

INTERNAL REVENUE SERVICE GUIDANCE HEALTH FSA AND HRA DEBIT CARD TRANSACTIONS

The Internal Revenue Service (IRS) issued guidance related to the use of debit, stored value and credit cards to pay for eligible medical expenses under health flexible spending accounts (Health FSAs) and health reimbursement accounts (HRAs). While participants in these plans may continue to use debit, stored value and credit cards to pay for eligible medical expenses under a Health FSA or HRA at qualified provider locations there are some restrictions at other locations. **Qualified provider locations are those providers/merchants who report a health care related merchant category code (MCC) for debit/credit card transactions.**

This means that when you incur an eligible medical expense under your Health FSA or HRA at a qualified provider (such as an office visit copay, dental or vision care expense), you can pay this provider with your Preferred Flex Card. Examples of qualified providers include:

- Hospitals
- Pharmacies (that report a pharmacy MCC for card transactions)
- Durable Medical Suppliers
- Orthodontist
- Home Health Care Providers
- Physicians
- Dentists
- Vision Providers

As always, you should retain copies of any invoices, receipts or other documentation you receive in connection with your Preferred Flex Card transactions since you may have to submit these to Blue Cross and Blue Shield of Alabama to substantiate your charge. In many cases, this may not be necessary. Blue Cross and Blue Shield of Alabama will make every effort to use its records to substantiate your charge.

The IRS guidance does clarify that plan participants **cannot** use flex cards to pay for eligible medical expenses under their Health FSA or HRA at provider/merchant locations that **do not** report a health care related MCC unless there is an inventory information approval system (IIAS) in place. This inventory information approval system must meet the requirements prescribed by the IRS in their guidance and be in place by **January 1, 2008.**

This means that if a merchant does not have the IIAS in place, you cannot use your Preferred Flex Card to pay for eligible medical expenses at that non-qualified provider/merchant location and in most instances your transaction will be declined. Examples of non-qualified locations include discount stores and grocery stores – even if they sell health related products such as over-the-counter medications and pharmacy services.

Currently Wal-Mart, Sam's Club, Walgreens and Drugstore.com are the only merchants with the IIAS. Other merchants are expected to be added later this year. Blue Cross and Blue Shield of Alabama will allow the Preferred Flex Card to be used at all merchants as they become compliant with the IIAS. For the most current listing of qualified merchants or to see if your merchant is IIAS compliant, please contact our Customer Service Department at 1 800 213-7930.

Please note that your benefits under your Preferred Health FSA or HRA have not changed. If your Preferred Flex Card is declined at grocery stores and other locations that do not report a health care related MCC for card transactions, you may still submit a Request for Reimbursement form (with proper receipts) to Blue Cross and Blue Shield of Alabama to request reimbursement for any eligible medical expenses under your Health FSA or HRA that you incur at these locations. You can find this Request for Reimbursement form and instructions for filing this form with Blue Cross and Blue Shield of Alabama at <https://www.bcbsal.org/plans/preferred/fsa/forms.cfm>.

Please also note that this IRS guidance applies only to the use of your Preferred Flex Card under your Health FSA or HRA. It does not affect the use of your health plan ID card under your group health plan. If you have any questions regarding the Preferred Flex Cards or the Preferred Blue Flexible Spending Plan, you may call our Customer Service Department at 1 800 213-7930.