EBRI Fast Facts
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Limited-Purpose Flexible Spending Accounts: Findings From the EBRI FSA Database

One way for employers to help workers defray health care costs in a high-deductible plan environment is limited-purpose flexible spending accounts (LPFSAs).[1] LPFSAs are intended for workers who also have a health savings account (HSA).[2] LPFSAs pay for or reimburse only vision and dental expenses. In this *Fast Fact*, the Employee Benefit Research Institute compares contributions, balances, claims, and forfeitures for workers with LPFSAs and regular FSAs.

About the EBRI FSA Database

The EBRI FSA Database is a representative repository of information about individual 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.

12 percent of the accounts in the EBRI FSA Database are LPFSAs.

Contributions:

- Workers with an LPFSA contributed about one-half of the amount of those with a regular FSA: Workers with a regular FSA contributed an average of $1,219 in 2019, while those with a LPFSA contributed $658 on average.
- While 3 percent of workers with a regular FSA received an employer contribution, 30 percent of workers with an LPFSA received one. The average employer contribution was $955 for those with a regular FSA and $783 for those with an LPFSA.

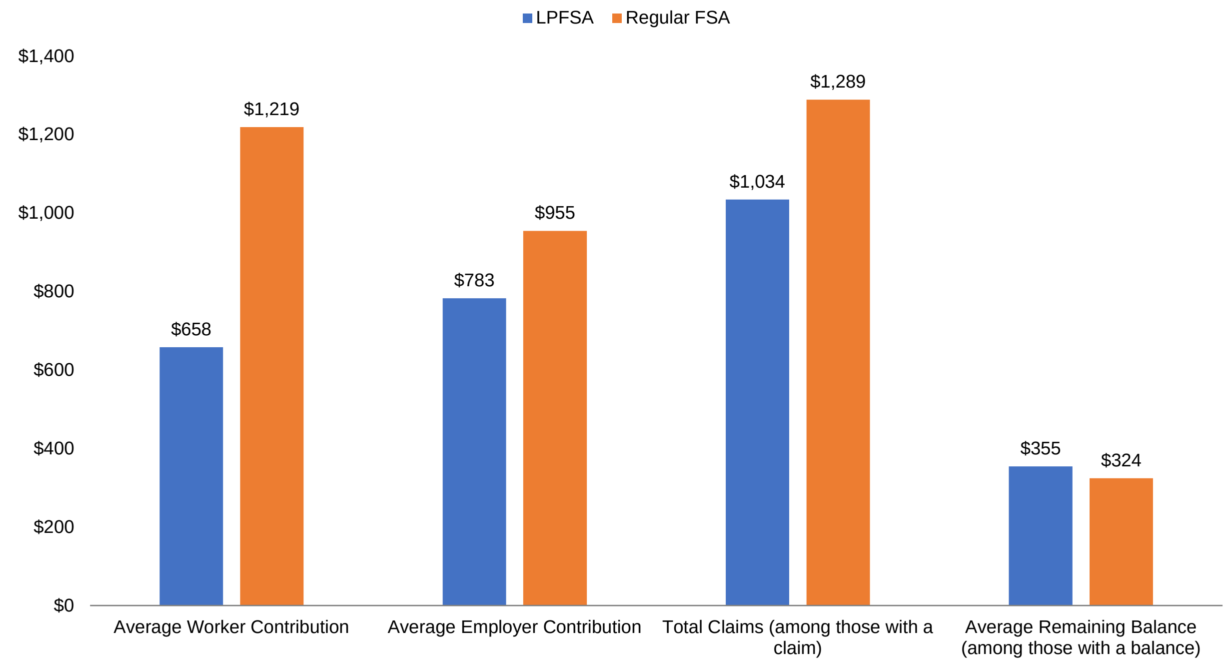
Remaining Balances:

- Workers with an LPFSA were more likely than those with a regular FSA to forfeit part or all of their contributions: 57 percent of workers with an LPFSA forfeited money compared with 42 percent among workers with a regular FSAs.
- Among those forfeiting part or all of their contributions, the average forfeiture was $355 for those with an LPFSA and $324 for those with a regular FSA. The median forfeiture was $200 for workers with an LPFSA and $144 for those with a regular FSA.

Distributions for Health Care Claims:

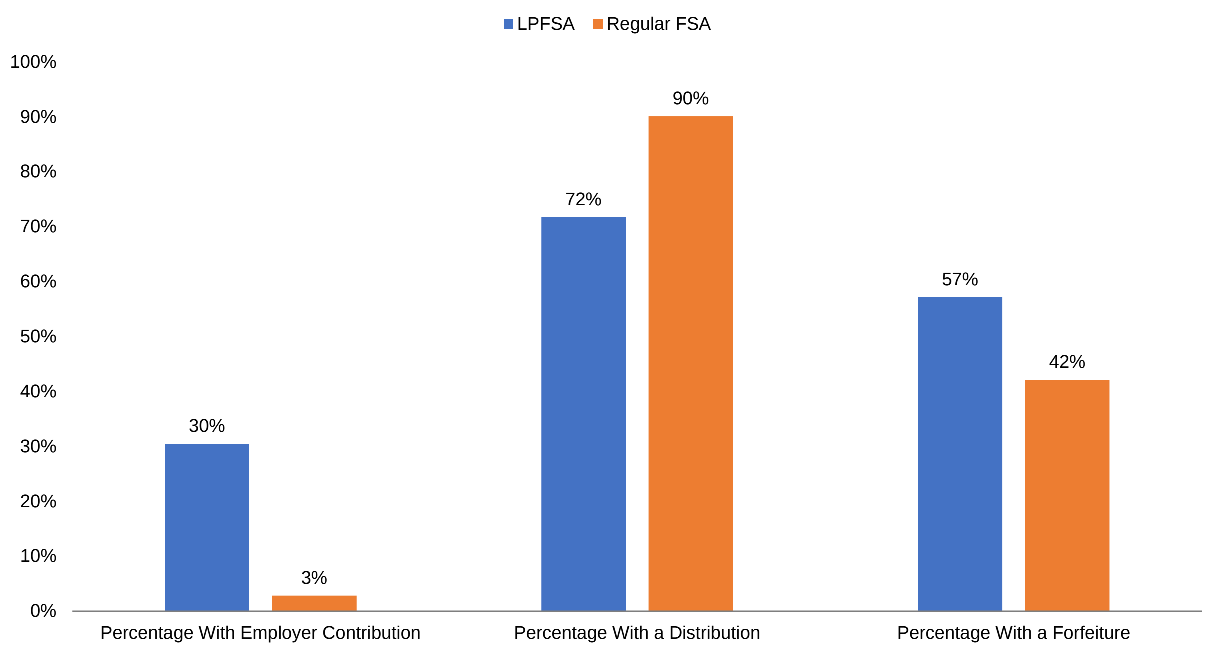
- 72 percent of workers with an LPFSA took a distribution. In contrast, 90 percent of workers with a regular FSA took a distribution.
- Among those taking a distribution in 2019, distributions for health care claims averaged $1,034 for workers with an LPFSA and $1,289 for those with a regular FSA.

Figure 1
FSA Contributions, Balances, and Claims, by Type of FSA, 2019



Source: EBRI FSA Database.

Figure 2
FSA Contributions and Forfeitures, by Type of FSA, 2019



Source: EBRI FSA Database.

About FSAs

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]

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.[3]

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.

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[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.

[2] Workers with an HSA are not allowed to contribute to an FSA unless the FSA is set up as a LPFSA.

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