



REYNOLDS & REYNOLDS INC.

Health Care Flexible Spending Accounts (FSA) and Health Care Reform

Health care reform will be affecting your employees soon. The new law includes two provisions related to Health Care FSA accounts and other tax advantaged accounts. Though these provisions are to be effective January 1, 2011, employees should begin thinking about the impact now. The two provisions are as follows:

- ✓ No reimbursement of over-the-counter (OTC) medicines and drugs (except insulin) by health FSA, HSA or HRA without a doctor's prescription. (Implementation January 1, 2011)
- ✓ Employee contributions to a health care FSA plan will be limited to a maximum of \$2,500 per year. (Implementation January 1, 2013)

It is important to remember that these tax advantaged plans (FSA, HSA and HRA accounts) are created through the IRS tax code and are based on a calendar tax year. Therefore, these changes will need to be made on January 1st even if your plan year is not based on a calendar year.

As with all of the health care reform provisions, technical guidance has not yet been written. However, following are some items for your employees to consider:

- ✓ OTC medications will not be approved for payment either through paper filing or flex debit cards after December 31, 2010.
- ✓ Participants might experience the request for additional substantiation when using a flex debit card as the retail technology will need to adapt to the OTC change.
- ✓ OTC medications do not include insulin or medical supplies.
- ✓ The OTC medication definition has not yet been determined so members might need to be somewhat conservative when making elections for 2011.
- ✓ According to two of the largest FSA vendors (ADP and Ceridian), the 2013 limit of \$2,500 should have limited impact on the majority of FSA participants as the vendors report an average balance for participants is between \$1,300 and \$1,425.

- ✓ Participants who are considering flexing elective high dollar services like orthodontia or Lasik surgery may want to review options in the calendar year of 2011 or 2012.

Summarized below are some of the outstanding questions:

- ✓ What is the definition of OTC medications?
- ✓ Will FSA, HSA and HRA plans with excessive waiting periods over 90 days need to be removed?
- ✓ How will FSA plans who adopted the grace period be affected?