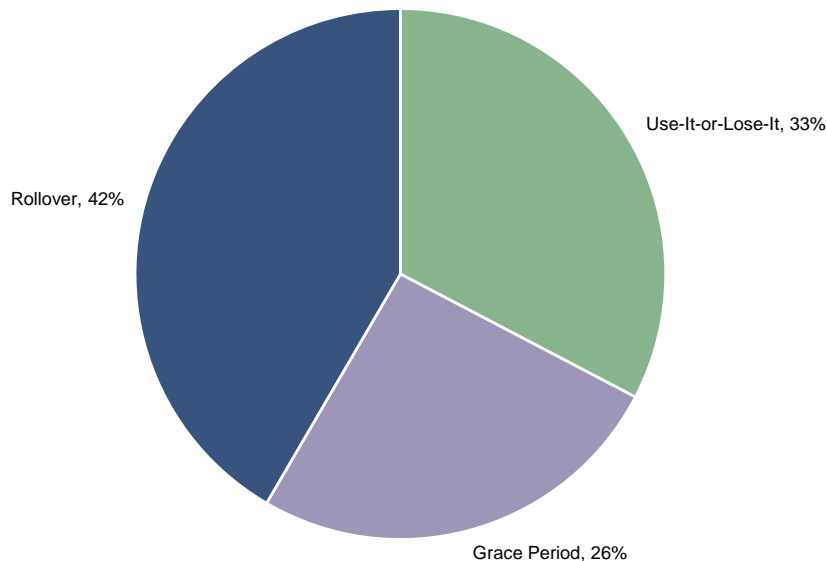


Flexible Spending Account Substantiation, Substantial Tax Savings

As the year comes to a close, workers who hold flexible spending accounts (FSAs) would do well to check their remaining balances and maximize their tax advantages by paying for qualified medical expenses with their FSA. Previous analyses of EBRI's FSA Database suggested that roughly half of accountholders carried a balance that implied a forfeiture of some funds back to their employer. On average, this amount was \$441. While some FSAs have a rollover feature in which up to \$640 can be rolled over from one year to the next, roughly one-third of the accounts in EBRI's FSA Database are "use-it-or-lose-it," implying that any unspent funds by the end of the plan year are forfeited back to the employer.

Figure 1
Composition of Accounts in EBRI's FSA Database, by Forfeiture Type

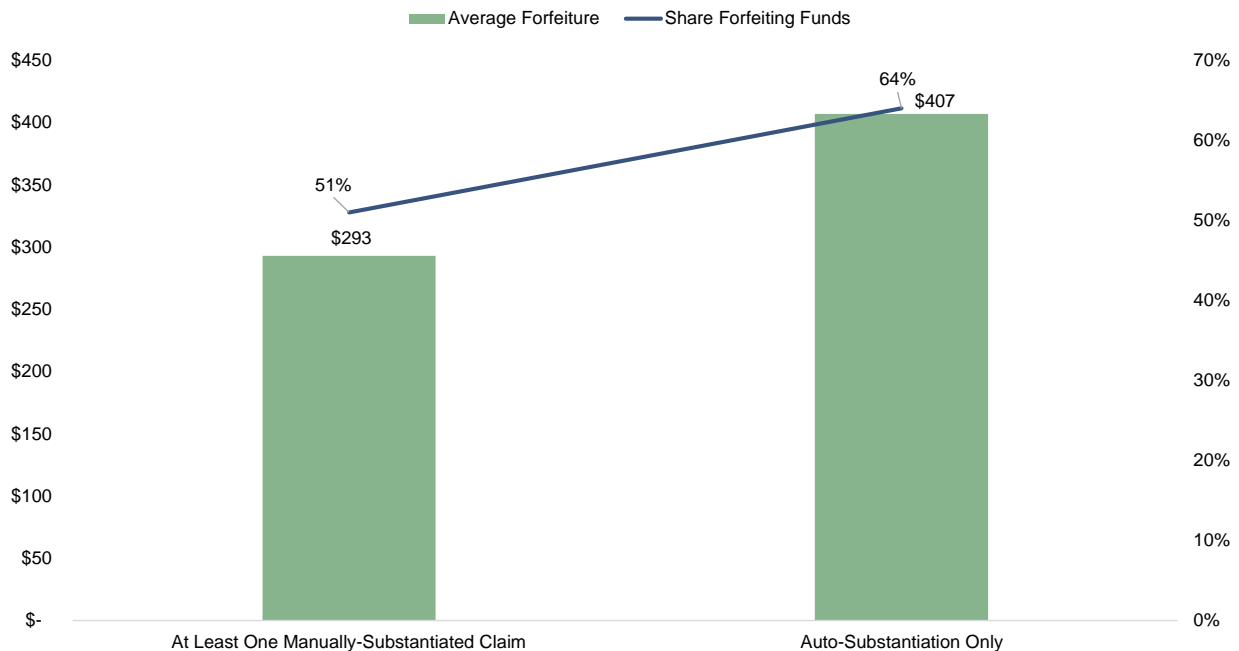


Source: EBRI's FSA Database.

Recent innovations have made it easier for workers to spend down their FSA balances. For instance, on some retailers' websites, customers can search for and filter products by FSA eligibility, and many retailers participate in a system known as the Inventory Information Approval System (IIAS), which automatically identifies FSA-eligible expenses at the point of sale. This enables a process known as auto-substantiation, which makes the reimbursement process nearly seamless when using an FSA payment card. However, not every retailer participates in this system, and a worker may wish to pay for a qualified expenditure with a credit card and seek reimbursement from the FSA later. If a claim cannot be auto-substantiated, it must be manually substantiated, which requires workers to provide documentation, such as itemized receipts or an explanation of benefits (EOB).

Although EBRI’s FSA Database does not contain substantiation data for all accountholders, 84 percent of accountholders with substantiation data submitted at least one manually substantiated claim. After all, the act of collecting receipts for medical expenditures is likely familiar to many FSA accountholders. Importantly, these workers were less likely to forfeit funds back to their employer, and when they did, they averaged smaller amounts than workers who did not file any manually substantiated claims. Workers with at least one manually substantiated claim were 13 percentage points less likely to forfeit funds back to their employer than workers with auto-substantiated claims only, and their average forfeiture was \$114 less, shown below in Figure 2.

Figure 2
Composition of Accounts in EBRI’s FSA Database, by Forfeiture Type



Source: EBRI’s FSA Database.

Using the available data, it is not possible to determine that workers who submitted manually substantiated claims did so because they actively searched through their transactions for FSA-eligible expenses. However, these data suggest that inertia may play a role in FSA forfeitures. Exerting additional effort to submit documentation and manually substantiate claims is associated with a lower propensity to forfeit leftover FSA funds. These workers may be combing through their purchases to determine if certain products that they have already purchased, such as sunscreen or antihistamines, are eligible for reimbursement from their FSA. As the end of the year quickly approaches, workers at risk of forfeiting funds back to their employers would do well to check to see if any of their previous purchases are FSA-eligible.

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