



City of Waterbury

Pension and Benefits Office
236 Grand Street
Room 222
Waterbury, CT 06702
Phone 203-574-6844 Fax 203-346-2685



January 13, 2009

To: All Flexible Spending Account Plan Participants who elected the Debit Card

Dear Debit Card Participant:

We want to keep you posted and up to date about the Federal Internal Revenue Service (IRS) rules that govern the Debit Card feature within Flexible Spending Accounts (FSA's) **so you can plan accordingly.**

PLEASE READ THIS LETTER IN its ENTIRETY!

- Section 213(d) of the Internal Revenue Service Code describes what “eligible medical expenses” can be paid for through FSA accounts. What is covered is solely determined by the IRS. (Because you are paying for things with pre-tax dollars, they don't want anyone to abuse the privilege!)
- It has been cumbersome for participants in the past to use an FSA because before the use of the Debit Card, participants had to save receipts, send in a claim form and wait for reimbursement. The Debit Card takes care of that; no waiting.
- The Debit Card feature was added so employees can pay their share of eligible medical expenses at the point of purchase, including pharmacies, doctor's offices, etc. However, participants still have to retain receipts to prove the purchases “qualified” under IRS rules, if asked by the Plan Administrator. (Benefit Strategies) That was sort of cumbersome, because if asked, you had to send copies in.
- In an attempt to streamline the paperwork, the IRS is requiring pharmacies and other vendors to comply with their **Inventory Information Approval System (IIAS)**. **Vendors need to set up their business so that the IRS rules and participant purchases are automatically substantiated at the point of purchase.** That means what you purchase with the Debit Card has to be on the IRS eligible list.
- When you give the Debit Card to the vendor and they input information about each of your purchases (bar code, etc.), the computer will automatically ACCEPT OR REJECT

the purchase, right there, at the point-of-sale. Eligible items will go through, but if you attempt to make a purchase of an ineligible item, the card will be rejected.

- This means merchants cannot ring up ineligible purchases and you cannot pay for them with the Debit Card. (Some of that slipped through before, which is why the IRS has gotten tougher.)
- The original deadline for compliance was December 31, 2008 but has been extended to June 30, 2009.
- Many vendors have already complied with these new rules, but some have not. In fact, you may already shop at a compliant vendor! If you want to see the list of those already in compliance or who will soon be compliant, go to www.sigis.com and click on the LEFT menu item, **IIAS Merchant's List**.
- If you do not see your pharmacy on the list, next time you go to make a purchase, **ASK IF AND WHEN THEY WILL COMPLY WITH THE IIAS Regulations**. In order for the Debit Card to work properly YOUR VENDOR MUST COMPLY WITH THESE NEW RULES!
- **If you go to a NON-COMPLIANT, NON-HEALTHCARE VENDOR after July 1, 2009 the FSA Debit card will be declined. DON'T PANIC!!! Even if the card is declined, you can still file claims for eligible items and get reimbursed if the expense is valid.**
- According to the industry publication [Drug Industry News](#), most merchants are working to become compliant. We agree. They don't want to lose good customers.

As you know Credit Cards are declined for many reasons, so too with Debit Cards. We are enclosing a list of reasons the FSA Debit Card might be refused so you can question your vendor, if need be. This information is also posted on our webpage.

I checked to see if my town pharmacy is on the list and it is not, as yet. So, next time we go in, we will inquire.

If anyone has questions, please contact Benefit Strategies with all your Flex Questions; **1(888)-401 – 3539**.

Sincerely,

Karen Lang