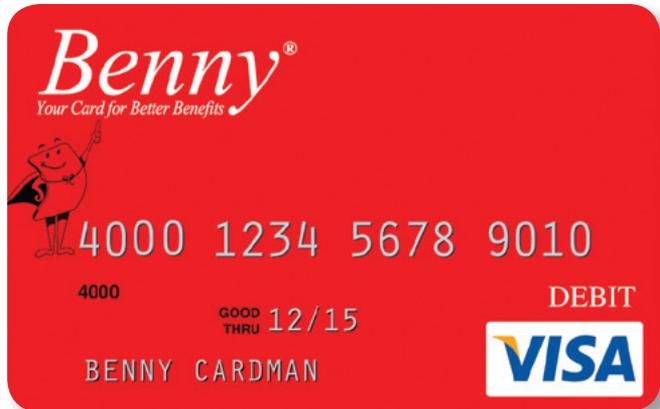


## SNAPSHOT:

# » Health Care

**N**early 15 percent of the insured U.S. population was covered by consumer-directed health care (CDHC) plans in 2010—a percentage research and consulting firm Aite Group expects to rise to more than 30 percent by the end of 2015.

With a market moving from a defined-benefit model to defined-contribution, in which employers predetermine a fixed amount of dollars they contribute toward their employees' health care premiums, Aite expects adoption of health savings accounts (HSAs) to increase. Any increase for flexible spending accounts (FSAs) and health reimbursement arrangements (HRAs) will be on a smaller scale, with regulatory uncertainty making HRAs a longer-term risk.



*Evolution1's Benny Prepaid Visa Card.  
Image courtesy of Bancorp.*

"We're continuing to see 25 to 30 percent growth in the [HSA card] market," says Michael Trilli, senior analyst, Aite Group. However, FSA adoption is declining because the IRS "use it or lose it" rule, in which unspent funds are lost at the end of the year, is unpopular with consumers, he adds. (See page 14 for Chris Byrd's take on the prospects for a rule change that could open the door for significant FSA growth.)

Joshua Gilbert, a principal at First Annapolis Consulting, says the vertical's growth depends on improving penetration rates for health care programs, which will hinge on employee awareness, employers thoroughly explaining the benefits to their employees and having a prepaid card as the primary way for employees to access those accounts.

"Employers will expect their health care providers or third-party administrators (TPAs) to offer cards to streamline the expenses and administrative processes associated with a [health care] program," Gilbert says. "A prepaid card makes expenditures more convenient for employees and easier to administer for employers. [The card] will be a market expectation."

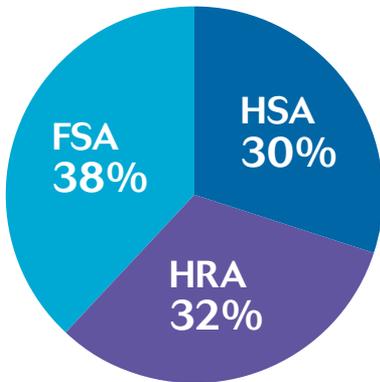
What's more, Madeline Aufseeser, senior analyst at Aite Group, notes that most prepaid cards designed for CDHC plans can restrict certain transactions at the point of sale and they remove paper from the process.

"From a TPA's perspective, those are very handy mechanisms to have in place," Aufseeser tells Paybefore. "A lot of the same benefits associated with payroll cards are what they're going to find on these products. They don't have to cut checks. They don't have to follow any paper trails."

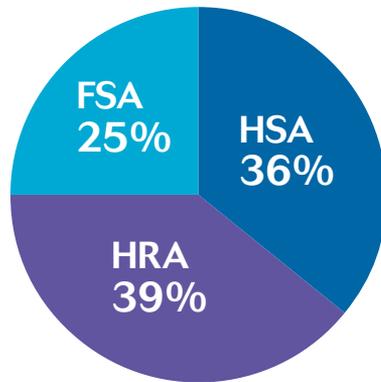
What isn't completely clear yet is the effect the Patient Protection and Affordable Care Act will have. The legislation, signed in 2010, will create public and private health insurance exchanges—marketplaces for individuals and small businesses to buy insurance. Trilli, however, expects insurance providers competing for business in the private exchanges will be offering TPAs robust plans, which bodes well for additional growth within the health care card vertical.

"We're in this early stage of not knowing whether employers will manage their benefits through these exchanges," he says. "It isn't a sure thing, but the potential is there."

CDHC MARKET SHARE BY ACCOUNT TYPE



Est. 2013



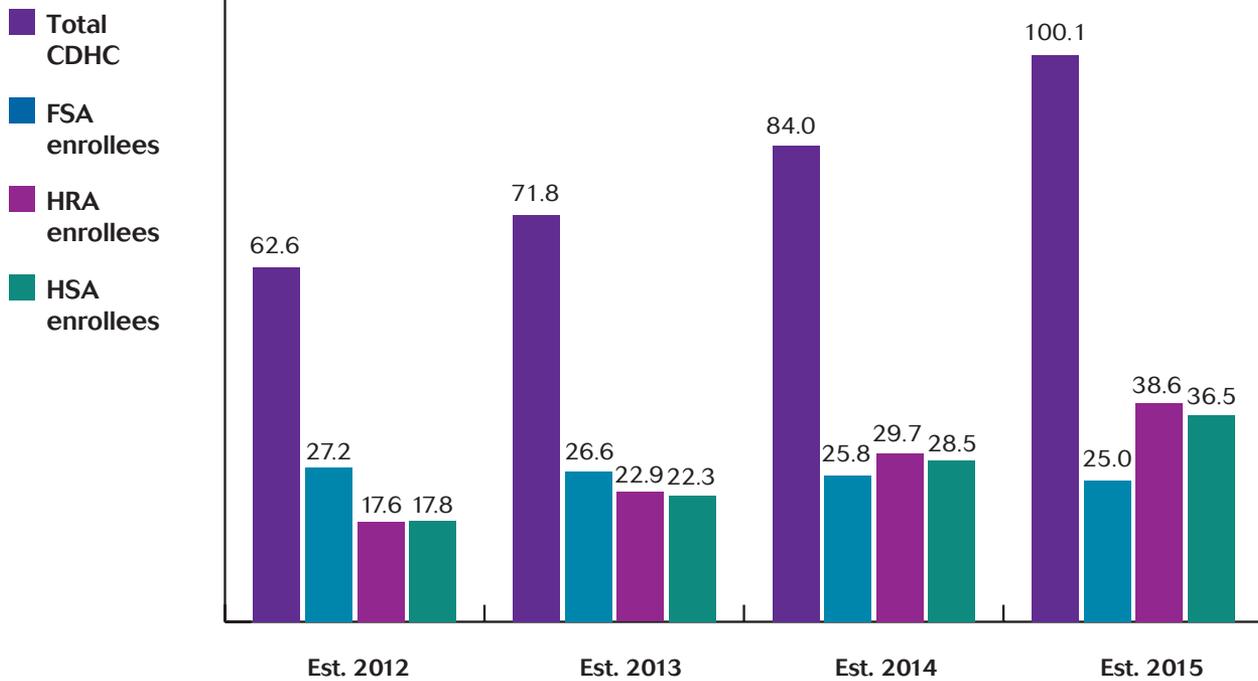
Est. 2015

The growing market share of HSAs and HRAs will more than compensate for the declining market share of FSAs.

SOURCE: Aite Group

TOTAL COVERED LIVES FOR CDHC PLANS (IN MILLIONS)

Aite Group released a market-sizing report on the consumer-directed health care segment last year by interviewing top managers and CDHC vendors to develop an overview of the market, including current usage and expected growth of HSAs, HRAs and FSAs. Updates to this research are expected later in 2013.



SOURCE: Aite Group

## SNAPSHOT: Health Care

“Use it or lose it’ continues to be the No. 1 barrier to FSA usage. **83%** of non-FSA users would be interested in getting an FSA if the rule was dropped.”

—Visa Inc.

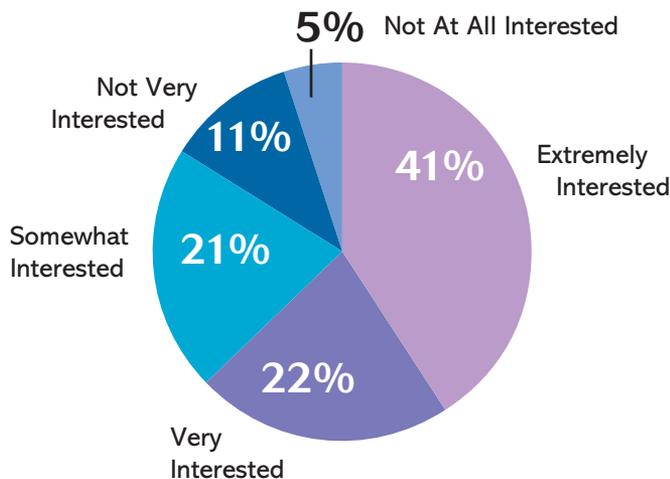
### FSA USERS AND CARD USE

**67%** Have FSA Card

**33%** No FSA Card

SOURCE: Visa Inc.

### INTEREST IN FSA CARD



*Of the one-third of consumers with FSAs without an accompanying card, 63 percent of them are keenly interested in having a card. Only 5 percent were not interested in a card at all.*

SOURCE: Visa Inc.

### ACRONYMS AND DEFINITIONS

#### CDHC = CONSUMER-DIRECTED (OR DRIVEN) HEALTH CARE

Health insurance plans that allow participants to draw on tax advantaged funds in FSAs, HSAs and HRAs to pay routine health care expenses directly. This system of health care is referred to as “consumer-driven health care” because routine claims are paid using a consumer-controlled account versus a fixed health insurance benefit.

#### FSA = FLEXIBLE SPENDING ACCOUNT (OR ARRANGEMENT)

A prepaid card program administered by an employer, in accordance with IRS requirements, that permits employees to set aside pre-tax dollars to pay qualified out-of-pocket medical expenses not covered by the employer’s health care plan.

#### HRA = HEALTH REIMBURSEMENT ARRANGEMENT

An employer-funded prepaid card program that reimburses employees, in accordance with IRS regulations, for qualified out-of-pocket medical expenses not covered by the employer’s health care plan.

#### HSA = HEALTH SAVINGS ACCOUNT

A prepaid card program operated in accordance with IRS regulations that enables participants of a qualified high-deductible health plan to access funds contributed by an employee, employer, or both, for qualified out-of-pocket health care expenses.

SOURCE: Network Branded Prepaid Card Association