Stretch Your Mind: A Healthy Discussion on Flexible Spending Accounts

EBRI Webinar
July 25, 2022
Speakers

Jake Spiegel, Research Associate, Health and Wealth, EBRI

Karen F Frost, V.P., Health Strategy & Solutions, Alight Solutions

William Sweetnam, Legislative & Technical Director, ECFC

Moderator: Jody L. Dietel, Special Advisor, Government Affairs, HealthEquity
John Doe

Click this button

Type question(s) here

To: All panelists

Your text can only be seen by panelists
Findings from EBRI’s FSA Database

Jake Spiegel, EBRI Research Associate, Health & Wealth
EBRI’s FSA Database

• EBRI maintains a database of Flexible Spending Accounts, much as it does for HSAs

• Now in its second year, EBRI’s FSA Database contains over 1.9 million accounts, and totals over $2.3 billion in contributions

• These figures represent significant growth in EBRI’s FSA Database; last year, our database contained 460,000 accounts and totaled $563 million in contributions

• Employee contributions accounted for 98% of the total contributions in EBRI’s FSA Database
FSA Contributions

- In 2020, FSA accountholders contributed $1,265 on average
  - Only 3.6 percent of accountholders contributed the statutory maximum for 2019 ($2,700)
- Only 7.7 percent of accountholders enjoyed the benefit of an employer contribution to their FSA; among those who did, the average employer contribution was $299
FSA Distributions

• 89 percent of FSA accountholders took a distribution in 2019

• Among those who did, the average distribution was $1,287, nearly identical to the average employee contribution of $1,279

• While many accountholders withdraw about as much as they contribute, some withdraw more than they contribute in a given year, and some withdraw less

• 48 percent of accountholders carried an average balance of $409 as of March 15, 2021
Limited Purpose FSAs

- LPFSAs are a type of FSA that allow for people enrolled in an HSA – who would otherwise be ineligible to fund and use an FSA – to pay for vision and dental expenses on a pre-tax basis.

- Unsurprisingly, LPFSA account holders’ contribution and distribution habits were significantly different from those with traditional health care FSAs.

  - People with an LPFSA were less likely to take a distribution, made smaller contributions, and took smaller distributions compared to people with regular health care FSAs.

<table>
<thead>
<tr>
<th>Average Worker Contribution</th>
<th>Average Employer Contribution</th>
<th>Average Distribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>LPFSA $859</td>
<td>$453</td>
<td>$259</td>
</tr>
<tr>
<td>Regular Health Care FSA</td>
<td>$1,259</td>
<td>$1,058</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Share Taking a Distribution</th>
<th>LPFSA</th>
<th>Regular Health Care FSA</th>
</tr>
</thead>
<tbody>
<tr>
<td>73.6%</td>
<td></td>
<td>90.3%</td>
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</table>
Different Flavors of FSAs

• FSAs can come with different features
  • Some are “use it or lose it” (32% of EBRI’s database),
  • Some have a grace period feature enabling accountholders to take withdrawals after the end of the plan year (10% of EBRI’s database),
  • Some have a rollover feature, enabling accountholders to roll over up to a statutorily-defined maximum from one year to the next (58% of EBRI’s database)

• We find only minor differences in contribution and distribution behavior based on FSA features
FSAs and Age

- Age and FSA contribution behavior are strongly correlated
  - Younger accountholders contribute less on average than older accountholders

- Similarly, age and distribution behavior are strongly correlated
  - Older workers are more likely to take a distribution than younger workers, and when they do, they take larger distributions on average
Comments on Findings From EBRI’s FSA Database

William Sweetnam, Legislative & Technical Director, ECFC
Karen F Frost, V.P., Health Strategy & Solutions, Alight Solutions
How FSAs Work

• Employee makes salary reduction election before beginning of year
  • Elections may be changed mid-year in limited circumstances
  • Salary reduction elections limited ($2,850 in 2022 and indexed annually)
  • Employer contributions to FSA are permitted and don’t count toward the limit
• FSA distributions may only be made for “qualified medical expenses”
• FSAs cannot provide for “deferred compensation”
  • “Use it or lose it” rule – unused amounts forfeited after end of year
  • Grace period – expense incurred within 2 ½ months after end of year
  • Carryover provision -- $570 in 2022 and indexed annually
EBRI Data Suggests Employees Understand FSA Rules

• Average contribution amount below statutory maximum
  • Only 3.6% contributed statutory maximum
• Few employers made contributions to employees’ FSA (7.7%)
• Most employees took distributions from their FSA (89%)
  • Data shows 50% had an account balance as of March 15, 2021
  • Average forfeiture of $369 in 2019
  • Use of rollover feature increasing (58% in 2020 from 42% in 2019)
Changes due to Pandemic May Skew Data in 2020

• Pandemic adversely affected employees using FSAs – both medical and dependent care assistance
  • Employees unable to access medical care
  • Changes in employment status

• Congress and IRS try to address pandemic-related issues
  • OTC drugs can now be paid from FSA (extends beyond pandemic)
  • Expanded grace period
  • Expanded rollover availability
  • Expanded ability to change salary deferral elections

• These changes make in 2020 make data unreliable as a means of predicting future utilization of FSA
  • Making policy decisions based on 2020 is problematic.
Designing your plan to minimize FSA forfeitures

These features give participants maximum opportunities to spend the FSA contributions

<table>
<thead>
<tr>
<th>CARRYOVER</th>
<th>GRACE PERIOD</th>
<th>DEBIT CARD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Allows participants to carry over up to 20% of statutory contribution limit ($570 for 2022) of unused FSA funds from the previous plan year into the following plan year.</td>
<td>Allows participants to incur claims for an additional 2 ½ months after the end of the plan year (i.e., through March 15, 2023 for a January 1, 2022 plan year)</td>
<td>Provide participants with a debit card to eliminate cash flow challenges of incurring expenses and requesting reimbursement</td>
</tr>
</tbody>
</table>
Help your employees maximize their FSAs

Make it easy for your people to enroll in and use their FSAs

**Simplify**
- Plan name
- Terminology
- Communications

**Promote**
- As health care budgeting tools
- Predictability of medical expenses
- Low risk of “use it or lose it”

**Maximize**
- Annual enrollment
- Connect health plan and FSA elections
- Provide guidance on FSA contributions
Q&A
Upcoming Events

September 13 — Did COVID Impact Retirement Expectations?

September 29 — 2022 Financial Wellbeing Symposium

December 1 — 2022 Retirement Summit

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Webinar Evaluation