Different Types of FSAs, Different Behaviors?

Flexible spending accounts (FSAs) are similar to health savings accounts (HSAs) in that they are both tax-advantaged accounts that help workers stretch their health care dollars further. However, there are several critical differences. One is that FSA accountholders cannot roll over the entirety of their balances year after year without restriction like HSA accountholders can. Complicating matters further, rollover rules differ based on the type of FSA an accountholder has.

Generally, FSAs come with one of three different features: a use-it-or-lose-it feature, a grace period feature, or a rollover feature. Use-it-or-lose-it FSAs act exactly as their name suggests: At the end of the plan year, any money remaining in the FSA is forfeited. With a grace period feature, accountholders have up to 2.5 months after the end of the plan year to spend down any remaining balance. Finally, an accountholder who has an FSA with a rollover feature is allowed to roll over a certain amount year to year. For 2023, the maximum amount that can be rolled over is $610. The composition of FSAs contained within EBRI’s FSA Database is shown below in Figure 1.

Figure 1
Composition of EBRI’s FSA Database

Grace Period, 26%
Use-It-or-Lose-It, 33%
Rollover, 42%

Given that FSAs have different features, it stands to reason that accountholders may respond by using them in slightly different ways. An analysis of EBRI's FSA Database indicates slight differences in the average contributions and distributions depending on FSA type, as shown below in Figure 2. Accountholders who had a use-it-or-lose-it FSA contributed the most on average at $1,503, while those with a rollover FSA contributed $1,253 and those with a grace period FSA contributed $1,274. However, accountholders of all types of FSAs took distributions that were roughly in line with their contributions: The average distribution was within $60 of the amount contributed. We refrain from analyzing forfeitures, as COVID-era legislation allowed employers to opt into a provision that allowed workers to roll over amounts that otherwise would have been in excess of the statutory limit for the 2020 and 2021 plan years.
If a worker is enrolled in and contributes to an HSA, they are ineligible to use and contribute to a regular health care FSA. Workers who are enrolled in an HSA, however, can contribute to a limited-purpose FSA (LPFSA). These accounts have a narrower array of qualified expenditures eligible for reimbursement than FSAs, as they only cover vision and dental expenses. Given these additional restrictions, we might expect that workers with an LPFSA use their FSAs differently than workers with a regular health care FSA.

EBRI finds evidence that average contributions and distributions are lower for workers with LPFSAs than for those with regular health care FSAs. Notably, the average worker contribution was $480 lower for workers with LPFSAs than for workers with regular health care FSAs, and the average distribution was $301 lower, shown below in Figure 3. Workers with LPFSAs were also less likely to take a distribution: 72 percent of workers with LPFSAs took a distribution, compared with 87 percent of workers with a regular health care FSA, shown below in Figure 4.

Figure 2
Average Contribution and Distribution, by FSA Type

Source: EBRI FSA Database.

Figure 3
Average Contribution and Distribution for LPFSAs and Regular Health Care FSAs

Source: EBRI FSA Database.
Contribution and distribution behavior changed slightly, but not significantly, depending on the type of regular health care FSA the account holder had. However, workers who had LPFSAs tended to contribute and withdraw less from their FSAs than workers with regular health care FSAs and were less likely to take a distribution as well. This may be a result of the narrower list of qualified expenditures for LPFSAs than for regular health care FSAs. Thus, there could be a role for additional decision supports for workers who enroll in LPFSAs to ensure they are making the most of their benefits offerings.

**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](http://www.ebri.org).