EBRI FAST Facts

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The Vital Statistics on Flexible Spending Accounts: Findings From the EBRI FSA Database

Flexible spending accounts (FSAs) offer a valuable tax incentive to set aside money on a tax-favored basis for current medical expenses. They benefit from a double tax advantage: Employee contributions to the account are deductible from taxable income, and distributions for qualified medical expenses from the FSA are excluded from taxable income to the employee.[1]

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.

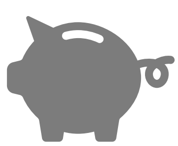
As of Dec. 31, 2019, the EBRI Database includes:

- 460,000 flexible spending accounts.
- $563 million in contributions.

However, findings from the Employee Benefit Research Institute's database of 460,000 flexible spending accounts show that few people using FSAs contribute the full allowable amount, and a large number fall prey to the "use-it-or-lose-it" rule by failing to spend down their account on qualified medical expenses. Here are the vital statistics on FSAs:

FSA Contributions:

$1,179:
Average worker contribution to an FSA in 2019



Five percent of workers received an employer contribution. The average employer contribution was $852.

Remaining Balances:

Sixty-four percent of workers had a balance on Dec. 31, 2019. Account balances for those with a balance averaged $389 on Dec. 31 and $369 on March 15.

50 percent
of workers had a balance on March 15, 2020

[1] See https://www.ebri.org/publications/research-publications/issue-briefs/content/health-savings-accounts-and-other-account-based-health-plans-3504 for more information about flexible spending accounts.

Forfeitures:

Nearly half of workers
have forfeited part or all of their contributions.

Forty-four percent of workers forfeited part or all of their contributions. Among those forfeiting part or all of their contributions, the average forfeiture was $339 and the median forfeiture was $157.

The difference between Dec. 31 and March 15 balances and the forfeited amount is due to the fact that workers usually have about 90 days to file claims for prior-year expenses. In addition, while most plans are on a calendar-year basis, some plans are not.

Distributions for Health Care Claims:

Distributions for health care claims averaged $1,279 among those taking a distribution in 2019.

88 percent
of workers took a distribution

Maximum Contributions:

Only 2 percent
of workers contributed the maximum of $2,700 in 2019.

Another 6 percent of workers contributed $2,650, which was the maximum contribution level in 2018. This suggests these workers may have not been aware of the increase in the contribution limit.

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 pre-tax income. Workers are eligible to contribute to an FSA only if an employer offers it as an option. In 2021, contributions are limited to $2,750. FSAs are perhaps the most well-known type of health account. According to the National Compensation Survey (NCS), 46 percent of workers were offered an FSA for health care in 2020.[2]

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 left over 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 he or she has contributed to the account and then leaves their job, the employer will lose money on the arrangement for that worker.

[2] See https://www.bls.gov/ncs/ebs/benefits/2020/employee-benefits-in-the-united-states-march-2020.pdf

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