

AMERICAN BANKER[®]

THE FINANCIAL SERVICES DAILY

Wednesday, January 4, 2006

insurance/investments products

N.Y. Payroll Processing Firm In HSA Fray with Mellon Link

■ BY CHRISTINE BUURMA

Paychex Inc. became one of the first payroll processing firms to enter the health savings account market last month when it started a small-business health savings account in conjunction with Mellon Financial Corp.

The Rochester, N.Y., company hopes its processing capabilities will set the HSA apart from competing products and help generate profits in a low-margin industry, said Tony Tortorella, a vice president of sales in Paychex' human resources division.

Low profitability and limited distribution opportunities have dogged the health savings account market since the accounts were authorized by a 2003 law. Large banking companies have already tapped health plans, third-party administrators, and business services companies, making it difficult for smaller companies to compete in those distribution channels, industry observers say.

MasterCard's TowerGroup research subsidiary warned in a recent study that third-party vendors, processors, and health-care providers are all aggressively vying for share in the HSA market. Low transaction volumes may also hamper the market's profitability, observers have cautioned.

But Paychex is forming partnerships with agents licensed in nearly every state to distribute its health savings account, and the company has branch offices in several states, Mr. Tortorella said.

Paychex also believes its payroll processing expertise will give it an edge in the HSA business, he said. The complete integration of payroll



Tortorella: Simplifying "a very complicated way of funding insurance."

services with the HSA will make the product more seamless and easy for employers to use, he added.

"We have built an entire company around this — making accurate calculations and remittances to the [insurance] carrier," Mr. Tortorella said. The Paychex HSA takes those tasks, along with compliance responsibility, legal document development, and status report issuance, out of the small-business owner's hands, he said.

"We bring simplicity to a very complicated way of funding insurance premiums and deductibles," Mr. Tortorella said.

Health savings accounts complement some of the company's other human resources offerings, he said. Paychex has a large workers' compensation sales force and also distributes HMOs, PPOs, and flexible spending accounts.

Because Paychex' customer base largely comprises small businesses, the company is accustomed to low per-client transaction volumes, Mr. Tortorella said. The average Paychex client distributes 13 checks per pay period.

"We're not in this to create the largest profit stream Paychex has ever seen," he said. But because the company has many customers, it can keep costs low and eliminate many transaction-related costs for its clients, he added.

Requests from small-business customers, the bulk of the Paychex client base, persuaded the company to introduce its health savings account, Mr. Tortorella said. Small businesses often offer high-deductible health plans in an effort to reduce health-care costs, and the tax-free HSAs can be used by employees to cover the bills not paid by insurance.

Paychex decided to wait until now to start a health savings account because it wanted banks and insurance companies to develop their HSA-related capabilities more fully first, Mr. Tortorella said. "We wanted to be able to interface with the banks and the insurance companies fairly easily," he said.

Mellon Trust of New England will be the custodian of accounts established by Paychex customers. A spokesman for the Pittsburgh-based banking company was unable to provide comment by press time. ■

PAYCHEX[®]

1-800-322-7292 www.paychex.com