# Issue

# Flexible Spending Account (FSA) treatment and disclosure varies among the Services. This paper clarifies what a Flexible Spending Account is, and the accounting treatment that is most appropriate according to GAAP. This paper should be applicable to Healthcare Savings Account (HSA) questions as well.

# Research

Below outlines the current process for how each Service classifies a Flexible Spending Account and what the regulations, accounting guidance and industry standards are for this area.

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| Flexible Spending Account Treatment and Guidelines | Air Force | Army | Navy | Marines |
| NAFSGL Account Definitions:  Definition:  Employee Deductions Payable. Amounts for deductions of savings bonds, charity, savings, flexible savings account, health savings account, and union dues that are withheld, but not yet paid.  Other Employee Benefits Payable: Includes accounts such as COLA/LOA/uniform allowances, retroactive pay and benefits, unclaimed wages, bank fee reimbursement payables, separation allowance payables, annual awards, pay bonuses, training and travel, and severance benefits payables. | Administered by Third-Party.  Need more information. | Army uses OSD 211 (Other Employee Benefits Payable) for Flexible Spending Account liabilities.  Army uses 510 (Other Expenses to Employees ) and 552 (Other Operating Expenses) for FSA Admin expense | Administered by Third-Party.  Need more information. | Administered by Third-Party.  Marine Corps uses OSD 208 (Deductions Payable) for Flexible Spending Accounts.  Marine Corps used 552 (Other Operating Expenses) for FSA Admin expense |
| DoDI 1015.15: Silent on Treatment. | N/A | N/A | N/A | N/A |
| FMR Volume 8, Chapter 11, 110202. G. 2. Flexible Spending Accounts (FSAs): FedFlex offers employees the opportunity to participate in the Federal Flexible Spending Accounts Program (FSAFEDS). See section 1105.    FMR Volume 13, Chapter 2 (February 2014): Flexible Spending Accounts Payable is listed under Current Liabilities on the Chart of Accounts as a credit balance. The Flexible Spending Account Admin Fee is included under Operating Expenses as a debit balance.  FMR Volume 13, Chapter 3, T. Flexible Spending Accounts Payable (November 2010): This general ledger account consists of the amount of withholdings deducted from employees’ pay and administrative fees charged to the employers and payable to the Flexible Spending Account administrator.  FMR Volume 13, Chapter 7, 070703. C.3.Other Current Liabilities, Line 18: This is a summary line for all other current liabilities. Items reported as other current liabilities include short-term loans payable, short-term leases payable, dividends payable….flexible spending accounts payable, deposits payable, and other current liabilities.  FMR Volume 13, Chapter 5, BA. Flexible Spending Account Admin Fee (April 2013): This general ledger account is for recording the fee for administering the Flexible Spending Accounts for employees.  FMR Volume 13, Chapter 8, 080602. Other Deductions: If an eligible NAF employee elects to participate in other NAF benefits programs (to include retirement, group life, medical, dental, long term care insurance, flexible spending accounts, and 401(k) savings plan benefits), deductions will be made as applicable. Employee elected deductions may also be made for U.S. Savings Bonds, contributions to the Combined Federal Campaign, union dues (as applicable), and allotments to financial institutions, such as credit unions, banks, or other savings institutions. In accordance with 5 U.S.C. §5514, NAF employees are subject to installment deductions from pay to collect debts for Federal agencies. | Need more information. | Does Not Follow Current Guidance | Need more information. | Does Not Follow Current Guidance |
| FASB 965.10 Defined Contribution Plan  A plan that provides an individual account for each participant and provides benefits that are based on all of the following: amounts contributed to the participant’s account by the employer or employee investment experience; any forfeitures allocated to the account, less any administrative expenses charged to the plan.  a. Defined contribution health and welfare plans—Defined contribution health and welfare plans maintain an individual account for each plan participant. They have terms that specify the means of determining the contributions to participants' accounts, rather than the amount of benefits the participants are to receive. The benefits a plan participant will receive are limited to the amount contributed to the participant's account, investment experience, expenses, and any forfeitures allocated to the participant's account. These plans also include flexible spending arrangements. | Need more information | Appears to follow guidance | Need more information | Appears to follow guidance |
| GAAP: 965-10-05-7  The nature of, and method of accounting for, the assets and benefit obligations of a health and welfare benefit plan may be determined by the arrangement with an insurance entity. The insurance entity may assume all or a portion of the financial risk (for example, in [fully insured experience-rated arrangements](http://www.accountingresearchmanager.com/#/r/EE9137763FC17418862575A9000F7742?checkId=1) , [fully insured pooled arrangements](http://www.accountingresearchmanager.com/#/r/CD652C5DDEE17A9D862575A9000F7A73?checkId=1) , [minimum premium plan arrangements](http://www.accountingresearchmanager.com/#/r/BD7591A287A52B78862575A9001E0C7C?checkId=1) , and [stop-loss arrangements](http://www.accountingresearchmanager.com/#/r/86DE90335BF934ED862575A90024AF7D?checkId=1) ), or it may provide only administrative services (for example, in [administrative service arrangements](http://www.accountingresearchmanager.com/" \l "/r/5783CEC1203414FC862575A90009E43D?checkId=1) ) or investment management services. It is important to have an understanding of the insurance arrangement to determine whether any or all of the risks associated with benefit payments or claims have been transferred to the insurance entity.  In an administrative service arrangement, the plan retains the full obligation for plan benefits. The plan may engage an insurance entity or other third party to act as the plan administrator. The administrator makes all benefit payments, charges the plan for those payments, and collects a fee for the services provided. | Need more information | Appears to Follow Guidance | Need more information | Appears to Follow Guidance |
| FSAFEDS.COM- Federal FSA offering to Employees  https://www.opm.gov/healthcare-insurance/flyers/flexible-spending-account-overview.pdf |  |  |  |  |

# Discussion

A Flexible Spending Account is a savings account which allows the user to contribute money and spend it on qualified healthcare and/or dependent expenses without the contributed or withdrawn funds being included in your taxable income. On both the commercial and federal side, a FSA is structured as a “use it or lose it” benefit plan, as only $500 of the savings in a FSA can be carried over for usage in the next year.

The question of who bears the risk of claims of any offered benefit is critical to determining proper accounting. In this paper, we assume that the NAFIs with the exception of the Navy provide FSAs to their employees via FSAFEDS.com, and thus have a structure in which the employer bears all of the risk of payment of claims while FSAFEDS provides the administrative oversight. Flexible Spending Accounts are a subset of Health and Welfare Benefit Plans in GAAP- but given the FSA’s nature as a savings account, the “risk of payment of claims” is limited to the amount contributed to the plan by the claimant, and thus the accounting becomes relatively simple. We believe the “administrative service arrangement” described in GAAP is the most appropriate classification for FSAFEDS. If the Services have FSA arrangements in which other entities are responsible for collecting or paying the FSA contribution, then we request that information be provided on the nature of those plans to determine what accounting is appropriate. Refer to FASB 965-10-05-07 for full descriptions of the potential plan structures.

The FMR definition of the FSA liability is consistent with our assumption that the Services use the “administrative service arrangements” structure for their FSA plans, given the presence of administrative expenses and withholding from the employee’s wages. However, the NAFSGL structure as it currently stands, includes FSA payable in the Employee Deductions Payable account.

# Recommendation

With the exception of the Air Force and Navy, the Services appear to be consistent with GAAP in current practice. Therefore, our recommendation is based on aligning the NAFSGL structure and the FMR rather than a change in accounting method.

**We recommend standardization between the NAFSGL and the FMR in the following way:**

* 1. Add a Flexible Spending Account Payable and a Flexible Spending Account Administrative Expense to the NAFSGL 3.0

An example of the journal entries for third-party administered FSAs are included below.

Wages Expense 100

Flexible Account Admin Fee Expense 5

Wages Payable 90

Flexible Spending Accounts Payable 15

Upon expiration of the FSA account for a particular employee who did not use all of the savings accumulated in the account by year-end, we recommend the expired portion of the FSA, which is a liability on the employers’ books, be closed out with a gain.

# Service Concurrence

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| Service | Concurrence | Reason for Non-concurrence |
| Air Force | **Concurred 12/13/2018.** |  |
| Army | **Concurred 12/13/2018.** |  |
| Marines | **Concurred 10/25/2018.** |  |
| Navy | **Concurred 10/25/2018.** |  |

# USD(P&R)/MC&FP Disposition

No further action.

# DFAS Disposition

Update FMR to reflect the changes above for the use of the Flexible Spending Account.

# Forward to DoDIG?

No DoDIG equities.