

IRS Provides Formal Guidance on Debit Card Use in Flexible Spending Accounts

May 28, 2003 — With the release of Revenue Ruling 2003-43, the IRS has provided formal guidance on debit card use within employer-sponsored Health Care Flexible Spending Accounts (FSAs). The guidelines essentially detail seven areas of compliance that debit card programs must satisfy on or before the first day of the 2004 plan year:

- I. **Participant Certification** — Participants must certify upon initial enrollment and each plan year thereafter that they will only use the card for eligible FSA plan expenses.
- II. **Card Usage** — The card's debit balance must be limited to the participant's available FSA balance.
- III. **Merchant Restrictions** — Cards may only be effective at merchants and service providers that typically provide goods or services eligible within an FSA and so authorized by the employer.
- IV. **Substantiation of Every Claim** — Every card-paid claim must be reviewed and substantiated, either automatically without further documentation or manually through remittance of claim substantiation.
Automatic substantiation and adjudication of each claim can occur in the following instances:
 - the transaction exactly equaled the applicable co-payment for service under the major medical plan
 - the transaction reflects a recurring expense that matches a previously-approved expense
 - the transaction is substantiated with automated information from the merchant, service provider, or independent third partyIf none of the auto-adjudication parameters are met on a particular transaction, after-the-fact substantiation requirements must be met. The participant must be able to supply confirmation of:
 - the description of the service or product
 - the date of service or sale, and
 - the amount(s) charged for each service or product provided
- V. **Corrective Procedures** — The employer's FSA plan document provided to employees must state employees are required to repay any debit card payments later identified as ineligible for reimbursement.
- VI. **Traditional Reimbursement** — Participants are allowed to submit claims the traditional way without using the card (i.e. purchase eligible expenses out-of-pocket and file a claim for reimbursement)
- VII. **Sampling Not Permitted** — The FSA plan administrator cannot audit, or "sample", a percentage of claims to verify proper participant usage of the card. Every claim must be substantiated per item IV.

The Key Family Responds — Since introducing the *Flex Convenience* debit card last year, The Key Family of Companies Qualified Plans Division has worked closely with our plan sponsors to develop debit card program protocols in anticipation of formal IRS guidelines modeled after traditional claim substantiation procedures. Accordingly, Key's debit card program can already meet all seven areas of compliance detailed above. Modifications to existing plan sponsor debit card protocols, if necessary, will be completed on or before our plan sponsor's 2004 plan year in compliance with the IRS guidelines.

About the Qualified Plans Division — Since 1982, The Key Family of Companies has helped employers design, implement, and maintain various qualified benefit plan arrangements. Through its dedicated benefit consultants and customer care professionals, The Qualified Plans Division now provides comprehensive support services to Flexible Spending Accounts, Full Cafeteria Benefits Plans, Group Retirement Plans, & Health Reimbursement Arrangements. For more information about the Qualified Plans Division, please call (800) 558-5553, or visit www.keyqualifiedplans.com.