

The Different Types of Flexible Spending Accounts: Findings From the EBRI FSA Database

There are three types of flexible spending accounts (FSAs) for health care expenses.

The traditional FSA includes the well-known “use-it-or-lose-it” provision. This means any money remaining at the end of the plan year was forfeited back to the employer. Other types of FSAs are those with a rollover feature and those that allow a grace period.

In rollover plans, employers can let workers roll over unused funds at the end of the year into the next plan year. In 2022, employers can let workers roll over a maximum of \$550 from the 2021 plan year.

In grace-period plans, employers can offer workers a grace period of up to 2.5 months for workers to use the money. In plans that run from Jan. 1, 2021, to Dec. 31, 2021, workers would have until March 15, 2022, to use all of the funds in their FSA.¹

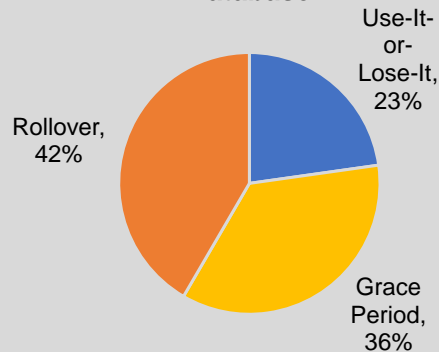
In this *Fast Fact*, the Employee Benefit Research Institute (EBRI) compares contributions, claims, and forfeitures for workers by type of FSA based on results from EBRI’s FSA Database.

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:

Composition of EBRI FSA Database



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

Contributions:

- Workers with a traditional “use-it-or-lose-it” FSA and a grace-period provision contributed about the same amount in their FSA: \$1,270 and \$1,242 respectively, on average. Those with a rollover provision contributed \$1,075 on average.
- The lower worker contributions among those with a rollover provision may be due to the fact that they are much more likely to receive an employer contribution. Eleven percent of workers with a rollover provision received an employer contribution, whereas only 2 percent of workers with a traditional “use-it-or-lose-it” FSA and less than 1 percent of those with a grace-period provision received one.

Distributions for Health Care Claims:

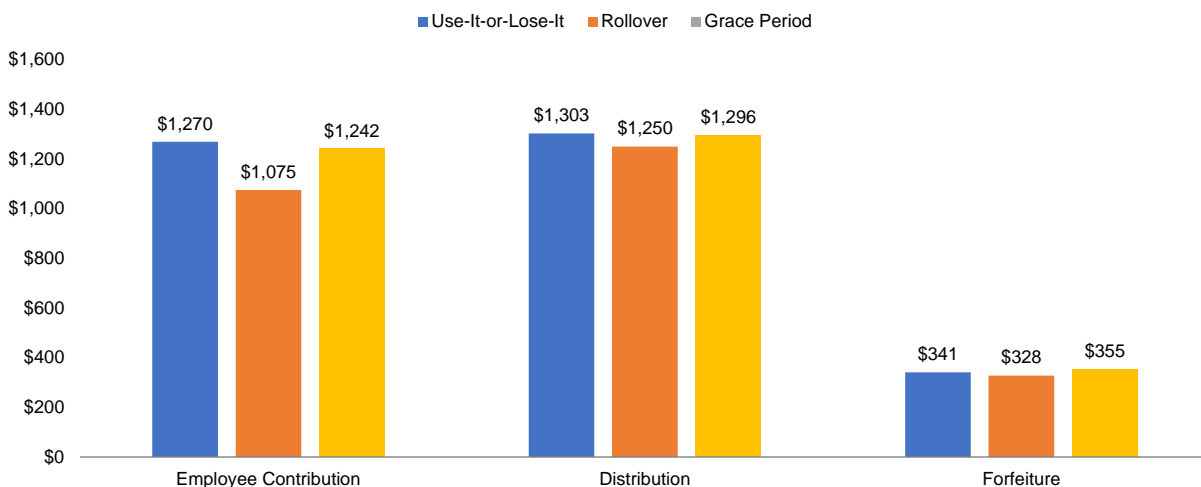
The dollar amounts distributed for health care claims from FSAs and the percentage of workers taking such a distribution did not vary much by the type of FSA.

- Among those taking a distribution in 2019, distributions for health care claims averaged \$1,303 for workers with a traditional “use-it-or-lose-it” FSA, \$1,250 for those with a rollover provision, and \$1,296 for those with a grace-period provision.
- The percentage of workers taking a distribution averaged 88 percent for workers with a traditional “use-it-or-lose-it” FSA, 86 percent for those with a rollover provision, and 90 percent for those with a grace-period provision.

Forfeitures:

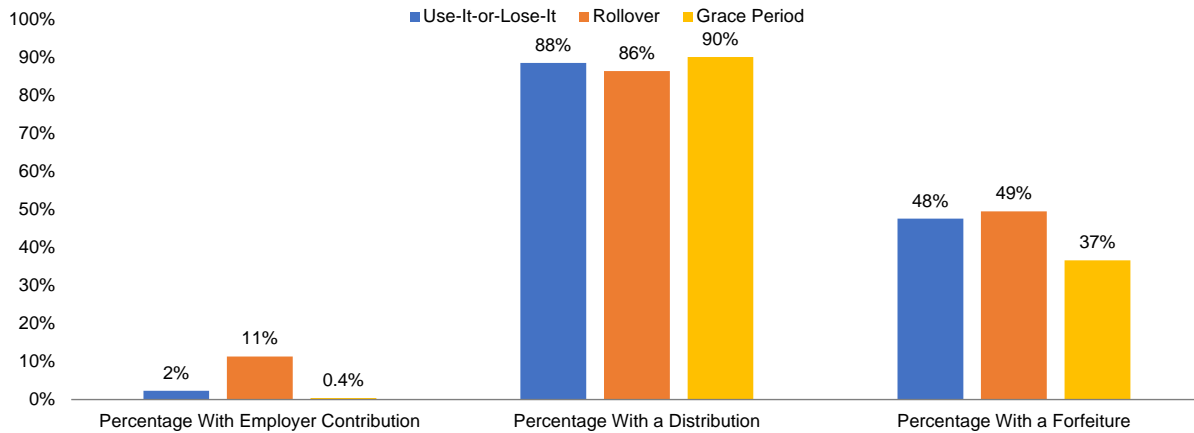
- Workers with a grace-period provision in their FSA were less likely than those with a traditional “use-it-or-lose-it” FSA or a rollover provision to forfeit part or all of their contributions: The percentage of workers forfeiting part or all of their contributions averaged 37 percent for workers with a grace-period provision FSA, 48 percent for those with a traditional “use-it-or-lose-it” FSA, and 49 percent for those with a rollover provision.
- Among those forfeiting part or all of their contributions, the average forfeiture was \$341 for workers with a traditional “use-it-or-lose-it” FSA, \$328 for those with a rollover provision, and \$355 for those with a grace-period provision. Median forfeitures were \$130, \$176, and \$155, respectively.

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



Source: EBRI FSA Database.

Figure 2
**FSA Contributions, Distributions, 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.²

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 2020.³

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.

The Employee Benefit Research Institute is a private, nonpartisan, nonprofit research institute based in Washington, DC, that focuses on health, savings, retirement, and economic security issues. EBRI does not lobby and does not take policy positions. The work of EBRI is made possible by funding from its members and sponsors, which include a broad range of public, private, for-profit and nonprofit organizations. For more information go to www.ebri.org or connect with us on [Twitter](https://twitter.com/EBRI) or [LinkedIn](https://www.linkedin.com/company/ebri).

¹ Grace periods should not be confused with run-out periods. Run-out periods are predetermined periods during which claims can be filed for a previous plan year. For example, some plans allow a 90-day run-out period. In calendar year plans that run from Jan. 1, 2021, to Dec. 31, 2021, workers would have until March 31, 2022, to submit claims for reimbursement for health care services that were incurred in 2021.

² See <https://www.ebri.org/publications/research-publications/issue-briefs/content/health-savings-accounts-and-otheraccount-based-health-plans-3504> for more information about flexible spending accounts.

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

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