



Paper or Plastic? The Future of Flex is *Here and Now*

Clearly, the marketplace is adopting consumer driven healthcare at a rapid pace, which, for the most part, is driven by escalating costs. Only a few years ago, flexible spending accounts (FSA) were the only "Flexible Benefit" choice for employees. Now, driven by the movement toward patient consumerism, millions of new HRA and HSA accounts are established every year by employers seeking to engage employees in a partnership to manage healthcare costs.

Flex has come a long way baby!

Until 2003, flex benefit participants only had one way to access the money in their account(s) – pay for qualified plan expenses with personal funds, submit a claim with appropriate receipts, and then wait to be reimbursed from the plan.

Then in 2003, the IRS authorized the use of flex benefit cards – special-purpose Visa® cards – to pay for qualified expenses directly from participant accounts. The flex benefit card was convenient, making flex plans more attractive and user-friendly for employees.

However, these early flex cards were not "smart enough" to distinguish between items that were qualified expenses (prescriptions, over-the-counter medicines, bandages) vs. non-qualified (magazines, candy, laundry detergent). Most flex card swipes at a pharmacy, grocery store, or discount store required the employee to submit cash register receipts to the plan administrator so the purchase could be approved, after the fact.

And, what made matters worse: employees had to pay back expenses when they could not produce a receipt. This was known as "pay-and-chase."

The IRS to the rescue!

Effective in 2008, the IRS put an end to "pay-and-chase" by mandating that retailers – grocers and superstores with pharmacies and/or over-the-counter products – implement new technology that automatically approved and substantiated all flex benefit card swipes at the point-of-purchase. Drugstores must be compliant with this new technology effective July 1, 2009.

There are two parts to the new IRS rules: 1) Inventory Information Approval System (IIAS) for retailers and, 2) Automatic co-pay approval for verifying multiple co-pays at retailers or doctor's offices.

How the "smarter" flex benefits card works

IIAS – The shopper takes purchases to the checkout counter. When asked for payment, the flex benefit card is presented FIRST. When the card is swiped, only IRS qualified items – prescriptions and over-the-counter medications – are approved for payment. The shopper will then be asked to provide another form of payment for items that were not approved – candy, magazines, laundry detergent, etc.

Over 35,000 retailers throughout the country have implemented the mandated IIAS. New retailers are coming on board daily. To view the most up-to-date list of participating retailers visit mhmResources.com.

Multiple Co-pays – The second part of the mandate corrects a common problem that occurred previously when the flex card was used to pay multiple co-pays at the pharmacy or doctor's office.

Say you took two of your children to the doctor for a checkup and the co-pay for each was \$20. You paid the total \$40 co-pay with your flex benefit card and went on your way. But because the \$40 card swipe did not equal your health plan's \$20 co-pay, you would be required to submit a receipt for verification of the \$40 payment.

Under the new "multiple co-pay" method, you will not be asked to submit a receipt because the \$40 is a multiple of your standard \$20 doctor co-pay. The same would hold true for swipes of \$60, \$80, and \$100.

In the case of dental, vision, or other qualified expenses, receipt verification may be required if the purchase amount does not match a co-pay. Even with these new methods, the IRS requires participants keep all detailed receipts when they use their flex benefit card.

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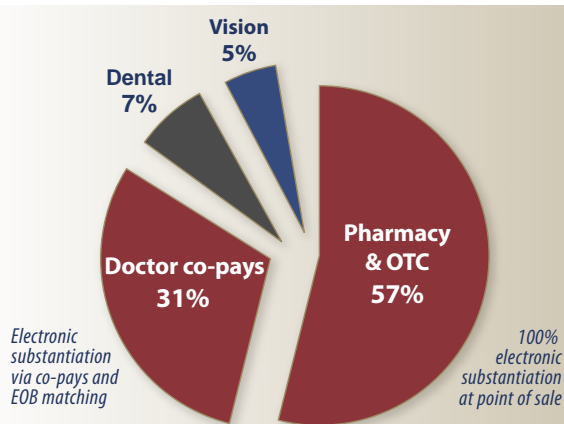


Together, the IAS and multiple co-pay rules are now allowing electronic payment and point-of-purchase verification for nearly 90% of all CDH account payments.

Retailers and pharmacies that do not have the IAS in place by the IRS imposed deadlines cannot accept flex benefit cards. Flex benefit card swipes attempted at these retailers will be denied. Merchants that do not comply with these IAS requirements understand they will face the loss of business to competitors.

Flex benefit cards offer the most convenient access to CDH accounts and are rapidly replacing the old paper claims method of reimbursement.

Where Flex Plan Dollars are Spent



National averages show that 88% of all health care transactions are for either pharmacy, over-the-counter items, or doctor visits.

Pharmacy and OTC transactions using flex benefit cards for payment are 100% substantiated using IRS mandated IAS systems (beginning in 2009).

Doctor visits are substantiated using EOB and co-pay matching to electronically substantiate the patient's responsibility on deductibles and co-payments.

CDH accounts also pay for more expensive services, like orthodontia, LASIK surgery, and eyeglasses, which account for the remaining 12% of CDH transactions. Plan administrators must request receipts to verify these expenses when they are purchased with a flex benefit card.

The key to greater acceptance and use of flex benefit cards – employer and employee education, education, and more education!

The moral of the story... don't underestimate the power of FLEX

Flex benefits, FSAs, HRAs, and HSAs, have taken the benefits world by storm and are here to stay, with a bigger and better value for employers, employees, and plan administrators. ○

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