



Stretch Your Mind: A Healthy Discussion on Flexible Spending Accounts

EBRI Webinar

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Speakers



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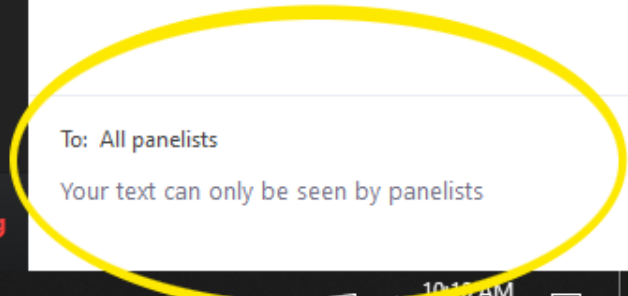
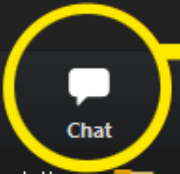
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Findings from EBRI's FSA Database

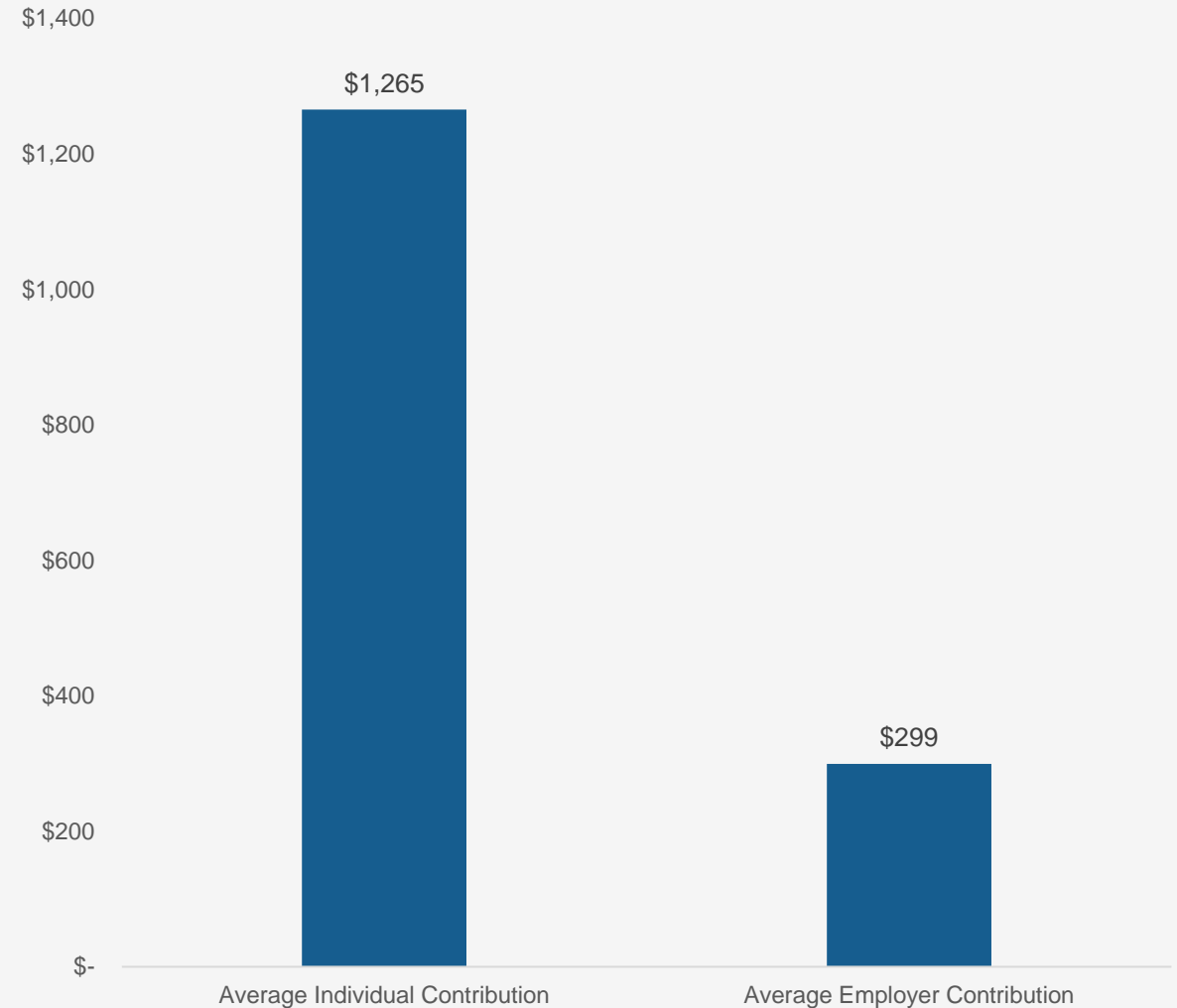
Jake Spiegel, EBRI Research Associate, Health & Wealth

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

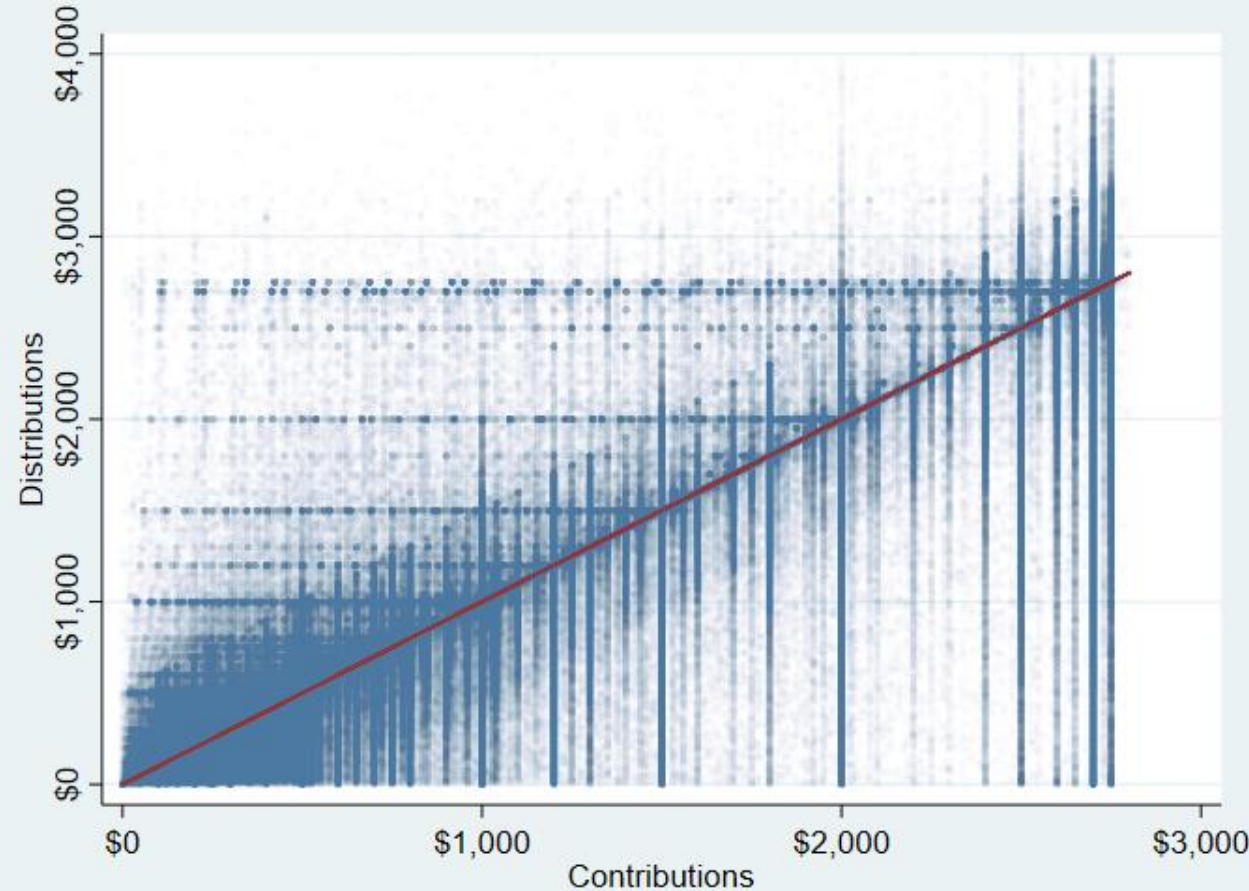
FSA Contributions

- 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



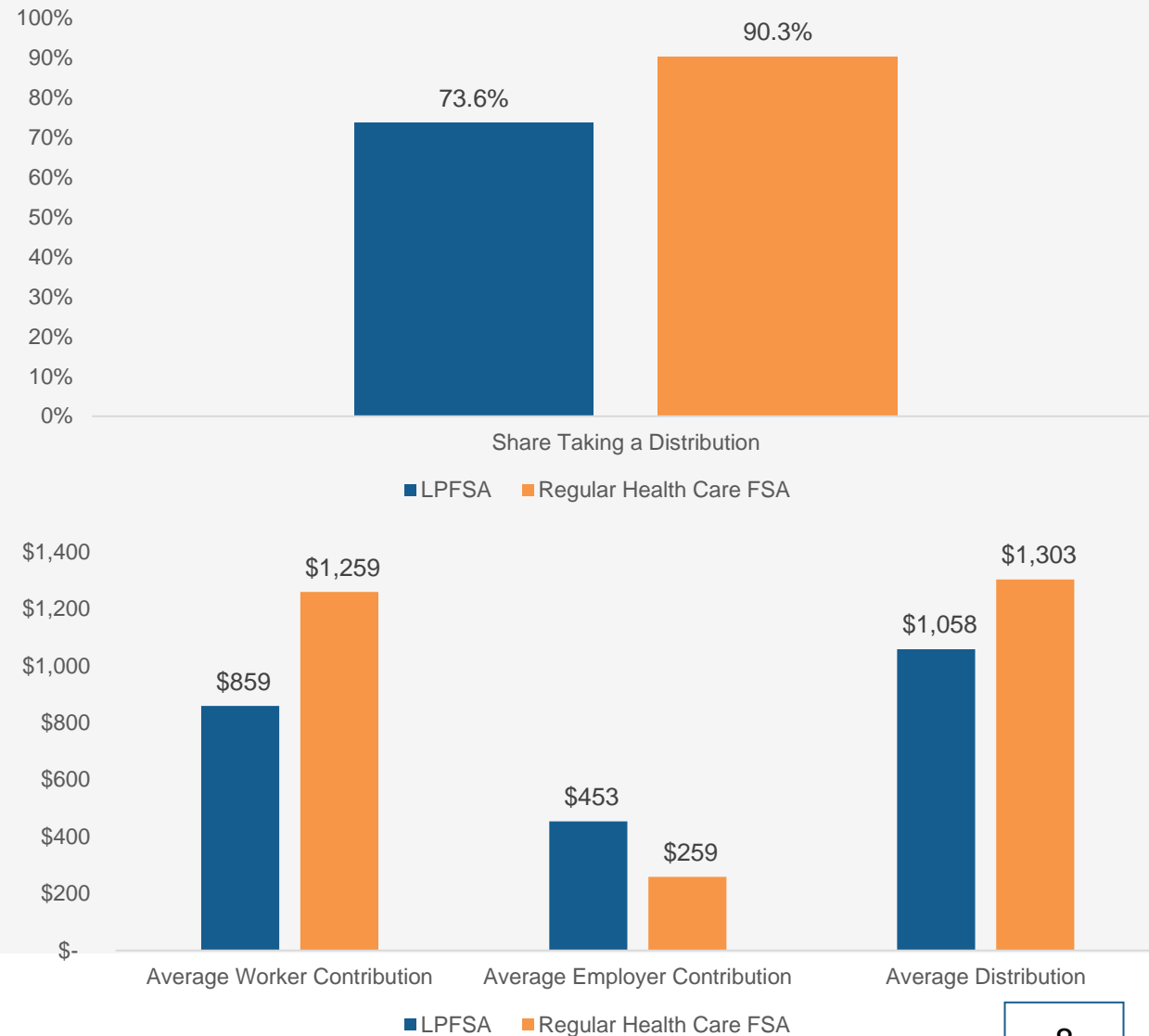
FSA Distributions

- 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



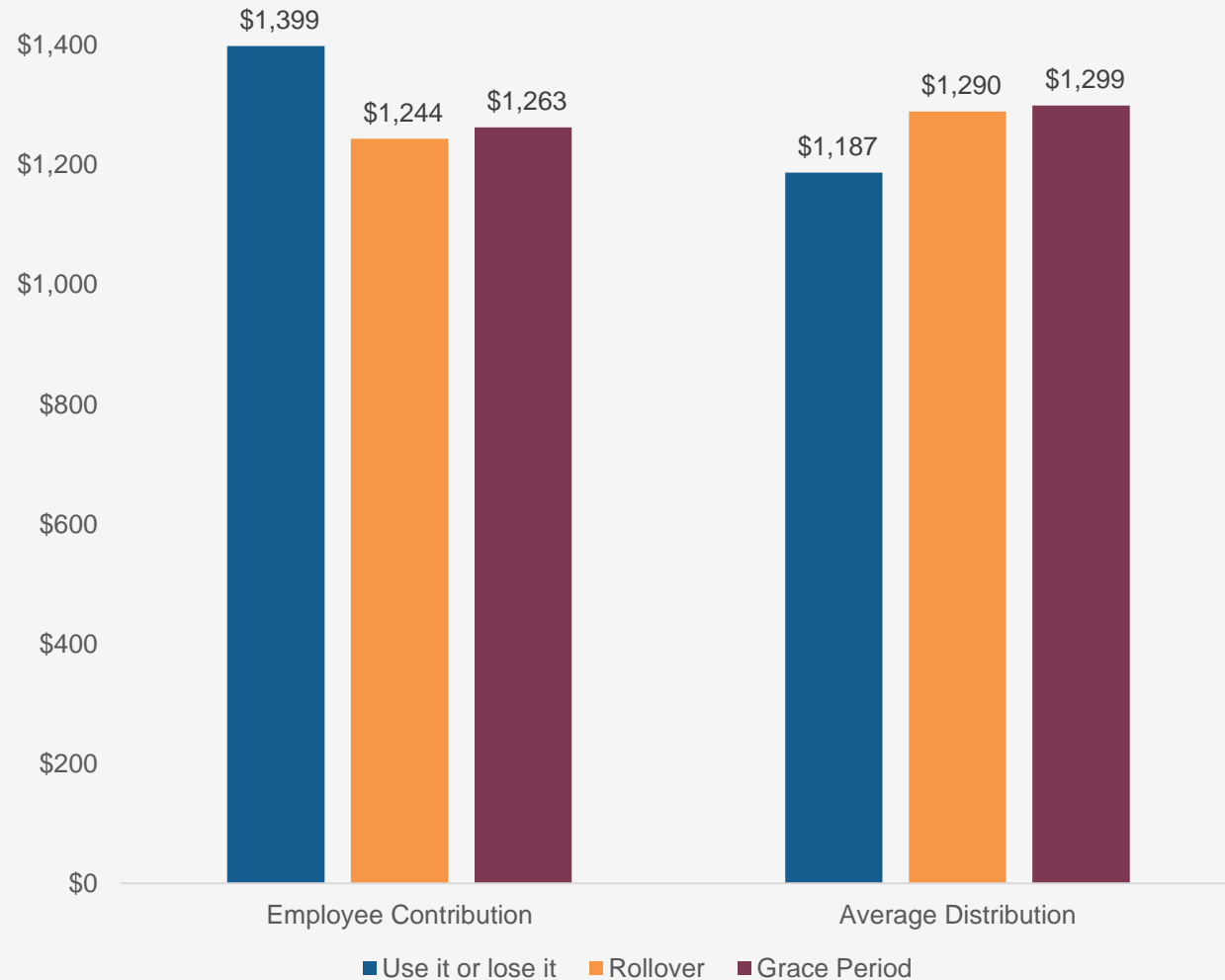
Limited Purpose FSAs

- 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 accountholders' 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



Different Flavors of FSAs

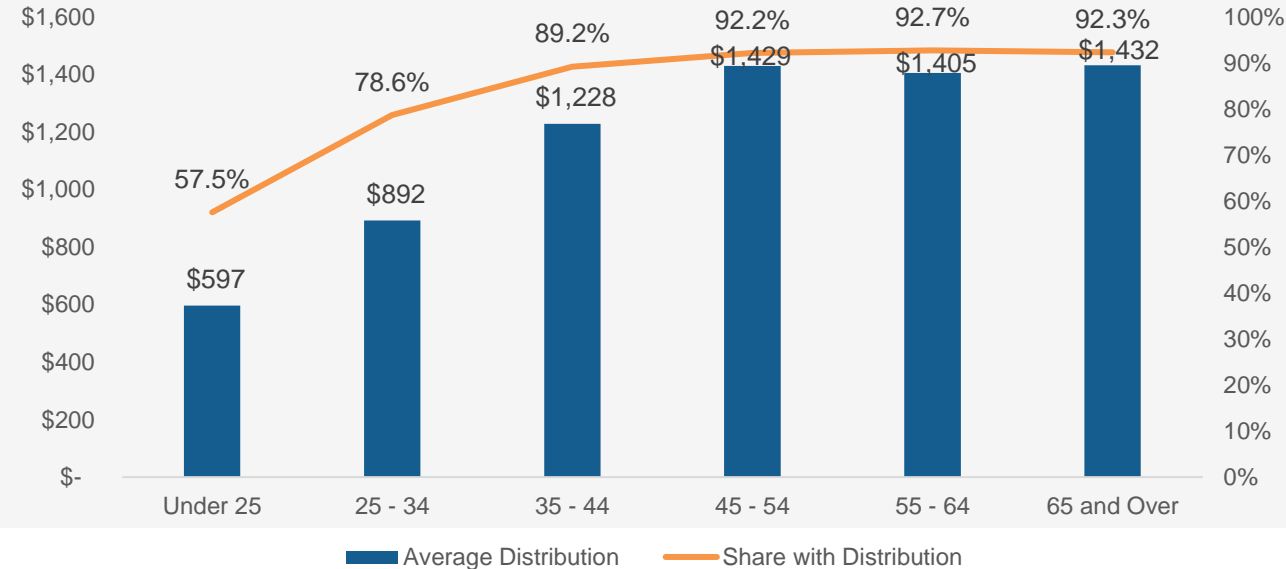
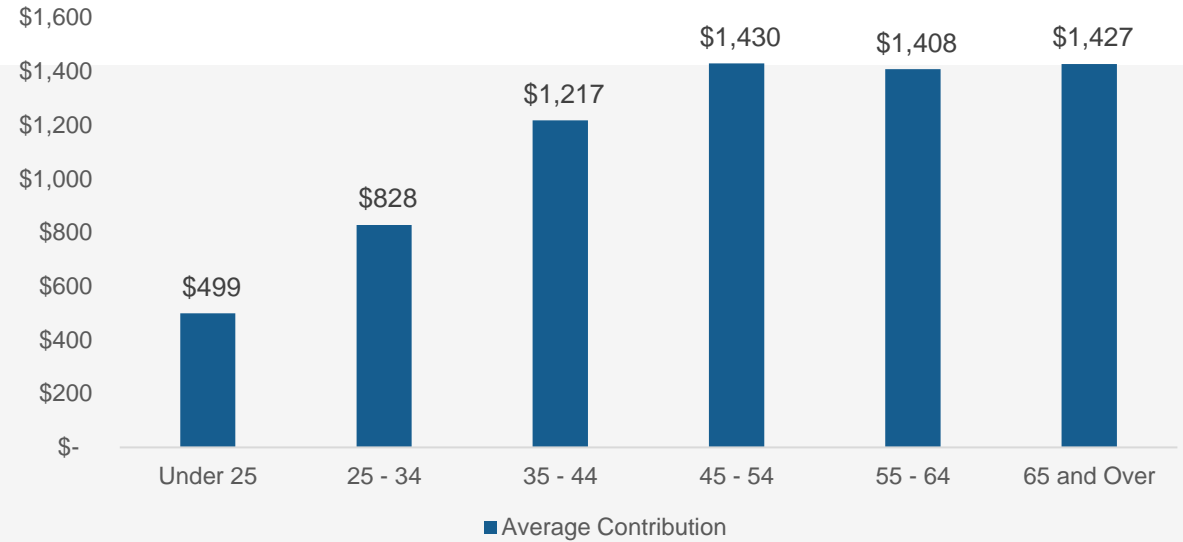
- FSAs can come with different features
 - Some are “use it or lose it” (32% of EBRI’s database),
 - Some have a grace period feature enabling accountholders to take withdrawals after the end of the plan year (10% of EBRI’s database),
 - Some have a rollover feature, enabling accountholders to roll over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



FSA 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

CARRYOVER

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

GRACE PERIOD

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)

DEBIT CARD

Provide participants with a debit card to eliminate cash flow challenges of incurring expenses and requesting reimbursement



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

Help your employees maximize 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