A Guide to Evaluating HSA Custodians

By Amy Fontinelle

OK, you've decided to open a health savings account (HSA). If you're doing so on your own, you can open your account at any bank, credit union, insurance company or brokerage that offers these tax-advantaged vehicles for saving for medical expenses. If you open an HSA through your employer, you might be automatically enrolled with a particular HSA manager, but you have the option to switch.

Institutions that manage HSAs are called HSA custodians or HSA administrators.Whether you have to choose an HSA custodian or you're wondering whether the one your employer chose for you is any good, there are key features to evaluate. With dozens of options available, how do you choose?

Paying Fees

Like many a financial account, HSAs come with a long list of associated fees. Some you can avoid, and some you can't. It's important to know how not to incur the unnecessary ones, and how much the required fees will eat into your HSA balance. Here are the types of fees you're likely to encounter, based on the schedules of three popular HSA custodians.

	Health Savings Administrators	**Bank of America**	**HSA Bank**
Fee Type			
Administrative	$45/yr. ($3.75/mo.)	$54/yr. ($4.50/mo.)	$30/yr. ($2.50/mo.)
Custodial	$0.625 per $1,000 Every three months	n/a	n/a
Withdrawals via paper check	$10.00	n/a	n/a
Excess contribution correction/return	25.00	$25.00	$25.00
Non-sufficient funds (NSF)	$30.00	n/a	n/a

Overdraft	n/a	$25.00	n/a
Transaction correction	$25.00	n/a	$25.00
Wire Transfer	$25.00	n/a	$25.00
Account transfer/rollover to another custodian	$25.00	$25.00	n/a
Account closure	$25.00	$25.00	$25.00
Replace lost or stolen debit cards	$12.00	$ 0.00	$12.00
Stop payment	$25.00	$25.00	$25.00
Copy of debit card merchant receipt	$25.00	n/a	$25.00
Duplicate copy of tax statement	$ 4.00	$ 5.00	$ 4.00

HSA Bank offers a particularly good outline showing how its customers can avoid fees.

HSAs that offer an investment option will have a separate fee schedule. Here, you'll encounter fees such as online trading commissions for stocks and ETFs, annual fees, low-balance fees and mutual fund fees. These fees are similar to those you'd encounter in any brokerage account. You may be able to avoid them by selecting commission-free investments and keeping your account balance above a stated minimum. (For further reading, see *How to Effectively Utilize Health Savings Accounts*.)

"You don't want to choose an HSA custodian that charges you too often or too much," says Stephen D. Neeleman, MD, founder and vice chair of HealthEquity, one of the oldest and largest health savings account custodians. "Find out whether fees are based on the amount of money in your account or on how much you contribute monthly, or whether it's a fixed fee independent of how much money you have in your HSA. Ask whether the fees are waived once the balance reaches a certain level and whether your employer will pay the fees if the account is offered through them."

For any fees you do incur, ask your HSA custodian about paying them by check from another source of funds rather than deducting them from your HSA balance, thus depleting your account of funds that grow tax-free.

Earning Interest

Some HSA custodians pay the same interest rate, regardless of your account's cash balance. Others have tiered rates, meaning the interest you'll earn depends on how high your balance is. You might earn 0.05% annually if your balance is $0–$2,499.99; 0.1% if your balance is $2,500–$4,999.99; and 0.2% if your balance is $5,000 or more. Make sure your HSA custodian is a member of the Federal Deposit Insurance Corporation (FDIC), so your funds are protected in the unlikely event the bank fails.

As with most bank checking and savings accounts, you're unlikely to find an HSA custodian whose interest rates are high enough to keep up with inflation, even if your HSA balance falls in the highest tier. To earn more, you'll want to invest any part of your balance that you can afford not to touch for medical bills for several years. And that brings us to another factor to consider in choosing your HSA custodian.

Investment Options

"I like banks that have brokerage accounts linked to the bank account, so once you've accumulated enough to cover your deductible for the year, you can invest your money in anything that is available on the brokerage platform," says Michael E. Chadwick, owner of his own investment advisor firm in Unionville, Conn. You only want to invest the part of your HSA balance that exceeds your health insurance deductible, in case you have a big medical expense one year.

Plan not to touch any balance you invest for as long as you can. "If you don't use it up, later in life you can roll it into a retirement plan and live on it," Chadwick says. (For more details on this topic, read *How to Use Your HSA for Retirement*.)

The types of investments that are good for your HSA "depend on your investment sophistication and risk tolerance," Chadwick says. He suggests that most people be cautious and avoid high-risk instruments, aiming for a 3% to 4% return on the conservative side and 6% to 7% if you're comfortable with a balanced investment strategy.

More specifically, look for a variety of low-cost funds that will let you invest in the S &P 500, U.S.Treasuries, and other blue-chip choices. Investment costs such as Fund expense ratios and other investment costs are key because they can cut into your long-term returns. Avoid investments with early withdrawal fees unless you are sure you'll hold them long enough to avoid the fee.

Choose an HSA administrator that offers these options – and maybe more, in case you want to change your investment strategy later. Similar to FDIC insurance, make sure the investment accounts are SIPC insured, meaning that if the administrator goes bankrupt, you can recoup your funds (up to a certain amount). SIPC insurance does not protect you against losses because the stock market declines, of course.

Contribution Strategies

If you don't like your employer's choice of HSA custodian, you can change. However, there are two big reasons why you might not want to close that account: matching contributions and tax savings.

"If your employer matches your HSA contributions, it's better to keep contributing to their default HSA account and open up a secondary HSA with your preferred institution," Neeleman says. "Then you can roll over all the funds from your employer-funded HSA into the secondary HSA in an annual sweep. Your employer will most likely only contribute to the HSA they've set up, and you don't want to miss out on the free money." You don't have to pay income tax or FICA(Social Security and Medicare) taxes on that match, remember.

You're also gaining money, in a sense, if your HSA contributions come directly out of your paycheck: They're considered as being made with pre-tax dollars, and so they effectively reduce your gross income for federal and state income taxes, and for the FICA contributions as well.

If you’re self-employed or you don’t have the option to contribute to your HSA through payroll deductions, all is not lost. You can contribute on your own. You’ll be contributing after-tax dollars, but you’ll then claim your contribution as an above-the-line adjustment to your gross income on your tax return's form 1040 and attach IRS form 8889, Health Savings Accounts, showing how your calculated your deduction. However, you will not get the FICA tax savings that you would get by having your contributions deducted from your paycheck.

The Bottom Line

Choosing an HSA custodian is similar to choosing a place to open a checking account, a savings account or a brokerage account. You want to find an HSA administrator with low fees (especially for expenses that regularly recur, such as maintenance fees and custodial fees), relatively high interest rates for short-term and cash balances, and low-cost investment options for long-term balances.

And of course, the custodian should provide an easy-to-use website and basic account protections like FDIC or SIPC insurance. Online tools such as HSA Search can help you get started.