

IRS Flexible Spending Account (FSA) and Health Reimbursement Account (HRA) Debit Card Regulations effective July 1, 2009

(Information current as of December 5, 2008 – The IRS issued a notice extending the previous deadline of 1/1/09 to 7/1/09.)

- 1) What are the regulations?
 - Beginning **July 1, 2009**, IRS regulations specify that FSA/HRA debit cards may not be used at stores with the Drug Stores and Pharmacies merchant category code unless the merchant has an Inventory Information Approval System (IIAS), **or** 90 percent (90%) or more of the store's gross receipts during the prior taxable year consisted of items which qualify as expenses for medical care under Section 213 d of the IRS Code (including prescriptions and certain non-prescription medications).
- 2) What is an "inventory information approval system" (IIAS) as specified by the IRS?
 - An inventory information approval system, or IIAS, is a point-of-sale (POS) technology used by retailers that accept FSA debit cards. In general, an IIAS must be able to do the following:
 - Identify eligible health care FSA/HRA purchases by comparing the purchased items' inventory control information (e.g. UPC or SKU number) against a pre-established list of eligible items.
 - Keep a separate total for the eligible items.
 - Charge the FSA/HRA card only for the eligible items total, and request another form of payment for any remaining items.
- 3) Does my pharmacy qualify for the exception as specified by the IRS?
 - If 90% or more of your store's gross receipts during the prior taxable year consisted of items which qualify as expenses for medical care under Section 213 d of the IRS Code (including prescriptions and certain non-prescription medications), then your pharmacy qualifies.
- 4) Do I need to have a Point-of-Sale (POS) system in place by **July 1, 2009**?
 - Contrary to some published information, the IRS does not require a pharmacy to have a POS system. If you decide to purchase a POS system, consult your tax advisor or accountant about the Economic Stimulus Package of 2008 as it relates to the purchase of a POS.
 - Your pharmacy will need some type of system to process the FSA/HRA debit cards.
 - There are several potential options that are in various states of market development that offer alternatives to the use of a POS system (see "Potential Solutions" below).
- 5) Potential Solutions
 - **FSAok**
 - Service Description - FSAok is a service of Finpago. Patients will register their FSA/HRA debit card with FSAok and receive a COB (ID) number. A pharmacy will update the patient profile with this information and process transactions using a dedicated BIN number through the pharmacy dispensing system. FSAok auto-substantiates FSA/HRA purchases at the point of sale, and requests another form of payment for non-eligible items.
 - Point-of-Sale system required? - **No**
 - Hardware requirements - There are no additional hardware requirements outside of the pharmacy dispensing system.
 - Pricing model - \$100 setup, plus \$20 per month, plus \$0.15 per transaction.
 - Items to note - Customer must complete a one-time in-pharmacy or online registration.
 - For more information - www.fsaok.com/pharmacy
 - **flexTRAX Solutions**
 - Service Description - flexTRAX Solutions is a joint venture between KeyCentrix and Retail Management Solutions (RMS). flexTRAX is designed primarily for independent

pharmacies to continue processing FSA/HRA cards without a POS system. flexTRAX can be described as either a basic POS system or an over engineered electronic cash register. It was designed to replace a pharmacy's cash register and provide FSA/HRA processing at the same time. flexTrax auto-substantiates FSA/HRA purchases at the point of sale and requests another form of payment for non-eligible items.

- Point-of-Sale system required? - **No**
- Hardware requirements – PC, credit card mag-swipe, printer, bar-code scanner and cash drawer.
- Pricing model - \$50 per month, plus 0.27% per electronic transfer, plus \$250 annual SIGIS membership.
- Items to note – Currently, the only credit card processor available under flexTrax is First Data. KeyCentrix and RMS are evaluating integration with other processors, but at the moment, a merchant that wants to use flexTrax will have to open a merchant account with First Data.
- For more information - www.flextraxsolutions.com

- **SIGIS - 90% Rule**

- Service Description – SIGIS will support drug stores and pharmacies that meet the IRS requirement that on a store location by store location basis, 90% of the store's gross receipts during the prior taxable consisted of items which qualify as medical expenses (including over-the-counter eligible healthcare items).
- Point-of-Sale system required? – **No**
- Hardware requirements – There are no additional hardware requirements.
- Pricing model - \$250 annually per store for SIGIS membership.
- Items to note – 90% Rule merchants need to contact their acquirer, acquirer processor or POS servicer to obtain the correct information to complete the 90% Rule registration. Transactions at stores utilizing the 90% Rule are not auto-substantiated and plan administrators will need to follow their policies for substantiation of such purchases, most likely asking card holders to forward their sales receipts.
- For more information – <http://www.sig-is.org/en/index.asp>

- **SIGIS – IAS / POS solution**

- Service Description – This solution allows merchants to maintain a POS system that effectively identifies eligible transactions when consumers use FSA/HRA debit cards. IAS-compliant transactions enable real-time auto-substantiation for eligible medical items purchased with an FSA/HRA payment card.
- Point-of-Sale system required? – **Yes**
- Hardware requirements – There are no additional hardware requirements.
- Pricing model - \$250 annually per store for SIGIS membership. There may be a single fee for common ownership of multiple stores.
- Items to note – This system provides auto-substantiation but does require a POS system.
- For more information - <http://www.sig-is.org/en/index.asp>

6) What is the Special Interest Group for IAS Standards (SIGIS)?

- SIGIS was formed to produce and promote a voluntary industry program designed to meet IRS requirements for operating an IAS.

7) What is the market projection for FSA/HRA debit card use?

- More than 90% of employers offer FSA's to their employees and studies project that 85% of employees with FSA's will have FSA debit cards by 2010.

8) As additional information becomes available, where can I find it?

- Visit www.ncpanet.org and Pharmacist e-Link for information and updates.