

IRS Flex Spending Account (FSA) Debit Card Regulations - Effective Jan. 1, 2009

(Information current as of October 23, 2008)

- 1) What are the new regulations?
 - Beginning Jan. 1, 2009, IRS regulations specify that FSA and HRA debit cards may not be used at stores with the Drug Stores and Pharmacies merchant drug category code unless the merchant has an Inventory Information Approval System (IIAS), or unless 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 213d of the IRS Code (including prescriptions and certain non-prescription medications).
 - Some organizations have published information stating that all pharmacies must have an IIAS compliant POS system - that information is not correct.
- 2) Does my pharmacy qualify for an 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 213d of the IRS Code (including prescriptions and certain non-prescription medications), then you are not required to have an IIAS.
- 3) 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 technology used by retailers that accept FSA debit cards. 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.
- 4) What are the various scenarios under the regulations?
 - Scenario #1: Pharmacy meets the 90% exception, and has a POS system
 - Scenario #2: Pharmacy meets the 90% exception, but does not have a POS system
 - Scenario #3: Pharmacy does not meet the 90% exception, and has a POS system
 - Scenario #4: Pharmacy does not meet the 90% exception, but does not have a POS system
- 5) What do I need to do if my pharmacy qualifies for the IRS exception?
 - At this time, there is no market solution that specifically addresses the 90% exception. However, there are more comprehensive IIAS compliant solutions available (with or without a POS system; see "Potential Solutions" under #8 below).
- 6) What do I need to do if my pharmacy does not qualify for the IRS exception?
 - See "Potential Solutions" under #8 below.
- 7) What is the Special Interest Group for IIAS Standards (SIGIS)?
 - SIGIS was formed to produce and promote a voluntary industry program designed to meet IRS requirements for operating an IIAS.
 - Founding members include mass merchandisers, chain drug stores, credit card processors, TPA's and system vendors.
- 8) Potential Solutions
 - flexTRAX Solutions (a KeyCentrix/RMS company)
 - FSAok (offered by Finpago)
 - EasyCDH (offered by Relay Health)
 - SIGIS
 - POS system implementation