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Union of California Unloads Its Health Savings Line

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By Steve Garmhausen

Union Bank of California took a hard look at its health savings account business and decided to sell it to HealthEquity Inc., a Salt Lake City company that specializes in self-directed health products.

The deal, which is set to close next week, will move 3,000 HSAs and $30 million of deposits to HealthEquity.

Union Bank, a unit of UnionBanCal Corp. in San Francisco, acquired the business in 1994, when it bought CNA Trust Co., a Costa Mesa, Calif., provider of retirement plan trust and outsourcing services for institutional investors.

"The bank never really spent a lot of time trying to market it or trying to figure out what to do with it," said Greg Kirland, senior vice president with TruSource, Union Bank's retirement plan services business.

Union Bank, like other banks, found it was hard to turn a profit from the accounts, he said.

Stephen Neeleman, the founder and chief executive at HealthEquity, said that the challenges that banks face in the low-margin health savings account field explain why a dozen have turned over part or all of their businesses to his company over the past three years.

"We ask banks if they're making money on the HSA business, and the answer is almost always a resounding no," said Dr. Neeleman, a practicing surgeon until the fall of 2006.

Donald Mazzella, the editorial director for Information Strategies Inc. of Palisades Park, N.J., predicted that "unless they see dramatic changes in the numbers," 20 to 30 banks will change or close their health savings account operations by the first quarter. "Several players are starting to offer attractive deals to provide back-office support in order to allocate costs over more accounts," Mr. Mazzella said.

HealthEquity provides health savings account services such as administration and custody, but usually the banks retain the deposits in accounts they sell to the firm, he said. (In this case, Union Bank is transferring the deposits to HealthEquity.)

Dr. Neeleman said his company has nearly $100 million of HSA deposits. It also works with 30 health insurers to provide 300 employers with HSAs and other consumer-directed health products and services, he said.

HealthEquity is aiming to double its number of banking partners within the next 12 months, Dr. Neeleman said, but he would not name his firm's current partners other than Union Bank, which announced plans to sell the business to HealthEquity in June.

A handful of banks have made "huge investments" in all aspects of the health savings account business, he said. They will be able to go it alone, but "everyone else is fair game."

Within the next 12 months HealthEquity also wants to add as many as 10 health plan partners, Dr. Neeleman said.

Many banks want to offer health savings accounts but do not want to invest in building the platform, handling administration, and providing customer service, he said.

HealthEquity's usual proposition is to provide outsourcing service for the banks. It is technically the custodian and the passive trustee of the health savings account deposits, but the bank partners are the active custodian; they get the Federal Deposit Insurance Corp. coverage for the deposits, and they can invest the money in loans, securities, or however they wish, Dr. Neeleman said.

"To them, it's just like a demand deposit account," he said.

Banks give part of the interest rate spread to HealthEquity and keep part of it, meaning they can turn a profit as soon as they partner with HealthEquity, Dr. Neeleman said.

But Union Bank (whose parent is majority owned by Mitsubishi UFJ Financial Group Inc.) is going further than that in divesting its entire operation, including the deposits.

Mr. Kirland, who will continue to work at Union Bank, said that the decision to sell the business was part of the bank's effort to exit the defined contribution record keeping business. It interviewed several potential buyers for the HSA business and chose HealthEquity because of its superior technology and because the firm agreed to keep customers' fees and investment options the same, he said.

The account holders will become HealthEquity customers and will soon get a new customer service telephone number and a new Web site. They also will be issued health savings account debit cards for the first time, Mr. Kirland said.

They will also gain services such as coaching on how to spend their health dollars more effectively, he said.

The health savings account business is one of several businesses Union Bank has sold in recent months. Last fall it sold its retirement record keeping business to Prudential Retirement, a subsidiary of Prudential Financial Inc. of Newark, N.J.

The bank said it exited the proprietary retirement record keeping business because of a lack of scale. Union Bank struck an outsourcing deal with Prudential to continue offering retirement plan record keeping services to its customers.

The bank's retirement trustee business was not affected by the sale, and the bank remained the custodian for certain parts of the business it sold to Prudential.

In April, BB&T Insurance Services of Raleigh announced an agreement to buy UnionBanc Insurance Services Inc. of San Diego from Union Bank.