the surface in order to create a better experience, that doesn't feel generic.

We show user needs and expectations for each HSA persona and critical differences in the HSA from other financial verticals, like retirement.

Key Findings

Key Findings

Refining the Typical HSA Experience

1. **The average HSA persona has less than $1,050 in assets.** This helps better forecast the issues most Americans face with annual health savings. The average family spends $8,020 on healthcare expenses each year. HSAs help, but even HSA account holders need more help.

2. **To compare, the most investment savvy HSA account holders have an average balance of $32,000.** Over 95% of those assets are invested, showcasing the HSA primarily as a retirement vehicle for this older, investment savvy persona. This group is more likely to be located in the midwest, southwest, or west region of the US (vs. the north and southeast). They also are the oldest segment of HSA account holders (average 59 years of age).

3. **Healthcare costs are a serious concern and drive direct financial decisions.**

Take the Catalyst persona; for example - these account holders are active HSA spenders and have most of their funds in cash. But those cash averages are over $5,900. The Catalyst persona tends to contribute only once or twice a year but often maximizes their yearly limits. These account holders actively spend their HSA funds.

Or the Monopolist persona - this HSA persona has over $24,000 in assets, over 85% of which is in cash. Despite this, their distributions do not follow their high account balance. Why do they keep all of their funds in cash? They keep their funds ready for any unexpected healthcare costs. They are healthcare ready, each and every day.

And of course, there are the ‘up and comers’ - they want to be serious investors. They have over $6,750 in assets, but over 95% of those funds are invested just like the investor's persona. So they are not at that asset level yet but are on their way.

4.

Individual accounts (meaning accounts not tied to an employer benefits offering) save more than the average employee account. This is in line with the HSA industry and Devenir's findings that show the average contribution in 2020 was $1,652 for individuals and $1,168 for employees.

Employers are not meeting the requirements their employees desire for an HSA (they often settle for a poor HSA or do not offer an HSA at all). This is further proof that consumers are taking on a more proactive role in their healthcare decisions.

5.

HSAs with family contribution levels ($7,100 maximum for 2020) tend to save and invest more across HSA personas (they index 35-50% higher for personas with more than $3,000 in assets). What is surprising is that HSAs with family-level contributions do not necessarily spend more. However, we know that the average family spends $8,020 on healthcare each year ($2,050 in out-of-pocket costs) more than the average individual who spends $4,800 on healthcare each year ($800 in out-of-pocket costs).

The difference is likely accounted for by thoughtful financial planning. Families are trading off short-term out-of-pocket expenses to increase their HSA balances to have a healthcare retirement nest egg for years to come.

6.

Household Income (HHI) is not directly correlated to HSA assets. This runs counter to the 401(k) industry. The age of an HSA is more impactful when it comes to HSA account balance. The older the account (and account holder), the higher the account balance. Account holders need to start as early as possible to set themselves up for financial success.

7.

The average debit card spend (amount per transaction) is universal across personas. This is likely related to the usage of HSAs. From our 2019 HSA Spend Report, we know that 50% of HSA spending is for regular and expected yearly medical expenses like doctor visits & services.

8.

Average reimbursement amounts increase with age regardless of HSA persona type. The increase from account holders in under 55 segment to over 55 segment ranges from 2-10x, suggesting an almost exponential growth in healthcare spending later in life. This is a significant variation.

9.

The ability to invest an HSA is often seen as a feature only for high asset accounts. What we have learned is that an investment offering impacts both savings and investing. Even lower asset accounts want to invest but have been deterred by HSA investment options and traditional HSA providers' fees. Therefore the low investment participation rates of many HSA accounts are based on poor offerings by providers, not from a lack of understanding of the value of long-term HSA account growth. Over a 30-day period, 95% of new Lively account holders that invested with our HSA Guided Portfolio solution were from traditionally low investing HSA personas. These groups are less comfortable with self-directed HSA investment options and wanted some guidance.

10.

The same is true for HSA savings. HSA account holders are leaving money on the table and not maximizing their yearly contribution amounts. By generalizing HSA education, traditional providers are letting their account holders down. With more personalized HSA education, industry growth will accelerate. As a result, we expect account holders at Lively to have more health savings than account holders at legacy providers, all else being equal.

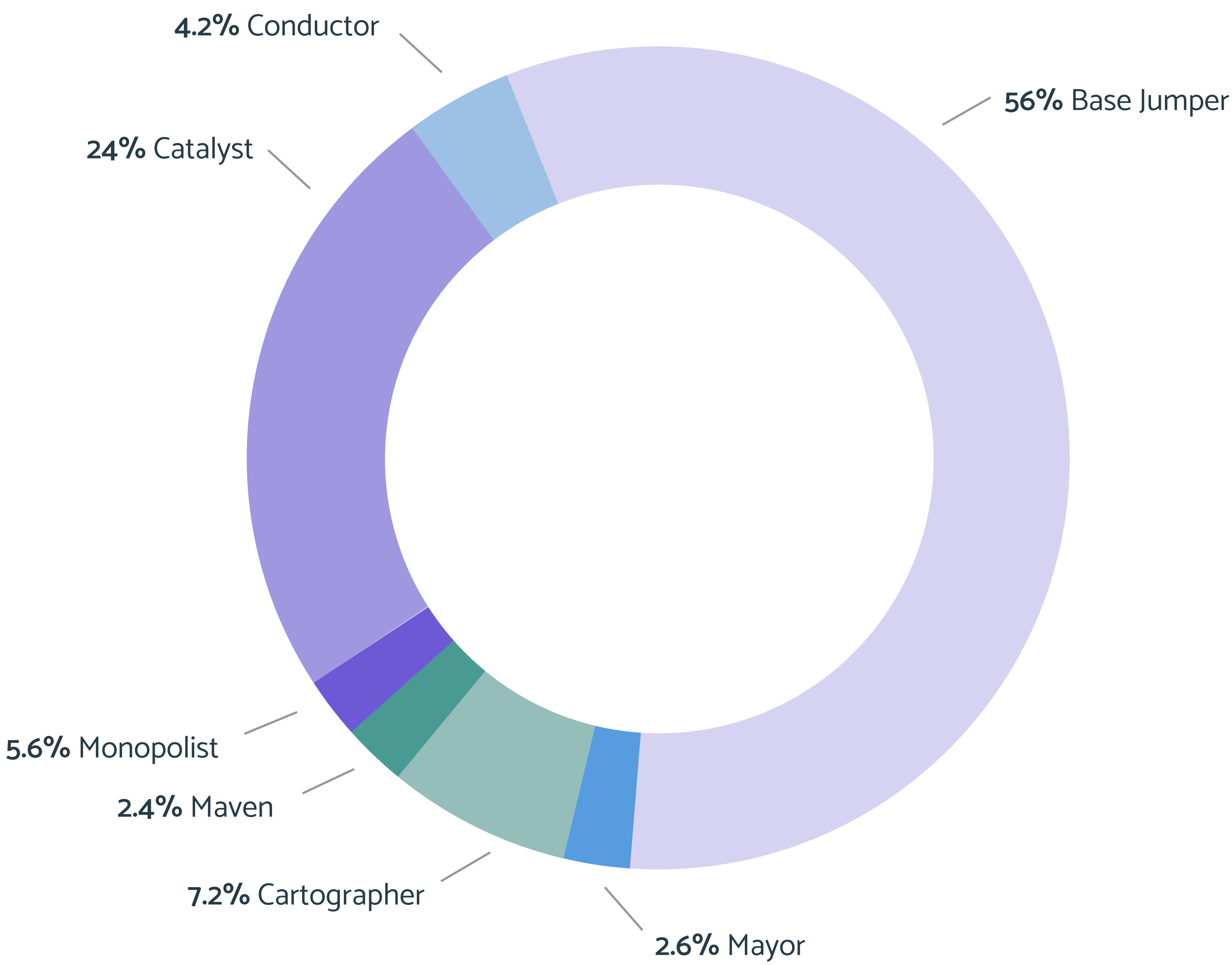
HSA Personas

HSA Persona

Redefining the Typical HSA Account Holder

Most of the time, we look at the expected actions from the average HSA account holder. The account details provide the assumed expected experience for the majority of account holders. It turns out this couldn't be further from the truth. There are distinct HSA personas, each vastly different from the next. Therefore their interactions with an HSA product varies greatly. Let's break down those HSA personas and how they use their HSAs.

HSA Persona Breakdown



The Base Jumper

The Typical HSA Account Holder

This is the largest contingent of HSA accounts (56%). They better help us understand what the normal HSA experience is. Their average account balance is $1,040.

They are actively contributing and spending their HSA funds to pay for healthcare expenses and, as such, tend not to invest their funds. They can't actively save for future unexpected health costs as they need to use their HSA to pay for this year's expected costs.

$1,040
AVERAGE ACCOUNT BALANCE

They are the youngest of all HSA account holders (average age is 42) and the shortest age of all HSA accounts. They have the lowest amount of transfers (in both numbers and dollars) and, as such, are starting from scratch.

They are new to HSAs and are just getting their health savings started.

$1,040 AVERAGE ACCOUNT BALANCE	**$1,000** AVERAGE CASH BALANCE	**$394** AVERAGE INVESTMENT BALANCE
42 AVERAGE AGE	**$133** AVERAGE REIMBURSEMENT	**$150** AVERAGE DEBIT CARD SPEND

Conductor

The Conductor

Hybrid Saver, Spender, and Investor

The Conductor is named to reflect their propensity to manage investments, cash balances, and regular out-of-pocket expenses much in the way a conductor manages an orchestra.

$6,700
AVERAGE ACCOUNT BALANCE

The fifth largest segment of HSA accounts (4.2%) is similar to the Base Jumpers persona, except for one big difference: they have made strides towards saving for the future.

They are saving their HSA funds, as best they can. Because of that, they have an average account balance of $6,700. They have a balanced portfolio with both investments and cash; some to save for the future, and some to spend if needed. They are 70% more likely to be an individual than an employer-sponsored account.

$6,700 AVERAGE ACCOUNT BALANCE	**$3,095** AVERAGE CASH BALANCE	**$3,605** AVERAGE INVESTMENT BALANCE
43 AVERAGE AGE	**$331** AVERAGE REIMBURSEMENT	**$141** AVERAGE DEBIT CARD SPEND

The Catalyst

Knows How to Play the Game

A catalyst is a substance that increases a chemical reaction rate without itself undergoing any permanent chemical change. In that spirit, this cohort has an increased level of spending and savings without using an investment vehicle.

$5,940
AVERAGE ACCOUNT BALANCE

This segment knows how to play the game and is also the 2nd largest segment of HSA accounts (24%). Their larger account balances are likely fueled by the fact that they are 35% more likely to have family medical care coverage and often maximize their HSA funds yearly.

They are much more likely to do so in 1-2 contributions a year than the typical HSA user. That's good news because they have more than one distribution a month and 20-30% more distributions in any given year. This is likely why they keep most of their funds in cash, and 80% have never invested.

Catalyst

$5,940 AVERAGE ACCOUNT BALANCE	**$5,925** AVERAGE CASH BALANCE	**$550** AVERAGE INVESTMENT BALANCE
48 AVERAGE AGE	**$164** AVERAGE REIMBURSEMENT	**$142** AVERAGE DEBIT CARD SPEND

The Cartographer

Acts Like a Maven, But Isn't There Yet

Much like a maven, the Cartographer persona is planning for the long term by getting a lay of the land. Even though this persona sits in the middle when it comes to average account balance ($6,900), they follow the trends of the Maven persona and focus on long-term savings.

Over 95% of their balance is invested. They are the quintessential 'set it and forget it' investors, contributing with regularity but spending as if they had far less money in their accounts, preferring to invest.

$6,942
AVERAGE ACCOUNT BALANCE

$6,942 AVERAGE ACCOUNT BALANCE	**$651** AVERAGE CASH BALANCE	**$6,291** AVERAGE INVESTMENT BALANCE
50 AVERAGE AGE	**$436** AVERAGE REIMBURSEMENT	**$125** AVERAGE DEBIT CARD SPEND

The Mayor

‘High’ Investments - Not Afraid To Spend It

Similar to a conductor, the Mayor juggles multiple mindsets at once. They have high investments and are not afraid to use them if needed, but also tend to have a high cash balance. With an average account balance of $25,900, they are second only to the Maven persona in total assets.

$25,900
AVERAGE ACCOUNT BALANCE

Unlike the Maven persona, however, they keep a balanced portfolio of investments and cash, allowing them to plan for the future and manage out-of-pocket expenses in the present.

They maximize everything when it comes to HSAs, both spending and investing. With an average age of 58, they are getting ready for retirement and expected increased healthcare expenses. They are also 230% more likely to live in the southwest (compared to Lively’s overall book of business).

$25,900 AVERAGE ACCOUNT BALANCE	**$6,675** AVERAGE CASH BALANCE	**$19,225** AVERAGE INVESTMENT BALANCE
58 AVERAGE AGE	**$865** AVERAGE REIMBURSEMENT	**$161** AVERAGE DEBIT CARD SPEND

Monopolist

The Monopolist

Cash is King

If anyone knows that healthcare is expensive, it's this persona. Named for their tendency to hold a large coffer of cash, they prefer to have access to their money if needed.

Their HSA nest egg is actively growing despite the lack of investments, and they have an average balance of just over $24,000.

With an average age of 58, they are actively preparing for increased healthcare costs. They are 30% more likely to have family healthcare coverage than individual healthcare coverage.

$24,075
AVERAGE ACCOUNT BALANCE

$24,075 AVERAGE ACCOUNT BALANCE	**$24,007** AVERAGE CASH BALANCE	**$1,338** AVERAGE INVESTMENT BALANCE
58 AVERAGE AGE	**$241** AVERAGE REIMBURSEMENT	**$157** AVERAGE DEBIT CARD SPEND

The Maven

HSAs are a Retirement Vehicle

This persona uses the HSA exclusively as a retirement saving vehicle. Their average account balance is nearly $33,000. They transferred an average of $10,000 when they opened a Lively HSA.

What is not surprising is that they are the oldest persona (59) and have the highest household income (HHI) of all personas.

What is surprising is that they have the highest average contributions (nearly 10x the average) of $2,359. This correlates with expected higher healthcare costs with age.

$32,639
AVERAGE ACCOUNT BALANCE

They are most likely to have family medical coverage and live in the midwest, southwest, or west region of the US.

Maven

$32,639 AVERAGE ACCOUNT BALANCE	**$831** AVERAGE CASH BALANCE	**$31,808** AVERAGE INVESTMENT BALANCE
59 AVERAGE AGE	**$1,160** AVERAGE REIMBURSEMENT	**$123** AVERAGE DEBIT CARD SPEND

HSA Persona

Demographic Overview

Most legacy providers engage based on the expectation of the 'average' HSA Account holder. As you can see below there is no average account holder. There are distinct HSA personas, each vastly different from the next. Therefore their interaction with an HSA product varies greatly.

Persona	Average Age	HHI	Avg Total Assets	Average Cash Balance	Average Investment Balance*	Average Debit Card Spend	Average Distribution
Base Jumper	42	$67,006	$1,040	$1,000	$396	$133	$150
Conductor	43	$72,762	$6,700	$3,095	$3,605	$141	$331
Catalyst	48	$73,748	$5,940	$5,925	$550	$142	$164
Cartographer	50	$73,296	$6,942	$651	$6,291	$125	$436
Mayor	58	$72,201	$25,900	$6,675	$19,225	$161	$865
Monopolist	58	$72,081	$24,075	$24,007	$1,338	$157	$214
Maven	59	$83,557	$32,639	$831	$31,808	$123	$1,160

*Funded Accounts Only

The average account balance is inclusive of both funded/unfunded investment accounts and cash balances. As such, the average account balance is representative of an overall average and not cash balances combined with investment balances.

Key Findings

HSA Persona Demographics

1. **Household Income (HHI) is not directly correlated to the HSA account balance.** This runs counter to the 401(k) industry. The age of an HSA account holder is more impactful when it comes to the HSA account balance. The older the account holder, the higher the account balance.

2. **The age of persona has the most significant impact on the HSA account balance.** This mimics what we see in the 401(k) industry. Tax-free growth is an incredible incentive to help Americans save for health costs and retirement.

3. **The average debit card spend (amount per transaction) is universal across personas.** This is likely related to the usage of HSA accounts. From our 2019 HSA Spend Report, we know that 50% of HSA spending is for regular and expected yearly medical expenses like doctor visits & services.

4. **Average reimbursement amounts increase with age regardless of HSA persona type.** The increase from account holders in under 55 segment to over 55 segment ranges from 2-10x, suggesting an almost exponential growth in healthcare spending later in life.

Spending by Persona

Healthcare Spending

Is Driven By Normal Healthcare Costs and Age

When it comes to HSA spending, two things matter: the average cost for regular and expected healthcare costs, such as trips to the doctor and the HSA account holder's age. These mimic trends in the healthcare space.

The average debit card spend varies from $123-$161 per transaction. This correlated closely with the industry average of $106 per debit card transaction. From our 2019 HSA Spend Report, we know that 50% of HSA spending is for regular and expected yearly medical expenses like doctor visits and services. Debit card spending is directly connected to these expected costs. As costs potentially increase, so would the expected debit card spend for all personas.

The average distribution increases with age, regardless of HSA persona type. This is an *8x* increase from 42 to 59 years of age.

The average distribution increases with age, regardless of HSA persona type. For example, the Base Jumper persona, who has an average age of 42, has an average spend of $150. A Base Jumper is actively spending their HSA funds. Let's compare Base Jumper to Maven. Because Mavens (the most investor savvy segment) has an average age of 59, it has the highest average reimbursement average ($1,160) of any persona. That is an almost 8x increase in spending. This is connected to increases in healthcare spending with age.

HSAs are the best actualized ledger of current healthcare costs by individuals and families. As healthcare costs increase per transaction, HSA spending will increase rhythmically to any healthcare cost changes.

Investing by Persona

Investing Matters

How different personas understand investing impacts how they save and invest their HSA funds. This directly impacts the HSA funds they will have in the future. Self-directed vs. guided investing are common but uniquely different HSA investing experiences. What is likely unclear is how access (and costs) of these investment options impact HSA account holder investing. This will likely have a clear impact on HSA asset and investment growth for both account holders and industry levels.

Even lower asset account holders want to invest but have been turned off by high HSA investment thresholds and traditional HSA providers' fees.

The low HSA investing of many HSA accounts is based on providers' poor offerings, not a lack of understanding of the value of long-term HSA account growth.

HSA investing is often thought of as exclusively a high asset account feature. What we have learned is that investment offering impacts both savings and investments. Even lower asset account holders want to invest but have been turned off by high HSA investment thresholds and traditional HSA providers' fees. Therefore, the low HSA investing of many HSA accounts is based on providers' poor offerings, not a lack of understanding of the value of long-term HSA account growth.

First, let's look at the impact of investing and fees. On average, only 5% of HSA accounts invest any funds at all. At Lively, over 21% of HSA account holders have a funded investment account. What garners such a significant difference? Lively has no fees or cash minimums to access investments. This has resulted in a 4x increase in funded investment accounts. It points to an apparent fault in the legacy HSA industry. The typical HSA account holder does not invest in order to avoid fees, not due to a lack of education in the value of investments or a lack of desire.

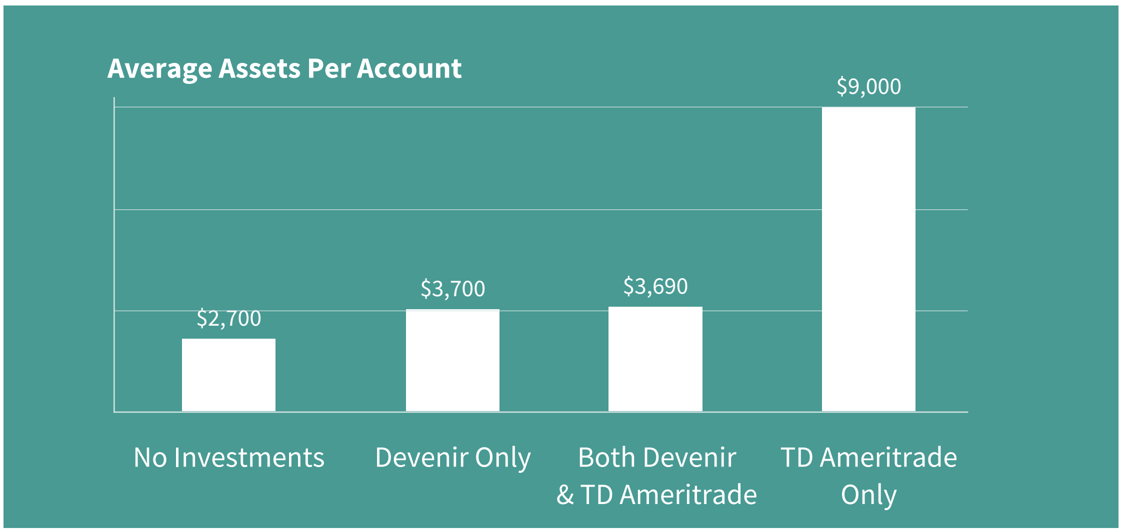
Second, not all HSA investors are the same; there is a clear difference in personas' goals. The more investment-savvy want a self-directed option, while newer investors look for a more hands-off approach, like a guided portfolio. Offering only one option will limit the opening of investment accounts. Having a choice of investment options drives adoption, and ultimately HSA account balance growth. Over a 30 day period after Lively introduced a 'set it and forget it' guided portfolio investment option, 95% of Lively account holders who signed up belonged to traditionally low investing HSA personas. These groups are less comfortable with self-selecting HSA investment options and wanted some guidance.

Even with increased adoption, what should be clear is that not all investors are the same.

Self-directed investors have the highest account balance of all investors, most of those with over $9,000 invested. This is four times greater than a non-investor account balance. This segment tends to be older and has had their HSA for the longest time compared to all other HSA personas.

Hybrid investors (those with both self-directed and guide options) have nearly $3,690 in account holdings. This is 37% greater than a non-investor account balance.

Investors only using a guided investing option have around $3,700 total in their accounts. This is 37% greater than a non-investor account balance. This is the youngest of all investors segments when compared to all other HSA personas.



Account holders who invest their HSA are most likely to have the highest account balances than all other HSA personas. Increasing HSA investment options, with no fees and with no minimums, will increase HSA account balances. This means more funds available for all account holders for healthcare expenses. HSA investing increases health safety for all account holders.

Predictive Persona Modeling

Personas Aren't Static

We now know that individual health savings personas vary greatly. We also know that HSAs aren't static accounts. Account holders' healthcare needs change over time, and as such, their HSA habits follow. Our modeling allows us to take a static picture of these personas and shape a dynamic grouping per persona and then predict the path of account holders.

Once they have a sufficient amount of account activity or assets, every new account holder is grouped into the Base Jumper persona. As the name implies, most Base Jumpers will land into another persona group once they have had an HSA for a reasonable amount of time. The path from Base Jumper to other personas is where we begin to see the personalization of HSA use. It should also be noted that while personas can move, many Base Jumpers will not move into other persona profiles and will stay Base Jumpers, and will remain in this low-asset, frequent-usage bucket

These are 4 common paths for an HSA account holder:

The Steady State

(**No change**) - Healthcare costs are rising, not declining. Therefore it should be no surprise that often Base Jumpers remain Base Jumpers. Even with yearly HSA contributions and savings, most Americans can't get ahead.

The Ever-Ready

(**Catalyst to Monopolist**) - Do they fear the unexpected or just like being overly prepared? It doesn't matter what comes next because, for this path, cash is king.

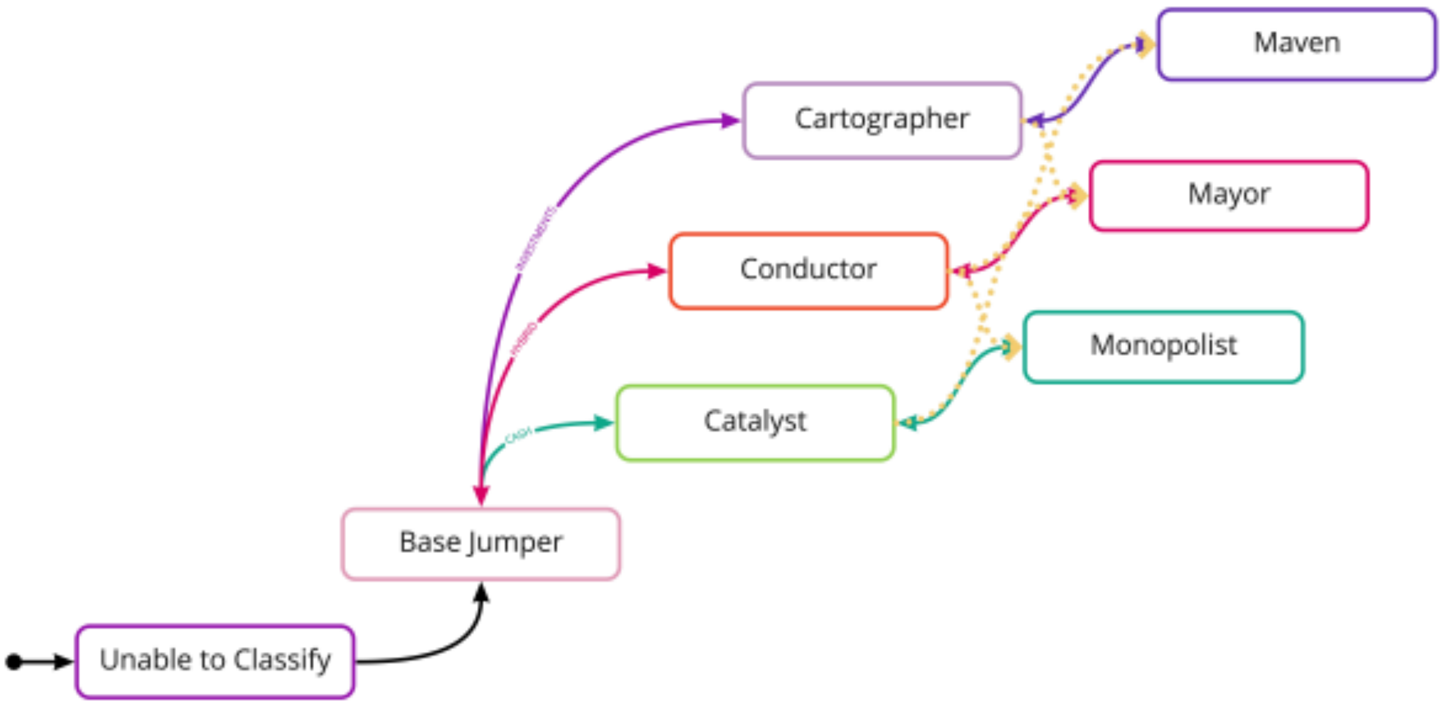
The Expert

(**Conductor to Mayor**) - This path is likely the most knowledgeable about HSAs because they take advantage of everything, often to the maximum ability. They built a nest egg, mostly in cash, but diversify over time and maintain a hedge against both present and future healthcare expenditures. Their account growth has been critical as they now have high average distributions (compared to all personas).

The Investor

(**Cartographer to Maven**) - Investing begets investing. Therefore it is no surprise that increased savings and average reimbursement, and recent financial market conditions are moving Cartographers to Mavens. This path is all about thinking of HSAs as a retirement vehicle. They trade-off yearly out-of-pocket costs to build a substantial HSA nest egg. This also represents the least likely path of all above. As they change from a Cartographer to a Maven, they contribute with reduced frequency but increased dollar values.

Personas Paths



These paths are, of course, not exclusive. They do, however, represent the most common HSA persona lifecycle and unique needs of the HSA account holder. To that end, they are also not linearly directional; movement can and does exist at both ends of the spectrum.

This also creates larger persona buckets in which to understand HSA usage. In future reports, we will be able to assign time constraints and/or account usage changes that account for these changes. We will also discuss how using advanced engagement marketing techniques influence the timeline to increase desired HSA attributes for each persona and help HSA account holders confidently embrace a healthy future regardless of their persona.

Lively Persona Marketing

Persona Marketing

The HSA industry constricts the typical HSA account holder into their vision of who and how to market the HSA offering's value to all account holders. What must be clear is that the vastness of the HSA persona is tremendously different. And as importantly, those personas shift over time, likely based on health care needs and lifestyle changes.

The most important finding is that provider expectations of the typical HSA account holder are wrong or at least vastly misinterpreted. This changes how HSA providers should approach education and account engagement. It is also why HSA education continues to be a top need and priority to employers and account holders. The reason that year after year, this educational need remains is not due to a lack of trying, but a lack of sophisticated understanding and application from legacy providers.

The most important finding is that provider expectations of the typical HSA account holder are wrong or at least vastly misinterpreted.

Lively has shown that incorporating predictive engagement based on transcending persona movement over time and life stages of an HSA is the first step to better understanding an account holder. Using that to create dynamic account and marketing engagement based on predictive movements will enable account holders to get more from their HSA.

What should also be apparent to the industry is that long-held practices like minimums, cash balances, fees to invest, and hidden transactional fees hinder the account holder and overall account growth. That costs the account holder and provider money and slows industry growth. By removing those access costs, account growth will increase.

The only question that remains is what provides a ‘better’ HSA experience for the account holder? Increased assets for each persona are a start, but where should we head from there? Like anything HSA-related, taking a user-centric approach will solve that question.

About Lively, Inc.

Lively is a modern Health Savings Account (HSA) platform for employers and individuals. Lively's user-centric solution creates an intuitive user experience allowing consumers to get the most out of their HSA.

Lively HSAs work alongside HSA compatible plans to make healthcare easier for everyone. Lively was started to help consumers optimize their healthcare spending, maximize their savings, and better their livelihood.

Lively is headquartered in San Francisco, CA. For more information, please visit **Livelyme.com** or contact us at sales@livelyme.com.