Older and Wiser? An Analysis of Accountholder Age and FSAs

Research by the Employee Benefit Research Institute (EBRI) has indicated that there is a strong link between age and average contributions to and distributions from health savings accounts (HSAs). Older HSA accountholders are more likely than younger accountholders, on average, to make larger contributions; to take distributions; and, when they take distributions, to take larger distributions. Similar to HSAs, flexible spending accounts (FSAs) are a tax-advantaged method of paying for qualified medical expenditures. Given this, we ask whether FSA accountholders share any similarities in contribution and distribution behaviors with HSA accountholders. In short, the answer is yes.

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, 2021, the EBRI Database includes:

- 2.4 million accounts.
- $3.28 billion in contributions.

Analyzing data from EBRI’s FSA Database, EBRI finds a strong association between accountholder age and patterns of contributions and distributions. Much like with HSAs, contributions made by FSA accountholders generally increase with age, as shown below in Figure 1. The youngest accountholders — those under 25 — made relatively small contributions, saving $497 on average in their FSAs. This makes sense, as younger workers not only are paid less than older workers on average and therefore have fewer discretionary dollars to direct toward FSAs, but they are also healthier than older workers on average and therefore can reasonably expect to incur fewer medical expenses. Average contributions increased for the 25–34 and 35–44 age groups, before plateauing for accountholders aged 45 and over. However, the average contribution of each age group was well under the contribution maximum of $2,750.
Not surprisingly, average FSA distributions mirror contributions. Since FSAs do not automatically roll over in their entirety like HSAs do, accountholders are unlikely to find themselves in a situation in which they are able to take a distribution that is significantly larger than the annual amount they contributed. Similar to HSAs, the youngest accountholders took relatively small distributions, withdrawing $571 on average, shown below in Figure 2. Older accountholders took progressively larger distributions, peaking with an average distribution of $1,495 for accountholders aged 65 and over.

Figure 1
Average Contribution, by Age

Source: EBRI FSA Database.

Figure 2
Average Distribution Among Accountholders Who Took a Distribution, by Age

Source: EBRI FSA Database.

1 There is one notable exception to this general rule of thumb: As part of the Coronavirus Aid, Relief, and Economic Security (CARES) Act passed in 2020, employers could opt into a provision in which their workers could carry over FSA funds in excess of the statutory maximum. This provision was extended into 2022 as well. In 2023, the maximum amount that can be carried over is $610.
Not every age group was equally likely to take a distribution, however. The youngest account holders — the age group less likely to incur significant medical expenses — were also the least likely to take a distribution from their FSA, shown below in Figure 3: Only 48 percent took a distribution in 2021. Older account holders, who may also be more familiar with the tax advantages FSAs offer and how they fit into their personal finances than younger account holders, were increasingly more likely to take a distribution from their FSA: 90 percent of account holders aged 45–54 took a distribution, as did 91 percent of account holders aged 55 and over.

In short, FSA account holders behave similarly to HSA account holders, at least with respect to contributions and distributions. As account holders of both types of accounts age, they tend to contribute more, take distributions more frequently, and take larger distributions when they take them. Forecasting future medical expenditures is not easy, particularly for younger workers who may not be familiar with the costs of medical care, how much of it they will require, or the fact that the list of qualified medical expenditures extends beyond health care services and includes commonly purchased items like over-the-counter drugs and sunscreen. There may be a role for employers to provide decision supports for employees to better help match their participation in FSAs and contribution elections to their qualified medical expenditures.

About EBRI: The Employee Benefit Research Institute is a private, nonpartisan, and nonprofit research institute based in Washington, D.C., 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 and private organizations. For more information, visit www.ebri.org.

2 Typically, an account holder who does not take a distribution and does not have an FSA with a rollover feature forfeits their contributions, and those with an FSA with a rollover feature forfeit the amount in excess of the rollover limit. The aforementioned legislative changes to FSA rollovers made by the CARES Act make analyzing forfeitures difficult, however, as EBRI does not receive information on which employers decided to opt into these provisions.

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