EBRI FAST Facts
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FSA Utilization Differs by Age

New research by the Employee Benefit Research Institute (EBRI) suggests that older workers make better use of the tax advantages flexible spending accounts (FSAs) offer than do younger workers. Previous work by EBRI has shown that age is strongly associated with how accountholders contribute to and use their health savings accounts (HSAs). Older accountholders are more likely to have saved more in their accounts and, as a result, tended to have higher average balances than younger accountholders. Similarly, older accountholders tended to take more frequent and larger distributions from their HSAs, as older accountholders may be more likely to incur large medical expenditures than younger accountholders. EBRI then asked the question: Does the same hold true for people with FSAs?

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.

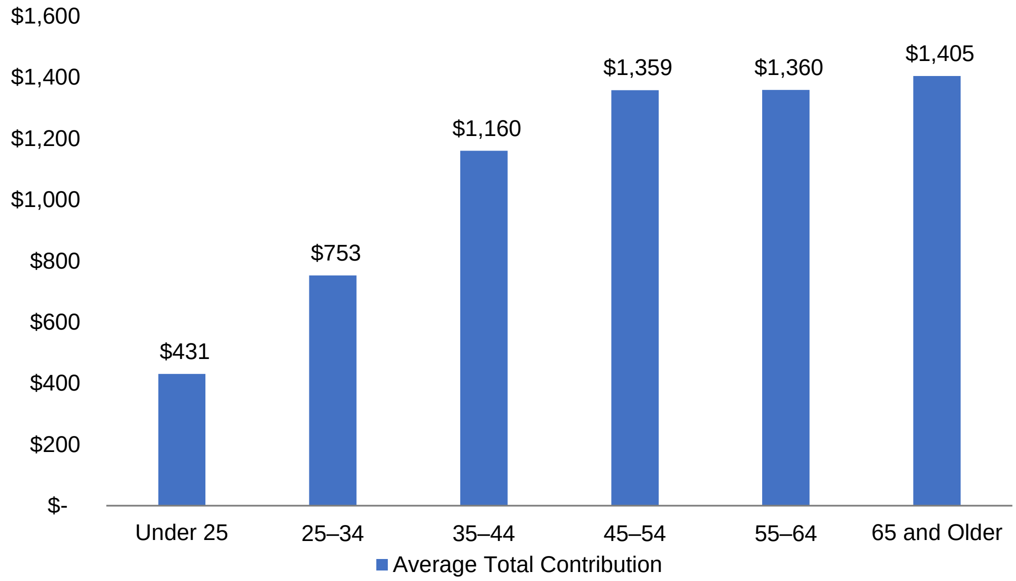
As of Dec. 31, 2019, the EBRI Database includes:

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

In the EBRI FSA Database, 23 percent of accounts were traditional "use-it-or-lose-it" FSAs; 42 percent had a rollover provision; and 36 percent had a grace-period provision.

Using data from EBRI's FSA Database, EBRI examined the link between age and FSA contributions, distributions, and forfeitures. We found that much like HSA accountholders, older FSA accountholders tended to contribute more to their accounts than did younger accountholders, with each consecutively older age group contributing progressively more to their accounts. Accountholders under the age of 25 contributed an average of $431, compared with accountholders 65 and older, who contributed an average of $1,405, shown below in Figure 1.

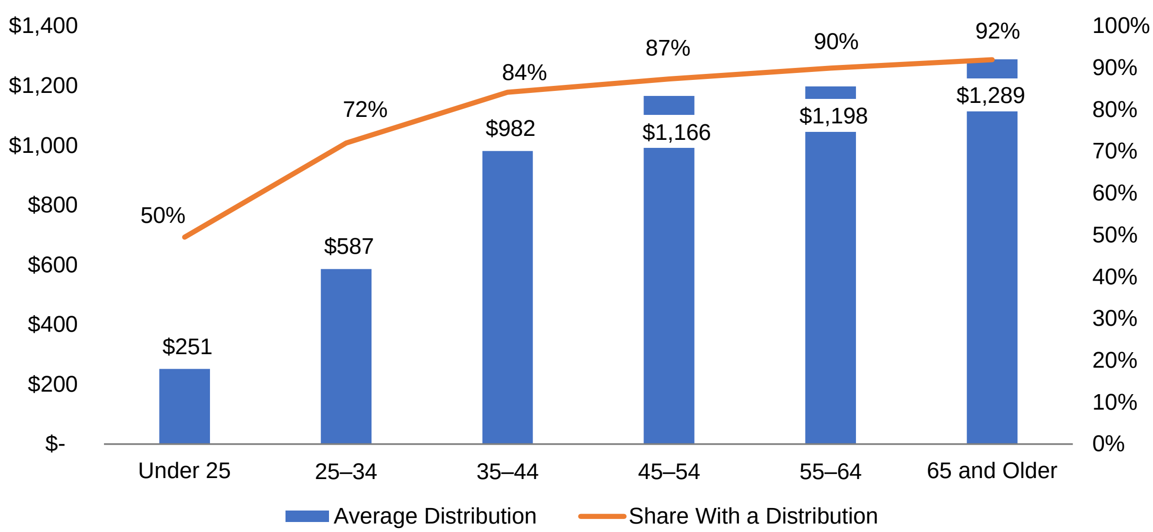
Figure 1
Average Contribution, by Age



Source: EBRI FSA Database.

Likewise, the average distribution amount from FSAs increased as accountholder age increased. Accountholders under age 25 took much smaller distributions from their FSAs than accountholders older than 65 ($251 and $1,289, respectively, shown below in Figure 2). Not only did younger accountholders take smaller distributions, but they were also less likely to take distributions in the first place. Only 50 percent of accountholders under 25 took a distribution, compared with 92 percent of accountholders older than 65.

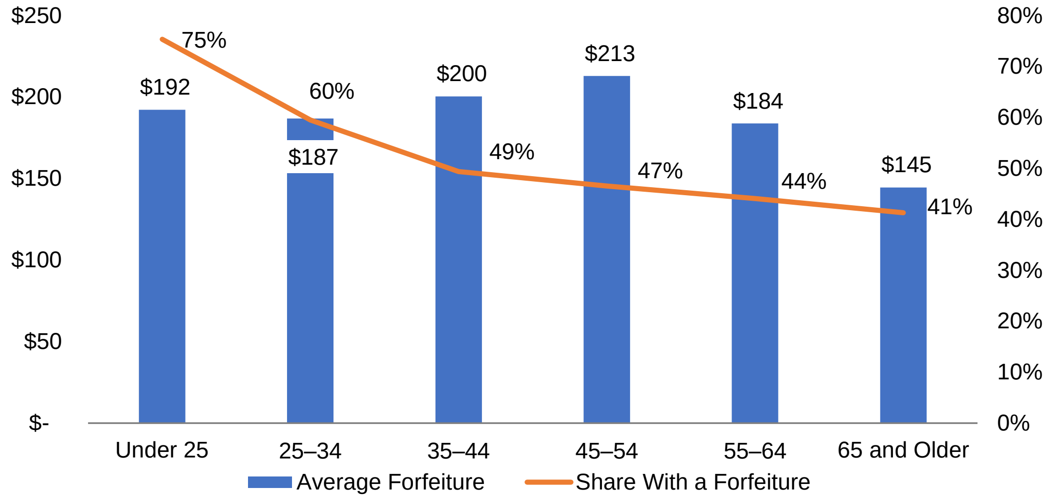
Figure 2
Average Distribution and Share of Accountholders With a Distribution, by Age



Source: EBRI FSA Database.

While the size of forfeitures was not correlated with age, younger accountholders did tend to be more likely to leave money in their FSAs than older accountholders (Figure 3). The average forfeiture was relatively flat across age groups, ranging from $145 for accountholders 65 and older to $213 for accountholders aged 45–54. However, the share of accountholders with forfeitures decreases gradually, from 75 percent of accountholders younger than 25 to 41 percent of accountholders 65 and older.

Figure 3
Average Forfeiture and Share of Accountholders With Forfeitures, by Age



Source: EBRI FSA Database.

EBRI's analysis of FSAs suggests that as accountholders age, they are more likely to take fuller advantage of these tax-advantaged spending vehicles. Older workers are more likely to incur health care expenditures than younger workers, and perhaps resulting from that, older accountholders tended to contribute more, take distributions more frequently, and were less likely to have money left over at the end of the year. This mirrors the evidence found in EBRI's analyses of HSAs.

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]

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.

[1] 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.

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

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