

December 2010 *MoneyMinute* – Flex Spending Plan & Health Savings Account Changes for 2011

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Beginning on Jan. 1, 2011, over-the-counter medications will not be treated as qualifying medical expenses in *FSAs, HRAs, HSAs, and Archer MSAs*. If you have one of these accounts, please read on.

Currently, over-the-counter medications have been treated as qualified medical expenses for purposes of health savings plans: flexible spending (FSAs), health reimbursement (HRAs), health savings accounts (HSAs), and Archer MSAs. This means that expenses for such over-the-counter medications are paid with pre-tax dollars.

The recent health care insurance reform legislation modifies the definition of qualified medical expenses for purposes of employer-provided health coverage (including FSAs, HRAs, HSAs, and Archer MSAs). The new definition will match, generally, the definition of qualified medical expenses for purposes of itemized deductions on your income tax return. Beginning in 2011, FSAs and HRAs will not reimburse the cost of over-the-counter medications, and HSA and Archer MSA distributions used to pay for the cost of over-the-counter medications will not qualify for exclusion from income. The two exceptions will be insulin and over-the-counter medications that are prescribed by a physician.

Furthermore, beginning in 2011, the health care insurance reform legislation increases to 20% the penalty for using HSA and Archer MSA accounts for non-qualified medical expenses.

So if you have one of these health accounts, make sure to stock up on your over-the-counter medications this month, before the Dec. 31 deadline.

For more details, the IRS website has convenient questions and answers, including these two:

Q. How do I prove that I have purchased an over-the-counter medicine or drug with a prescription so that I can get reimbursed from my employer's health FSA or an HRA?

A. If your employer's health FSA or HRA reimburses these expenses, you would provide the prescription (or a copy of the prescription or another item showing that a prescription for the item has been issued) and the customer receipt (or similar third-party documentation showing the date of the sale and the amount of the charge). For example, documentation could consist of a customer receipt issued by a pharmacy that reflects the date of sale and the amount of the charge, along with a copy of the prescription; or it could consist of a customer receipt that identifies the name of the purchaser (or the name of the person for whom the prescription applies), the date and amount of the purchase and an Rx number.

Q. How does this change affect over-the-counter medical devices and supplies?

A. The new rule does not apply to items for medical care that are not medicines or drugs. Thus, equipment such as crutches, supplies such as bandages, and diagnostic devices such as blood sugar test kits will still qualify for reimbursement by a health FSA or HRA if purchased after Dec. 31, 2010, and a distribution from an HSA or Archer MSA for the cost of such items will still be tax-free, regardless of whether the items are purchased using a prescription.

More information: <http://www.irs.gov/newsroom/article/0,,id=227308,00.html>

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