

Update Bulletin

FSA Changes — New IAS Rules for January 1, 2011

Issue 2 September 21, 2010

The Internal Revenue Service tax code will be changing the eligibility of some items for reimbursement under health care FSA, HSA, HRA and MSA plans. Most grocery retailers will be affected starting next year.

The IRS code states that as of January 1, 2011,¹ most over-the-counter (OTC) medicines and drugs will not normally be eligible for reimbursement under these plans.

However, these changes do not affect *all* current FSA items:

- OTC medicines will remain reimbursable when prescribed by a physician.
- Other medical items (insulin for example) and non-drug items such as band-aids or crutches are still reimbursable. Medical technology items (blood-pressure or blood-sugar test kits) will continue to be reimbursable as before.
- [See the summary list of changes provided by SIGIS on the following page.](#)

Card payment networks and IAS applications currently have no mechanism to validate that a shopper has a valid prescription for an OTC medication – and thereby authorize payment from an FSA or other health payment account. This means that starting January 1, even OTC drug purchases with prescriptions will *not* be tender-able via FSA-type card transactions. Instead, shoppers must pay normally and apply to their account provider afterwards for reimbursement (via prescription proof and receipt).

OTC medications therefore will be removed from the Eligible Product List effective January 1, and stores will need to update their files to make sure these items will not be included in FSA tenders. [SIGIS \(Special Interest Group for IAS Standards\) has committed to publish a new Eligible Products List for pharmacy, grocery and other merchants on December 15. SIGIS' has completed a list review down to category level, which is provided on the following page.](#)

Although the PLU identifiers on many OTC items will therefore need updating, no changes to POS or EPS applications for FSA will be required. The ISS45, ScanMaster, WinEPS and Connected Payments IAS capabilities will not need to be change – just the items that can be rung via FSA tenders.

To Your Success,



Anthony van Seventer

¹ In the guidance, the IRS granted transitional relief for merchants with IAS systems (such as ISS45 and ScanMaster equipped with the FSA option). IAS merchants have until **January 15, 2011** to update their systems to be compliant with the new guidance.

SIGIS Review Results from IRS Guidance

CATEGORIES TO BE DELETED

The following categories have been removed from the Eligible Products List to prevent them from being purchased at an IIAS merchant without a prescription.

Categories no longer eligible without a prescription	
<ul style="list-style-type: none">• Acid Controllers• Antibiotics• Anti-Gas Products• Anti-Parasitic Treatments• Cold Sore Remedies• Digestive Aids• Hemorrhoidal Preps• Motion Sickness• Respiratory Treatments• Stomach Remedies	<ul style="list-style-type: none">• Allergy & Sinus medicine• Anti-Diarrheals• Anti-Itch & Insect Bite• Baby Rash Ointments/Creams• Cough, Cold & Flu• Feminine Anti-Fungal/Anti-Itch• Laxatives• Pain Relievers• Sleep Aids & Sedatives
<p><i>Note:</i> Controlled Drugs and Medicines that require a prescription as defined by state law remain eligible for purchase with an FSA/HRA card using IIAS.</p>	

METHODOLOGY

In addition to products that clearly meet the definition of a drug or medicine, the SIGIS Eligible Products List Committee also evaluated the items' primary purpose. For example, band aids with an antibiotic remain eligible as the primary use is as a band aid even though the antibiotic has a medicinal component. The basis of this methodology was vetted in informal conversations with the IRS about how to treat these items.

Merchants carrying private label or nationally branded special sizes will need to apply the same criteria in determining list eligibility for those items as the review committee. Merchants should refer to the Eligible Products List, Eligible Products List Criteria and Eligible Products Private Label Criteria documents for guidance.

