



September 5, 2008

## The Flex Debit Card Rules Change 01/01/2009

The IRS regulations restrict the merchants at which Flex Debit Cards can be used. Under the IRS Regulations, Flex Debit cards can only be used to pay for medical benefits at two types of merchants:

1. Medical providers such as physicians, dentists and hospitals as identified by merchant category code (MCC) which is transmitted by the credit card machine. Many of these transactions can be automatically approved by "copayment matching" but some transactions must be substantiated after the fact if the amounts do not match the standard copayment amounts of the employer's group health plan.
2. Merchants who have an inventory information approval system (IIAS) that reviews the Debit Card transaction at the point of sale to ensure that only eligible medical expenses are paid by the Debit Card.

EFFECTIVE JANUARY 1, 2009 To comply with the IRS rules and regulations, after December 31, 2008, the Flex Debit Card cannot be used at stores with the drug stores and pharmacies MCC unless

1. the merchant uses an inventory information approval system (IIAS); or,
2. more than 90% of the store's gross receipts during the prior taxable year consisted of items that qualify as eligible medical care expenses.

### NO RECEIPT RETAILERS

The good news is that the lists of stores and pharmacies that have become No Receipt Retailers has grown week by week. If your employer offers debit cards for your benefits, you will find a current list of participating retailers on your online account by clicking on the **No Receipt Retailers** link.

### Definitions

**MCC** A Merchant Category Code (MCC) is a classification code used by the bankcard industry to classify a supplier into market categories, such as 8011 for a Doctor and 8021 for a Dentist.

**IIAS** An inventory information approval system (IIAS) is a part of the retailer's checkout system that identifies eligible purchases by comparing the inventory control information (UPC or SKU) for the items being purchased, against a list of eligible medical expenses. The list is restricted to "eligible medical expenses" as described in Section 213(d) of the Internal Revenue Code (including eligible non-prescription items). The eligible medical expenses are totaled and sent to the payment card issuer's system which approves the payment subject to coverage under the health plan (i.e., type of coverage provided, covered participant, etc).

For additional information: [http://www.irs.gov/irb/2007-02\\_IRB/ar09.html](http://www.irs.gov/irb/2007-02_IRB/ar09.html)  
<http://www.irs.gov/pub/irs-drop/n-06-69.pdf>