

## Findings From EBRI's Flexible Spending Account Database, 2020

By Jake Spiegel, Employee Benefit Research Institute

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### AT A GLANCE

- There is a lack of comprehensive account-level data on how workers use their flexible spending accounts (FSAs). In this *Issue Brief*, we analyze EBRI's FSA Database to gain a better understanding of how workers contribute to and withdraw from their FSAs and how usage varies by FSA type and age.
- The average FSA contribution in 2020 was \$1,265. The vast majority of workers — 89 percent — took a distribution, and among workers who took a distribution, the average distribution was \$1,287.
- Workers who had a limited-purpose FSA (LPFSA) made much smaller contributions than workers who had a standard health care FSA; \$859 vs. \$1,259. Additionally, fewer workers with LPFSAs took distributions compared with workers with a standard health care FSA. Seventy-four percent of workers with an LPFSA took a distribution, compared with 90 percent of workers with a standard health care FSA.
- FSA contributions and balances did not significantly vary based on whether the accountholder had a “use-it-or-lose-it” FSA, an FSA with a grace period, or an FSA with a rollover feature.
- Accountholder age was strongly correlated with both contributions and distributions. Older accountholders contributed more on average than their younger counterparts. Additionally, they were more likely to take distributions, and when they did, took larger distributions than younger workers.

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**Suggested Citation:** Spiegel, Jake, “Findings From EBRI’s Flexible Spending Account Database, 2020,” *EBRI Issue Brief*, no. 559 (Employee Benefit Research Institute, May 26, 2022).

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## Introduction

Flexible spending accounts (FSAs) can be a useful way for workers to stretch health care spending dollars further than they otherwise could. Workers can contribute to FSAs on a tax-free basis, and withdrawals for qualified medical expenditures are also tax free. However, little is known about how workers use — or don't use — FSAs. For instance, the Survey of Consumer Finances (SCF), a commonly used survey tracking the finances of American households, does not ask respondents about their usage of FSAs. The Survey of Income and Program Participation (SIPP), another survey commonly used by analysts studying household finances, merely asks respondents if they have an FSA, neglecting to field more detailed questions about contributions and distributions. In response, the Employee Benefit Research Institute (EBRI) established the FSA Database to shine a light on this under-researched employee benefit. In this *Issue Brief*, we examine attributes of FSAs, such as contributions and distributions, and analyze how these attributes vary based on FSA type and accountholder age.

### About the EBRI FSA Database

The EBRI FSA Database is a representative repository of information about individual flexible spending accounts (FSAs). The database is unique because it includes data provided by a wide variety of account recordkeepers and, therefore, represents the characteristics and activity of a broad range of FSA contributors. As of Dec. 31, 2020, the EBRI Database includes:

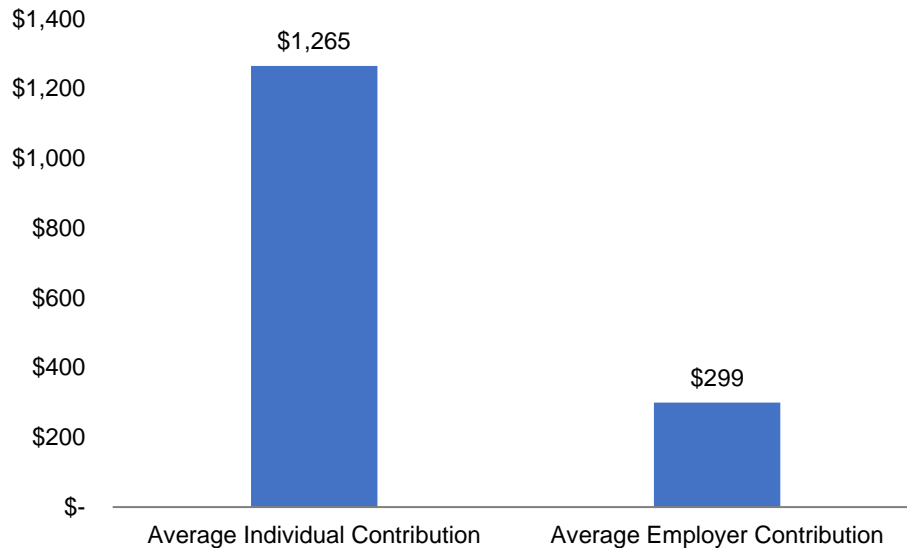
- Over 1.9 million flexible spending accounts.
- Over \$2.34 billion in contributions.

Now in its second year, EBRI's FSA Database has more than quadrupled in size, now accounting for 1.9 million FSAs, up from 460,000 last year. In total, FSAs in EBRI's FSA Database received \$2.38 billion in contributions, up from \$563 million last year, and of which about 98 percent, or \$2.34 billion, were employee contributions, and about 2 percent, or \$44 million, were employer contributions.

## FSA Contributions

In 2020, workers contributed an average of \$1,265 to their FSAs. Only 7.7 percent of accountholders had the benefit of also receiving an employer contribution; among those who did, the average employer contribution was \$299, shown below in Figure 1. Only 3.6 percent of workers contributed the statutory maximum, which was \$2,750 for 2020. Interestingly, inertia may be a powerful force in setting contribution amounts, as 10.5 percent of workers contributed the statutory maximum for 2019 (\$2,700).

Figure 1  
**Average Individual and Average Employer FSA\* Contributions, 2020**

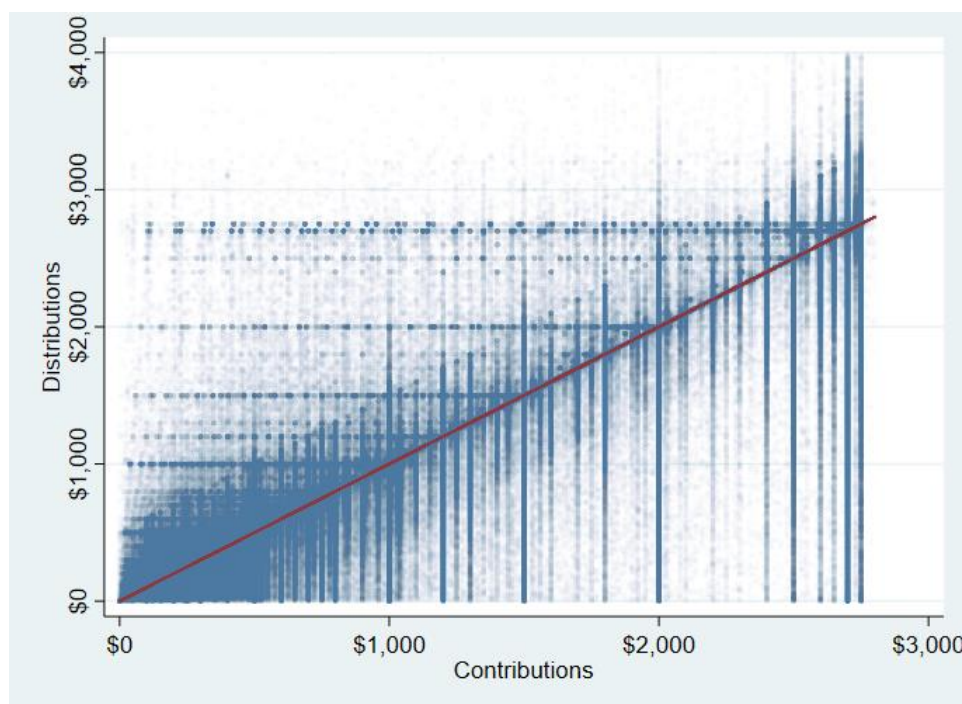


\* FSA = flexible spending account.  
Source: Author's analysis of EBRI's FSA Database.

## Distributions

The vast majority of accountholders took a distribution in 2020. Fully 89 percent did, similar to the share of accountholders taking a distribution in 2019. Of those who took a distribution, the average amount withdrawn was \$1,287, nearly identical to the average of \$1,279 observed in 2019. That distributions are closely tied to contributions is not surprising. There is a strong incentive for FSA accountholders to spend the entirety of their balances. Unlike with health savings accounts (HSAs), there is a limit to how much accountholders can roll over each year — if they can at all — and so accountholders can generally not withdraw significantly more than they contribute. Many FSA accountholders withdraw about as much as they contribute, as shown below in Figure 2. The red line in Figure 2 represents a 1:1 ratio between contributions and distributions. Most accountholders appear to be clustered around this line. Dots above the red line represent an accountholder who withdrew more than they contributed in 2020, and dots below the red line represent accountholders who contributed more than they withdrew in 2020. Also, this graph notably shows that accountholders tend to target round numbers for contributions.

Figure 2  
**Plot of Contributions vs. Distributions**



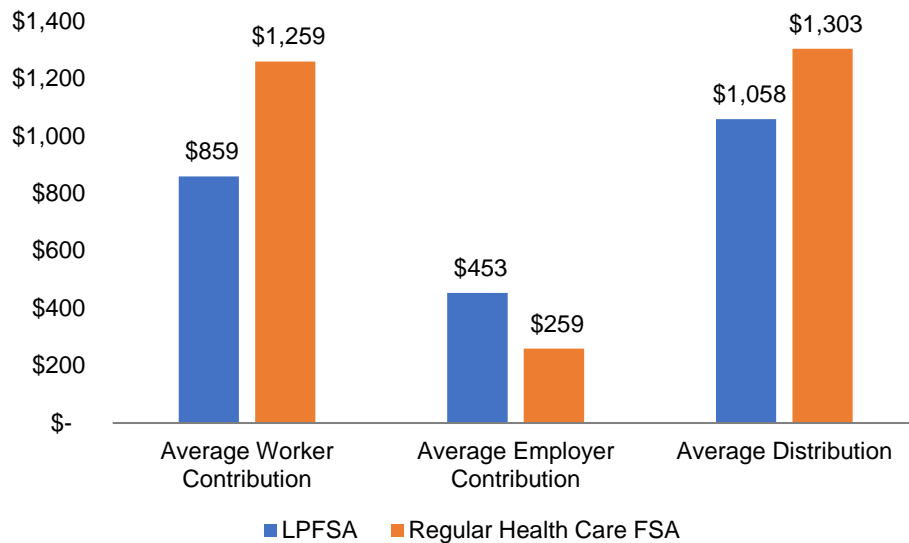
Source: Author's analysis of EBRI's FSA Database.

EBRI's previous analyses of FSAs found that about 50 percent of accountholders carried a balance as of March 15, implying that those funds would be forfeited. The average forfeiture was \$369 in 2019. However, drawing a direct apples-to-apples comparison using 2020 data is difficult. As part of the Coronavirus Aid, Relief, and Economic Security (CARES) Act, employers could allow their workers to carry over funds in excess of the statutory maximum. This provision was extended by the Consolidated Appropriations Act (CAA) through 2021 as well. It is unlikely that every single employer opted into these changes. Conversely, it is unlikely that every single employer failed to opt into these changes, thereby precluding a direct comparison. However, these changes may not have been well communicated to employees of companies that chose to adopt the temporary rollover rules, as a very similar share of workers carried a balance as of March 15, 2020, as did workers as of March 15, 2019. In 2020, 48 percent of workers carried a balance as of March 15, and the average balance was \$409.

### **Limited-Purpose FSAs**

Workers who are enrolled in an HSA are ineligible to contribute to regular health care FSAs, but they can enroll in limited-purpose FSAs (LPFSAs) to save specifically for vision and dental expenses. In EBRI's FSA database, LPFSAs account for 8 percent, or about 153,000 accounts. Since these accounts are specifically intended for defraying dental and vision expenses, LPFSA accountholders tend to use them differently than standard health care FSAs. Notably, the average contribution to an LPFSA was significantly smaller than the average contribution to a standard health care FSA: \$859 compared with \$1,259, shown below in Figure 3. This may reflect the more limited scope of qualified medical expenditures that are eligible for reimbursement from an LPFSA compared with a regular health care FSA.

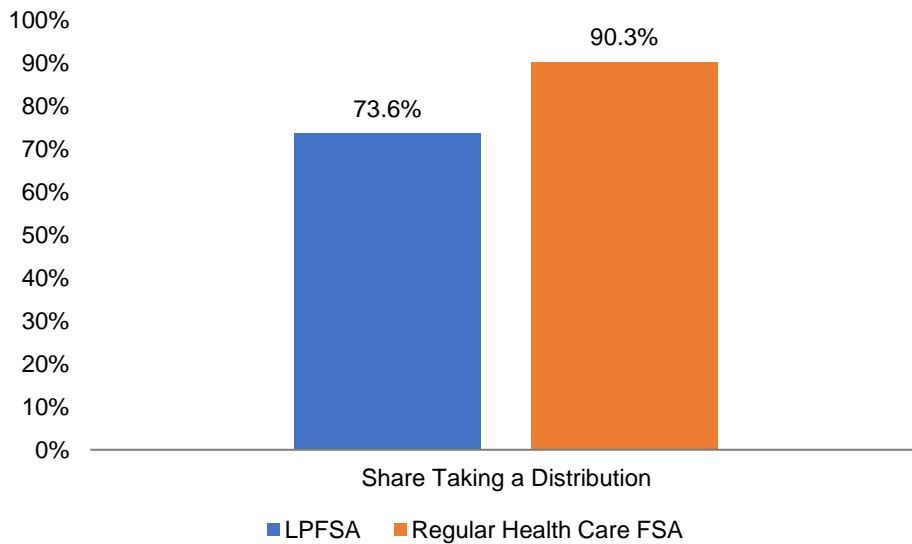
**Figure 3**  
**Selected Attributes of LPFSAs Compared With Regular Health Care FSAs\***



\* LPFSA = limited-purpose flexible spending account, FSA = flexible spending account.  
 Source: Author's analysis of EBRI's FSA Database.

In addition to taking smaller distributions on average, workers with an LPFSA were less likely to take a distribution than workers with a regular health care FSA. Only 73.6 percent took a distribution in 2020, compared with 90.3 percent of workers with a regular health care FSA, shown below in Figure 4.

**Figure 4**  
**Share of LPFSA and Regular Health Care FSA\* Owners Taking a Distribution**



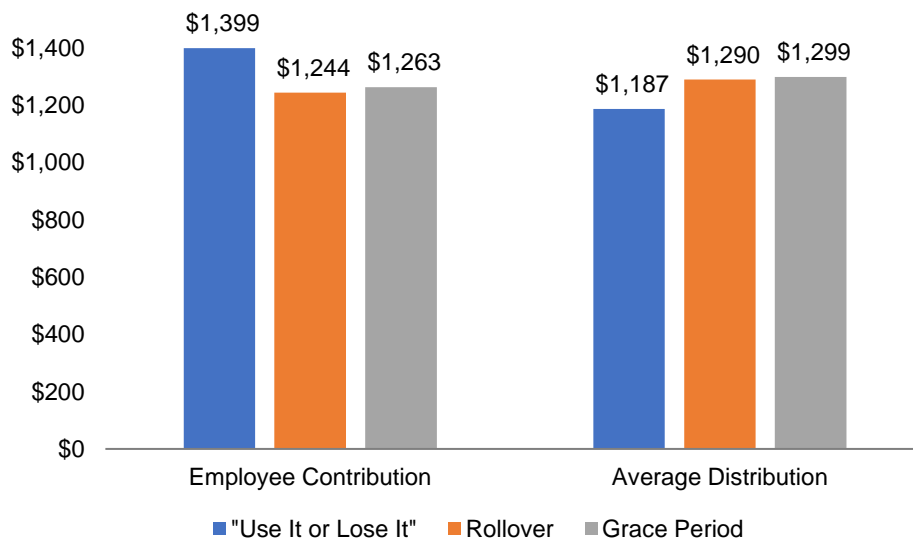
\* LPFSA = limited-purpose flexible spending account, FSA = flexible spending account.  
 Source: Author's analysis of EBRI's FSA Database.

## The Three Different Types of FSAs

Regular health care FSAs typically come with one of three features. “Use-it-or-lose-it” FSAs are self-explanatory; accountholders forfeit any money remaining at the end of the plan year to their employer. FSAs with a rollover feature, on the other hand, allow the accountholder to roll over funds to the next year, up to a statutorily defined amount.<sup>1</sup> “Grace-period” FSAs allow workers to take distributions up to two and a half months after the end of the plan year. Analysis of 2020 data reveals that EBRI’s FSA Database contains a relatively smaller share of FSAs with a grace-period feature; in 2019, 36 percent of the accounts in EBRI’s FSA Database had a grace-period feature, compared with only 10 percent in 2020’s analysis. In contrast, in 2019, 42 percent of the accounts in EBRI’s FSA Database had a rollover feature, rising to 58 percent in 2020.

All three types of FSAs had similar average contribution and distributions, shown below in Figure 5. In fact, only about \$150 separated the average contribution of a “use-it-or-lose-it” FSA and the average contribution of a rollover FSA. Similarly, the three FSA types saw similar average distributions; about \$120 separated the smallest average distribution, seen in “use-it-or-lose-it” FSAs, from the largest average distribution, seen in FSAs with a grace period.

Figure 5  
Average Contribution and Distribution, by FSA Type\*



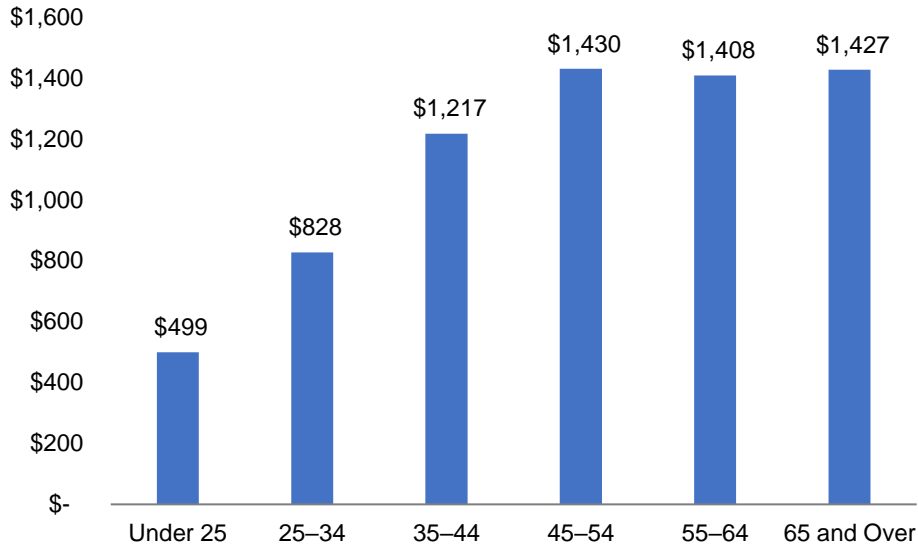
\* FSA = flexible spending account.  
Source: Author’s analysis of EBRI’s FSA Database.

## Age and FSA Attributes

Next, we examine how FSA accountholder contributions and distributions vary by accountholder age. Much like with the trends EBRI observes in its analyses of its HSA Database, we find that FSA contributions and distributions both increase with age. Older accountholders are more likely to incur health care expenditures than their younger counterparts and, owing to higher salaries on average, may be better positioned to divert more discretionary dollars to FSAs as well.

Younger accountholders contributed relatively little to their FSAs in 2020, contributing an average of \$499, shown below in Figure 6. Generally, as age increased, so did average contribution, with one notable exception: The 45–54 age group contributed the most, diverting on average of \$1,430 to their FSA. The oldest workers in EBRI’s FSA Database, those 65 and older, contributed the second highest amount, chipping in an average of \$1,427.

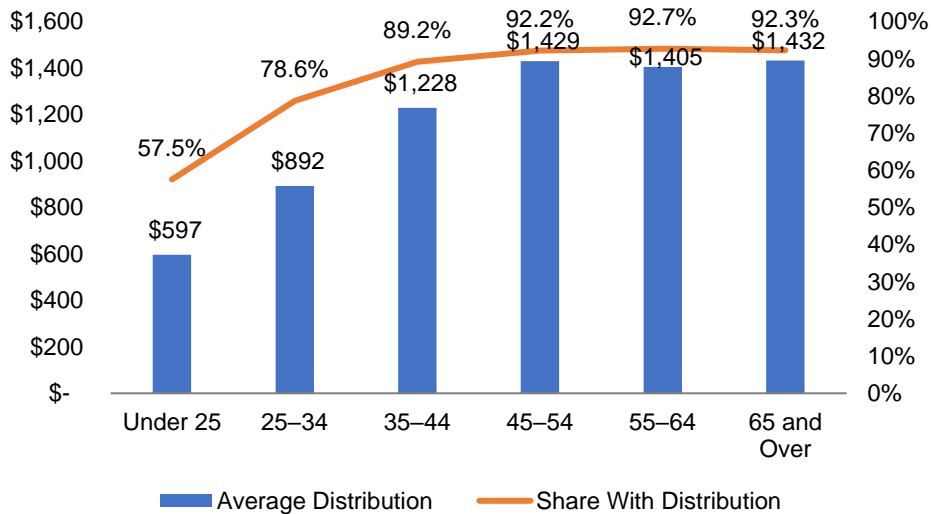
**Figure 6**  
**Average Contribution Amount, by Accountholder Age**



Source: Author's analysis of EBRI's FSA Database.

Unsurprisingly, distribution behavior varied alongside accountholder age as well. The youngest accountholders — those under 25 — took the smallest average distribution and were also the least likely to take a distribution, shown below in Figure 7. Younger accountholders tend to be healthier and therefore may not have incurred significant amounts of medical expenditures. Furthermore, these younger accountholders may still be figuring out how FSAs fit into their personal finances; forecasting how much to earmark for medical expenditures is not an easy task, after all. Older accountholders, on the other hand, both took larger average distributions and were more likely to take a distribution. As with contributions, both the propensity to take a distribution and the average distribution amount increased with age.

**Figure 7**  
**Share of Accountholders Taking a Distribution, and Average Distribution Amount, by Accountholder Age**



Source: Author's analysis of EBRI's FSA Database.



Given the lack of government surveys and publicly accessible data on FSAs, EBRI's FSA Database can play a critical role in informing employers and policymakers alike of how accountholders contribute and take distributions from their FSAs. Developing a better understanding of accountholder behavior is critical in fostering optimal usage of FSAs and ultimately can improve workers' financial wellbeing. While it is encouraging that older workers stretched their health care dollars further with higher average contributions and more frequent distributions, younger workers had relatively small contributions, and little more than half took a distribution from their FSA. This is perhaps indicative of a knowledge gap and may hinder a worker's financial wellbeing. As EBRI's FSA Database continues to grow and enable richer analyses, future *Issue Briefs* will shed even more light on this under-researched employee benefit.

## About FSAs

Flexible spending accounts (FSAs) are a type of benefits cafeteria plan, authorized under Sec. 125 of the IRC as part of the Revenue Act of 1978, that workers can use to pay their out-of-pocket expenses using pretax income. Workers are eligible to contribute to an FSA only if an employer offers it as an option. In 2022, contributions are limited to \$2,850. FSAs are perhaps the most well-known type of health account. According to the National Compensation Survey (NCS), 47 percent of workers were offered an FSA for health care in 2021.<sup>2</sup> FSAs are funded through employee pre-tax contributions. Employees must designate their contribution in the year prior to the plan year. Once made, changes are allowed only for certain circumstances, such as a change in family status, plan cost changes, and plan coverage changes. Contributions to FSAs are withheld in equal amounts from each paycheck throughout the plan year, but employers must make the full amount available to the employee at the beginning of the plan year. Distributions from an FSA can be made at any time. Distributions are excluded from taxable income if they are used to pay for qualified medical expenses as defined under IRC Sec. 213(d). Employees forfeit any money leftover in the FSA at the end of the plan year; this is known as the "use-it-or-lose-it" rule. Some plans allow a \$500 rollover of unused contributions. If an employee is reimbursed more than they have contributed to the account and then leaves their job, the employer will lose money on the arrangement for that worker. Provisions in the Coronavirus Aid, Relief, and Economic Security (CARES) Act and Consolidated Appropriations Act (CAA) enabled employers the flexibility to amend their FSA plans to allow an extension of the grace period or allow employees to roll over the entire balance of their FSAs in 2020 and 2021.

## Endnotes

<sup>1</sup> For 2020, this amount was \$550. However, workers could roll over the entirety of their unused funds if their employers modified their FSA plans, per provisions in the CARES Act and CAA.

<sup>2</sup> See <https://www.bls.gov/ncs/ebs/benefits/2021/employee-benefits-in-the-united-states-march-2021.pdf>.