

Use of FSA Debit Cards Changes with 2009

December 11, 2008

The use of a debit card has become secondhand for many FSA participants. However, what was easily a swipe to pick up prescriptions then a swipe at another location for over-the-counter medication may not be as easy if those merchants have not met certain criteria.

The IRS required merchants to adopt technology called Inventory Information Approval Systems (IIAS). The IIAS significantly increases the auto-substantiation rate with the debit card which means that purchases will be automatically approved at the point of purchase.

However, the IRS also observed that pharmacies and drug stores – which currently have health-related merchant category codes (MCCs) – sell a significant number of items that do not qualify for FSA reimbursement. Therefore, after June 30, 2009 (based on recent guidance in IRS Notice 2008-104), FSA debit cards cannot be used at a store with the Drug Stores and Pharmacies MCC unless the store meets one of these requirements:

The store participates in the IIAS described in Notice 2006-69

On a location-by-location basis, 90% of the store's gross receipts during the prior taxable year consisted of items that would be reimbursable under an FSA, including over-the-counter medications

Effective July 1, 2009, traditional pharmacies will be required to have an IIAS in place or they will no longer be permitted to accept FSA debit cards. Merchants throughout the country are aware of these new regulations and are working to implement IIAS by the required deadlines.

The IIAS is comparable to a food stamps system where the inventory system separates the items that are eligible for payment from those that require a different form of payment.

There are a couple items that participants can keep in mind while using their FSA plan. Each of these provides them with an opportunity to make it uncomplicated to take part in FSA transactions.

Substantiation

Participants need to remember that while swiping a debit card has become second nature and does provide point of service reimbursement, it does not completely rule out any paper substantiation. A sampling approach—where all claims are not substantiated—is prohibited. All claims must be substantiated, either by paper receipt or three situations (listed below) where auto-substantiation is permitted.

The dollar amount of the transaction at a health care provider equals the dollar amount of the co-payment for that service under the major medical plan of the specific employee

Recurring expenses match expenses previously approved as to amount, provider and time period (e.g., an employee who refills a prescription drug on a regular basis at the same provider for the same amount)

The merchant, service provider or other independent third party (e.g., pharmacy manager), at the time and point of sale, provides information to verify to the employer that the charge is for a medical expense

Direct Deposit

Employees enrolled in a direct deposit option for FSA claims find it to be a valuable benefit. Direct deposit provides an electronic transfer of a reimbursement from their FSA to a checking or savings account. No more waiting for a check to arrive in the mail. No more trips to the bank to deposit a reimbursement check. It's all done automatically. Plus, it's free to have direct deposit.

Even those participants who use the Benny Card on a regular basis can sign up for direct deposit. It allows for reimbursements to occur quickly if they ever need to submit a claim manually. Participants will receive documentation when a claim is approved and a direct deposit is made.

In the end, the best use of an FSA is through the Benny Debit Card.

The changes that take place this year don't mean participants can't keep "swiping" their card. It just means they need to know whether their pharmacy or favorite store is on the list for IIAS implementation. Another good rule of thumb is to have participants retain receipts should a question on substantiation be requested. Most participants will find they can continue to "swipe" away for easy FSA transactions without finding any difficulties with their favorite pharmacy or store.