Changes to Tax-Advantaged Health Accounts
Frequently Asked Questions

The landmark healthcare reform law enacted earlier this year made changes to healthcare Flexible Spending Accounts, known as FSAs, as well as Health Savings Accounts (HSAs) and Health Reimbursement Arrangements (HRAs). Below are some frequently asked employee questions regarding participation in these pre-tax programs.

Q: *What changes can I expect to my tax-advantaged health accounts as a result of the recently passed healthcare reform laws?*

A: There are two changes that become effective at separate dates:
1) In order to be reimbursed for over-the-counter (OTC) drugs and medicines from your FSA, HSA, or HRA, you must provide supporting documentation, such as a doctor's prescription; and
2) If you participate in an FSA, your employer will be limited when setting your healthcare FSA's maximum contribution amount to $2,500 per year.

Q: *When do these changes go into effect?*

A: The change concerning OTC will take effect with purchases made on or after January 1, 2011;
The contribution cap goes into effect for your first plan year that starts on or after January 1, 2013.

Q: *How will these new changes affect me, specifically as a participant in my company's healthcare FSA plan?*

A: The majority of healthcare FSA participants will not be affected by these changes. The average contribution to a healthcare FSA currently is about $1,400 a year, well below the $2,500 cap. Additionally, about 90 percent of all reimbursements are for non-OTC purchases, such as doctor co-pays, deductibles and prescription expenses. Studies have estimated that only about 7 percent of all FSA claims in 2009 were for OTC drugs.

Q: *What are some examples of OTC "drugs and medicines"?*

A: OTC drugs and medicines include, but are not limited to, the following: cough, cold and flu medicines, stomach remedies, antibiotics, pain relievers, digestive aids, allergy, sinus medicines and sleep aids.

Q: *Will I still be able to purchase over-the-counter supplies and equipment, such as bandages?*

A: Yes, many of those kinds of items that are available at drugstores and pharmacies, including first-aid kits, hearing aid supplies, foot therapy supplies and diabetic management supplies, will remain eligible without a need for a prescription.

Q: *Will I need supporting documentation to be reimbursed for my insulin purchases?*

A: No. Insulin receives special treatment and remains eligible without a prescription.

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(continued)

Q: How about the purchases of vitamins and supplements?

A: Because vitamins, minerals and other supplements already require additional documentation from a physician, the existing documentation requirements for these expenses should not change based on the new law.

Q: My doctor wants me to take an aspirin each day. Can I be reimbursed for this over-the-counter purchase?

A: Yes. The new law specifies that OTC drugs and medicines, including common pain relievers such as aspirin, will be eligible for reimbursement with supporting documentation such as a doctor's prescription. It is probably a good idea to ask your doctor to provide you with written documentation for aspirin.

Q: How will it work if I use a benefits debit card to make my purchase?

A: Debit cards linked to healthcare FSAs and other tax-advantaged health accounts will be prohibited from automatically approving or substantiating OTC drug and medicine purchases, since these expenses will require the additional documentation to establish eligibility. Merchants will be required to remove OTC drugs and medicines from their eligibility lists and you will have to provide another form of payment when purchasing OTC drugs and medications, even if you have documentation from a physician.

Q: Regarding the $2,500 cap on FSAs, why did the government limit what I can contribute into my account?

A: The cap was included in the law partly as a means of increasing the government's revenue stream. Because it limits the amount of employees' income that is exempt from taxation, capping pre-tax contributions to FSA accounts is expected to raise an estimated $68 billion in taxes over the next decade to help pay for healthcare reform.

Q: Is there any benefit to my participating in a healthcare FSA, HSA, or HRA once these changes go into effect?

A: Absolutely. Healthcare savings accounts are a good deal for you as an employee, saving about 30 percent of the cost of your eligible healthcare expense. A tax-advantaged account can be used to reimburse you for many of your annual out-of-pocket medical expenses, including dental and vision costs, prescriptions, co-pays and deductibles.

Q: How do I determine how much to contribute to my account?

A: The best way to determine how much of your pre-tax pay to put into a tax-advantaged health account is to first review what your out-of-pocket medical expenses were in previous years, including for your healthcare plan deductible, co-pays, prescriptions, dental visits, vision expenses, etc. Then take into consideration any procedures you plan to have done this year (for example, Lasik surgery, major dental work, etc.) and estimate what your total out-of-pocket expenses will be. You can then set the amount of your pre-tax contribution for the next two years for any amount up to the limit that your employer has established.