



# Flexible Spending Account Substantiation



As the administrator for your Flexible Spending Account (FSA) or Health Reimbursement Arrangement (HRA), HealthSCOPE Benefits believes that providing you with information about the administration of your account is very important. In keeping with this philosophy, we have prepared this document in order to explain the substantiation process around your Visa benefits card. Please read the enclosed correspondence carefully and save it for future reference.

At HealthSCOPE Benefits, the team responsible for administration of these types of accounts is referred to as the Customer Driven Healthcare (or CDH) team. In addition, we refer to your account/plan as a CDH account/CDH plan. Note that the last page of this packet is a "Questions and Answers" document that addresses some of the common concerns around the benefits card substantiation process.

If you have any questions about the contents of this document or about your CDH account in general, please contact us at 1-877-385-8775 or by email at [CDHAdmin@healthscopebenefits.com](mailto:CDHAdmin@healthscopebenefits.com).

Sincerely,  
Your HealthSCOPE Benefits CDH Services team

## What is Substantiation?

Internal Revenue Service (IRS) regulations require that all purchases made from your health or limited-purpose (dental/vision) FSA or HRA be for products and services that are on the IRS's eligible-expenses list. The process of verifying that a purchase made from such an account was for an eligible expense is known as **substantiation**. Substantiation is extremely important, because failure to properly substantiate all reimbursements made from your account places you in violation of Federal law and creates negative tax consequences for you, and it can also cause your employer's plan to no longer qualify as a pre-tax benefit. As your plan administrator, HealthSCOPE Benefits is responsible for assisting you with substantiating purchases made with your card.

There are three ways for benefit card purchases to be substantiated. These are described on the next page.



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# Methods of Substantiation

## Method 1: Copay aggregation

With this method, the computer system that is used to administer the accounts is programmed with the copayment amounts for your medical, prescription, dental, and/or vision plan(s), whichever of these are applicable to your type of benefit account. Then, when you use your benefit card at a location with the appropriate merchant category code, the logic in the system will automatically substantiate a purchase that is an even multiple (up to five) of your plan's copayment amount. For example, suppose that your dental plan has a \$20 office copay for a visit to the dentist. If you swipe your card for exactly \$20 at the dentist's office, the system will assume that it was for your plan copayment and will automatically substantiate the transaction. If you take both of your children to the dentist on the same day and they charge you \$40, that transaction will automatically substantiate as well since it is exactly twice your plan's copayment amount. IRS regulations permit us as your plan administrator to set up your card to automatically substantiate purchases in this way.

## Method 2: Point-of-sale auto-substantiation

In this case, the merchant where a purchase is being made has an inventory control system in place that identifies whether or not each product in the merchant's inventory is eligible for reimbursement from an FSA or HRA. (Such an inventory-control system is called an Inventory Information Approval System, or "IIAS".) When you use your benefit card at a merchant who has an IIAS in place, your card will not be usable for products that are not marked as eligible in the merchant's system. For example, if you purchase a bottle of aspirin and a gallon of ice cream from a large discount retailer with an IIAS in place, the cash register will allow you to pay for the portion of your purchase that represents the aspirin with your benefit card, and then you will have to pay for the ice cream by some other means. When you use your benefit card at such a merchant, no further action is necessary on your part, because the merchant has already verified that what you purchased was an eligible expense.



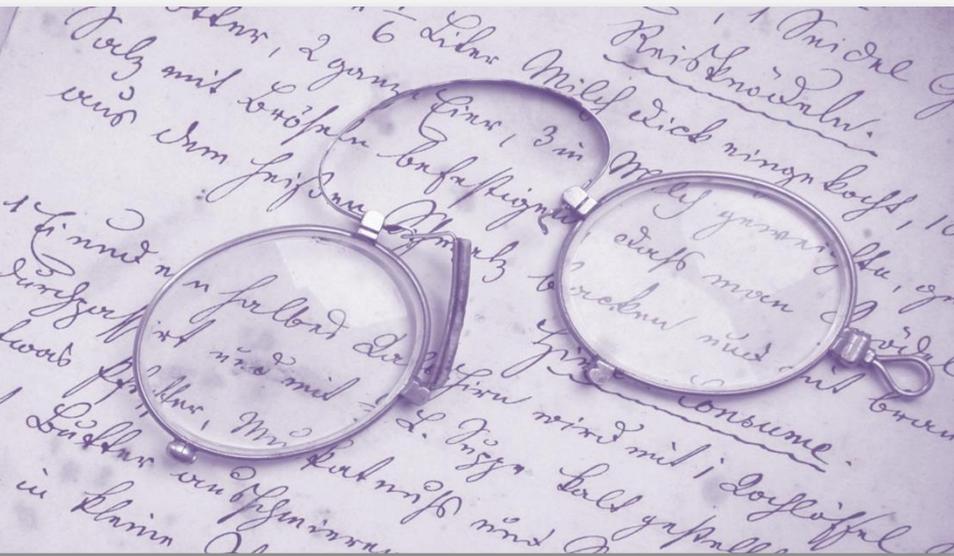
## Method 3: Submit receipts after the fact

In all cases where your benefit-card purchase cannot be automatically substantiated at the time of the transaction, you will be required to submit a detailed receipt to HealthSCOPE Benefits so that we can verify that the product or service purchased was an eligible expense. (Again, please keep in mind that by reminding you to submit receipts, we are helping you abide by Federal tax regulations.) It is important to note that in order to qualify as adequate substantiation, the receipt must explicitly identify the product or service that was purchased, along with the date of service if the card was used to pay for a service such as a medical or dental procedure. **Therefore, when using your benefit card, always ask for an itemized receipt listing the details of what was paid for. A simple Visa receipt or other generic document that simply says "Pharmacy" or "Services Rendered" will not qualify as acceptable substantiation.**

# A Brief History of Substantiation

Prior to 2008, the only automatic substantiation that was widely available for FSA/HRA benefit cards was copay aggregation, which was described in the previous section. The IRS and plan administrators were concerned that benefit cards were frequently being used for non-eligible expenses, which led to adverse consequences for plan participants, employers offering FSA and HRA plans, and administrators who were responsible for recovering the incorrectly-distributed funds on behalf of the plan.

In an effort to streamline the process for everyone involved, the IRS mandated that effective January 1, 2008, all merchants who wished to be able to accept benefit cards as a payment method would have to install an Inventory Information Approval System (IIAS) so that purchases could be substantiated at point of sale. The reasoning was that if the card could not be used for ineligible merchandise at the time of purchase, there would be a drastic reduction in improper plan usage, which would benefit all parties in the process: namely, the plan participants (employees), the plan administrators, and the employers offering the plans. Pharmacies were granted a grace period of one extra year to implement their systems, so their effective date was extended to January 1, 2009.



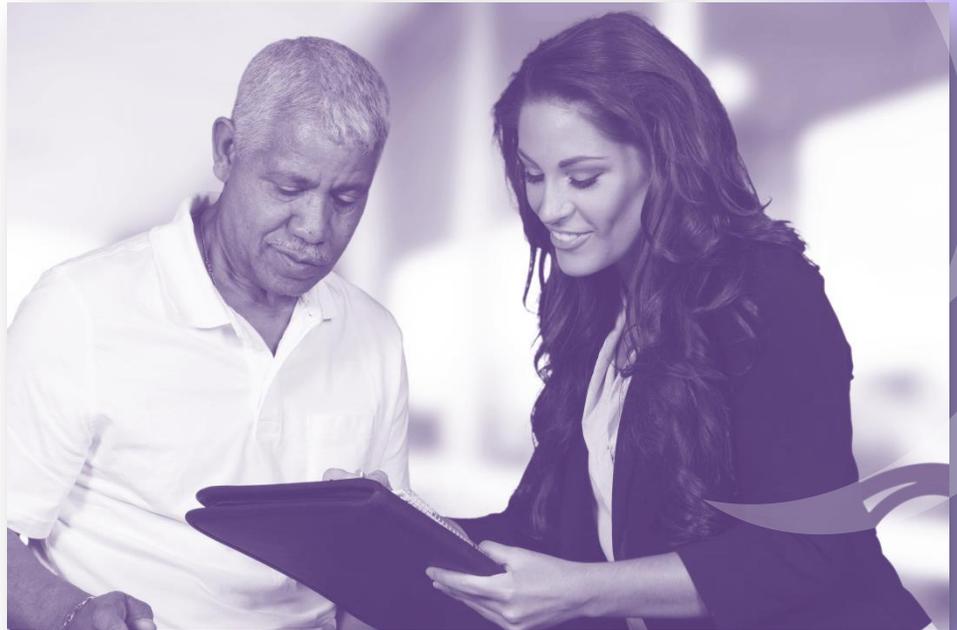
Due to this change in the regulations, on January 1, 2008, all merchants except for pharmacies and merchants with 90% or more of their revenue coming from eligible products and services were required to have an IIAS in place or be unable to accept benefit cards. Beginning on that date, large retailers such as Wal-Mart and Target were able to continue accepting benefit cards because their inventory control systems made it so that the cards could only be used for eligible merchandise. Other non-pharmacy retailers who did not implement an IIAS were no longer able to accept benefit cards at all.

Late in 2008, pharmacies were granted a further six-month grace period to July 1, 2009, to implement an IIAS or apply for the “90% rule exemption.” Effective July 1, 2009, pharmacies that had not implemented an IIAS or applied for an exemption were no longer able to accept FSA/HRA benefit cards. This means that many local pharmacies are now no longer able to accept benefit cards. If your card does not work at your local pharmacy, HealthSCOPE Benefits is unable to change anything in our system’s configuration to force the card to be accepted there. In order for the card to work, the pharmacy will need to either implement an IIAS or apply for a 90% rule exemption.

More details on which merchants are confirmed to have an IIAS in place, as well as what merchants need to do to be able to accept FSA/HRA benefit cards, can be found on the website for The Special Interest Group for IIAS Standards, located at <http://www.sig-is.org>.

# How can HealthSCOPE Benefits work with you to substantiate your benefits?

With the new requirements that were implemented on July 1, 2009, all FSA/HRA benefit card transactions should automatically substantiate, with two exceptions: (1) transactions with service providers such as doctors' offices and dentists' offices, and (2) transactions with vendors who have claimed the 90% rule exemption (which means that 90% of the merchant's products sold during the previous year were eligible; some mail-order prescription services fall into this second category).



In cases where HealthSCOPE requires a receipt in order to substantiate a transaction you have made using your benefit card, you will receive a system-generated e-mail requesting a receipt if you have an e-mail address in our system; otherwise you will receive a printed letter by traditional mail. This initial reminder will be generated three days after your transaction. Ten days after the original transaction, you will receive a second reminder. Seventeen days after the original transaction, you will receive a third reminder advising you that in one more week, HealthSCOPE will begin holding all manual reimbursements from your account until either (1) we receive substantiation of the original debit card transaction in question, (2) we receive substantiation for an equal value of other qualifying purchases made during the plan year, or (3) you reimburse the dollar amount of the transaction to the CDH plan. If you have an e-mail address loaded in our system, you will receive this third reminder both by e-mail and standard mail to ensure that possible problems with your e-mail service have prevented you from not receiving receipt reminders. If we do not receive items (1), (2), or (3) within forty-five days of the original transaction, your debit card will be deactivated until appropriate substantiation is received. Again, please keep in mind that one of HealthSCOPE Benefits' primary responsibilities is to assist you and your employer with using your plan in compliance with Federal law, so these processes are not an intentional inconvenience.

Your receipt requests will include a bar-coded page that can be used as a fax cover sheet for your receipts. You can fax a copy of your receipts, using the bar-coded cover sheet as the first page, to the toll-free number on the receipt reminder, or you can mail copies of the receipts to the address indicated on the

## **Save your receipts!**

Please do not submit receipts for debit card transactions to HealthSCOPE Benefits until you receive a request, but please save the receipts for all of your benefit card transactions in case you need to provide them during a future tax audit.

reminder. (If you choose the standard mail option, please only send copies of your receipts rather than the originals, as your receipts will not be returned to you.) You may also upload copies of your receipts through the online participant portal using the instructions provided on the HealthSCOPE Benefits website.

**Important note:** If you fax your receipts to HealthSCOPE, please fax each card transaction's substantiation separately, rather than including all cover sheets and receipts in a single fax. This will ensure that all of your transactions are substantiated in the timeliest fashion possible.

## In conclusion...

The FSA/HRA benefit card substantiation process can be confusing at first, but with proper understanding of the process and the reasons why it is required, it becomes straightforward and does not significantly diminish the convenience of the benefit card.

HealthSCOPE Benefits is pleased to be your plan administrator, and we will gladly assist you with any questions or concerns you have regarding your Flexible Spending Account. We encourage you to please contact us toll-free at (877) 385-8775, or by e-mail at CDHAdmin@healthscopebenefits.com.

## Frequently Asked Questions about Benefit Card Substantiation

**Why do I have to submit receipts after using my FSA/HRA benefit card to pay for a visit to my doctor, dentist, etc.? Is it not obvious that this transaction was for an eligible expense?**

Unless the transaction was for a multiple of your plan's out-of-pocket copay amount for an office visit, we are required to substantiate card swipes at doctors' and dentists' offices. Specifically, we must verify that the services were rendered during the plan year for which your card is funded and that the services performed were eligible for reimbursement from an FSA or HRA. Some procedures such as tooth whitening do not qualify as eligible expenses. You also cannot use current-year funds to pay outstanding medical or dental balances from previous plan years.

**What is the point of having a benefit card if it does not completely eliminate my having to submit paperwork?**

The main benefit to an FSA/HRA benefit card is that it lets you access the funds in your account immediately rather than having to pay for the expenses out of pocket and then ask for reimbursement from your account. It is also appropriate to note that with the recently-enacted regulations governing point-of-sale auto-substantiation, the percentage of debit card transactions requiring that receipts be sent to the administrator has been greatly reduced.

**Why does my benefit card not work at my neighborhood pharmacy?**

Your neighborhood pharmacy likely does not have an Inventory Information Approval System (IIAS) in place, so after July 1, 2009, the pharmacy could not accept FSA/HRA benefit cards. Please see the section of this document called "A Brief History of Substantiation" for a further discussion on the topic of point-of-sale auto-substantiation.

**I lost my receipt for a benefit card transaction. What do I do?**

As of July 1, 2009, the only merchants whose systems will not perform point-of-sale auto-substantiation are certain service providers (such as doctors' offices and dentists' offices) and merchants with an exemption because 90% of their products or services are FSA/HRA-eligible (for example, some vision centers and mail-order prescription services). These types of entities should easily be able to provide you with a detail listing of the historical transaction in question, and this after-the-fact copy of the transaction details is acceptable substantiation.