

Benefits Insights

Lifestyle Spending Accounts

Many workers are paying greater attention to their benefits and wondering how to stretch their dollars further. While many employers are familiar with health savings accounts (HSAs) and flexible spending accounts (FSAs), lifestyle spending accounts (LSAs) are an emerging benefit that can provide flexible and personalized support to employees. Meaningful and competitive benefits are a leading way for employers to attract and retain workers—and LSAs could be a desirable piece of the benefits puzzle.

According to a 2022 Mercer survey, just under 10% of employers reported offering LSAs as part of their benefits packages. However, 70% of respondents had considered doing so. As employees demand customized benefits packages and more employers offer LSAs, it's important for employers to understand the specifics of this spending account and consider if they are a good fit for their organization and employees. This article explores LSAs, including their benefits and disadvantages.

What Is an LSA?

An LSA is a taxable, employer-funded benefit to support employee physical, mental, emotional and financial health and wellness. Employers determine their annual contribution amount and how employees can spend their LSA funds. They place parameters on acceptable products, services and expenses—sometimes covering other costs not typically included in a group plan.

Common LSA expenses include:

- **Care services** (e.g., adult and child care, pet day care and pet grooming)
- **Financial services** (e.g., financial planning and financial education programs)

- **Mental health** (e.g., mindfulness or meditation apps and life coaching)
- **Physical health** (e.g., gym memberships, fitness classes, athletic apparel and exercise equipment)
- **Professional development** (e.g., continuing education courses, certificates and industry conferences)
- **Wellness** (e.g., food supplements and nutrition counseling)
- **Work-from-home expenses** (e.g., home office equipment and supplies)

In addition to these common expenses, some employers may also offer LSA funds for anything employees say promotes their personal wellness.

The Pros of LSAs

First and foremost, LSAs can help employees make better lifestyle choices. In turn, employees are healthier, happier and likely more engaged and productive at work. Since LSAs do not have pre-tax implications, employers can offer this benefit to various workers, including full-time, part-time and contract.

Additionally, LSAs are an attractive offering based on the following benefits:

- **Budget optimization**—Employers only pay for the actual amounts that employees spend. Therefore, they retain any unused funds, which helps ensure budget dollars are optimized.
- **Complete control**—Organizations can limit and guide the spending of employer-provided money based on their own budgets and unique employee needs. While control benefits employers, remember that employees may not view it that way if they feel the limit is not generous enough for their lifestyle.
- **Diversity, equity and inclusion (DEI) efforts**—LSAs can strengthen DEI efforts by addressing benefits gaps for marginalized groups and employees with special lifestyle needs.
- **Ease of implementation**—An LSA adds flexibility to employers' benefits plans and is relatively simple to implement and manage. Compliance for LSAs is also less involved when compared with tax-advantaged accounts, such as HSAs and FSAs.
- **Employee personalization**—Once a plan is defined, employees have the freedom and flexibility to use LSA funds for their wellness-related expenses.

As with any benefits offering, education will remain necessary to increase employee utilization. Employers are uniquely positioned to help employees understand the importance of LSAs and how to best spend their funds and boost their overall well-being.

Reach out to a member of your client services team to learn more about employee benefits.

The Cons of LSAs

Employers considering LSAs should also weigh potential disadvantages to ensure the offering is a good fit for the organization:

- **No tax advantage**—LSAs are not tax-advantaged, and employers are faced with a wide range of options on how to best approach the taxation of LSAs.
- **Employer-funded**—Since LSAs are exclusively employer-funded, this offering does add to the organization's annual budget.

Summary

An LSA is an increasingly popular offering that goes above and beyond traditional health plans, providing employees with a flexible option to support their everyday needs. More employers are offering LSAs as they continue to search for ways to make their benefits relevant and valuable to their employees.