

The EBS Flex Card



EBS-RMSCO, Inc.
Employee Benefit Solutions

Everything you need to know!
June 2009

Understanding your EBS Flex Card is the key to its success.

Background: Employer sponsored flexible spending accounts (FSAs) and health reimbursement accounts (HRAs) are benefit plan arrangements that allow employees to pay for certain health care or dependent care expenses on a pre-tax basis. Traditionally, participants would pay for eligible items or services out-of-pocket. They would then complete a Request Reimbursement Form (claim form), attach the required documentation illustrating that the transaction was eligible, and wait for their reimbursement check.

Paper or Plastic? In late 2002, Flex Cards were introduced as a more convenient payment method. Instead of paying for items or services out-of-pocket, participants could simply swipe their Flex Card.

Common Misconception with Flex Cards: With the introduction of Flex Cards, a fatal misconception swept through the industry - Plan Sponsors and participants thought that by using their Flex Card, the need to provide documentation to certify the eligibility of the transaction was removed. The misunderstanding continued and it was widely believed that there would be *no paperwork what-so-ever as long as the Flex Card was used...*this is not true!

The Truth: The truth is that every single transaction must still be substantiated, regardless of the method of payment (either out-of-pocket or with a Flex Card). This is an IRS mandated regulation. The IRS eventually realized that not all Flex Card transactions were being properly substantiated. Some participants who were given the convenience of using a Flex Card were making fraudulent transactions and misuse was becoming more and more widespread.

What does that mean exactly? It means that substantiating each and every transaction is not an option—it is the law. Participants have the responsibility of providing documentation to certify that their transaction is eligible under the terms of the Plan. The IRS further realized that to ensure a 100% substantiation rate on all Flex Card transactions, a two part approach was required.

Part I—Ideally, the Flex Card should be “smart enough” to substantiate the transaction as it is being swiped at the merchant. This requires complex technology using specific guidelines published by the IRS. If the Flex Card is “smart enough” to substantiate the transaction at the point of purchase, the IRS requirements have been satisfied and the need for the participant to provide additional documentation is eliminated.

Part II—If the Flex Card is not “smart enough” to substantiate the transaction as it is being swiped at the merchant, then the participant is required to provide documentation upon request. Participants may still have the convenience of using their Flex Cards as a form of payment, but they still need to mail in documentation to certify that the item or service is qualified as an eligible expense.

What makes the Flex Card “smart enough” to automatically satisfy the substantiation requirement? The IRS has created four scenarios which allow Flex Cards to automatically substantiate transactions:

1. If the merchant maintains an IIAS system (Inventory Information Approval System). IIAS systems are generally used by grocery stores, wholesale clubs, supermarkets, discount stores and online pharmacies. The IRS mandated IIAS systems for all over-the-counter purchases at participating merchants on January 1, 2008. Pharmacy counters must use an IIAS system to continue accepting Flex Cards by July 1, 2009. An IIAS system works like this: a participant is buying cough medicine and milk at an IIAS compliant grocery store and is paying at a check-out register. The cough medicine is pre-programmed into the store’s IIAS system as an eligible FSA/HRA item. The milk is not eligible. The Flex Card will be accepted as payment for the cough medicine, but the milk must be paid for with another form of payment. The cash register was “smart enough” to know that only one of the items can be paid for with the Flex Card. Merchants without an IIAS system cannot accept Flex Cards.
2. If the transaction matches an insurance copayment amount. EBS-RMSCO, Inc. has asked all Flex Card employers to send us their insurance copayment information. Once received and loaded into our system, the Flex Card will be “smart enough” to realize that, for example, a \$20 transaction matches the \$20 copayment information on file and will automatically approve the transaction.

3. If there is a “carrier feed” from an insurance vendor to match the non-covered amounts paid for with the card. For example, if a participant visits the dentist and incurs a treatment that is covered by the Plan, *and* a file containing the details of this transaction is sent to EBS-RMSCO, the transaction will be automatically substantiated. In this instance the Flex Card is “smart enough” to approve the transaction because a supplemental file process is also in place to provide the supporting documentation.
4. If the transaction is a recurring expense. This occurs when a participant has an initial transaction that was not automatically substantiated. The participant received a letter requesting a copy of the receipt, promptly complied and the transaction was approved by an EBS-RMSCO Adjudication Team member. A month later, the participant has another transaction that identically matches the initial transaction (same provider and the same dollar amount). The Flex Card is “smart enough” to know that if we manually approved this transaction once, all future occurrences during the same Plan year may also be approved. As per the IRS requirements, at the beginning of each new Plan year, the recurring expense settings must be reset.

Even if transactions are auto-substantiated, participants are always required to retain their receipts. The IRS still retains the right to randomly audit participants in FSA/HRA Plans.

With all these rules, is the Flex Card really worth it? Absolutely! Remember, each time participants use their Flex Card, they are eliminating an out-of-pocket expense. EBS-RMSCO’s base auto-substantiation rate is 76%. This means that for every 100 transactions, participants may need to send in receipts for only 24. That’s a lot less paperwork! If the Plan Sponsor has provided their copayment information, the rate increases to approximately 88%, and if the insurance provider is able to provide us with “carrier feeds”, the auto-substantiation rate increases to approximately 92%. So, yes, the Flex Card is really worth it!

It’s just very important to remember that the Flex Card is a form of payment first and that the Flex Card may have the ability to automatically substantiate the transaction second. Automatically substantiating the transaction is a bonus...and the good news is that the IRS is continually working to improve this process.

What should participants do if they receive a Request For Information letter (RFI letter)? Participants should immediately comply and provide the required documentation. There is no room for negotiation. Participants should liken an RFI letter to their personal income tax return. There is simply no getting around filing a personal income tax return, we just accept the fact that it must be done because it is mandated by the IRS. The RFI letters are exactly the same. Providing documentation is mandated by the IRS, and it is the participant’s responsibility to comply with all requests.

What type of documentation should be provided? Acceptable documentation is the insurance company’s Explanation of Benefit statements (EOBs), receipts showing the date of service, the service provider’s name, to whom the service was provided, the cost of the service (or item) and a description of the service. A cash register tape showing the product and price is also acceptable. If you can’t find this information, ask the merchant or provider to supply additional copies. Do not send the credit card machine receipt or an estimated expense statement.

What happens if the participant does not reply to a RFI Letter or cannot find/provide sufficient documentation? Participants receive an initial letter requesting documentation, followed by a reminder letter 30 days later. After 60 days, a final notification is sent saying that by not responding, or failing to submit adequate documentation/receipts, the expense must be labeled as “ineligible”. In that case, the participant would be obligated to repay the amount to the Plan. Failure to comply can also result in deactivation of their Card. It is important to remember all amounts repaid to the Plan are for the benefit of the participant, meaning that the funds are back in their account and are available for future eligible transactions. Also, deactivation of the Flex Card simply means that this *payment method* is suspended. By law, participants always have access to the funds in their account. If a Flex Card is deactivated, participants must simply use the traditional method of accessing their account; paying out-of-pocket, completing a Request Reimbursement form and attaching the required documentation, then waiting for a reimbursement check.

Conclusion: Understanding that the Flex Card is primarily a convenient form of payment is key, and that providing supporting paperwork may still be required. Participating in an FSA/HRA program affords participants great tax saving benefits. The Flex Card is an enhancement to the employer sponsored program. As the IRS continues to provide new regulations, and new technology is developed, Flex Cards will continue to become “even smarter”...meaning less and less paperwork requirements for participants.