

The ECFC FLEX Reporter provides in-depth coverage of developments affecting the administration of cafeteria plans, flexible spending arrangements (FSAs), health reimbursement arrangements (HRAs), and health savings accounts (HSAs). Articles in The ECFC FLEX Reporter are authored by nationally recognized attorneys and consultants, and edited by John R. Hickman, a partner in the Employee Benefits Practice Group of Alston & Bird, LLP.

IIAS: Boon or Bust?

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Debit Cards, Payment Cards...whatever their name, they invoke emotion-laden conversation from TPAs of every size and market. Has their performance ever lived up to the hype?

We asked three different administrators to discuss their experiences with payment cards and their performance, focusing specifically on the Inventory Information Approval System (IIAS) required by the IRS in Notices 2006-69 and 2007-02. IRS Notice 2006-69 expanded the use of the payment card to non-health care merchant category codes, such as discount stores, grocery stores, supermarkets, and warehouse clubs, provided the merchant was able to restrict the card at the point of sale to only those items eligible under IRS Code § 213(d). This was a shocking development for many TPAs, as they had either chosen to or had cards that were already open at these merchants who were now identified specifically as non-health care merchants. What to do? Shut down the card at discount stores, grocery stores, supermarkets, and warehouse clubs? Not an attractive solution.

The first real debt of gratitude goes to the pre-SIGIS Association industry coalition and ECFC who went to the IRS in support of transitional relief. IRS Notice 2007-02 was met with a decidedly different reception than IRS Notice 2006-69. This Notice affirmed the use of payment cards at discount stores, grocery stores, supermarkets, and warehouse clubs through December 31, 2007. It required the use of IIAS beginning January 1, 2008 at non-health care merchants. In a surprise twist, the Notice also required certain drug stores and pharmacies to begin using IIAS effective January 1, 2009.

Reactions to IRS Guidance

Kelsey Horne, CFCI is a Vice President with Taxsaver Plan. Kelsey's thoughts? "I must admit that when I first read about the IIAS concept in 2006-69, I thought that the implementation and communication of this process was going to rival the implementation of FSA Debit Cards themselves. I am happy to report that my first instinct was wrong."

She goes on to say, "I attribute SIGIS for making the 2008 implementation of IIAS a success. And, while the debit card providers may have had small stumbles along the way, the benefit to participants and TPA's far outweighs any stumbles."

Philip Massey, YSA Operations Manager for Hewitt Associates had similar thoughts. Phil says, "We exchanged beads of sweat, brought on by the release of an onerous piece of guidance (IRS Notices 2006-69 and 2007-02), for tears of joy. What was feared to be the coming of another administrative burden

destined to drain time, money, and resources from plan administrators, became the success story of an industry.”

Jody L. Dietel, CFCI is the CEO of Creative Benefits, Inc. Jody’s thoughts differed a bit. “We welcomed 2006-69 and 2007-02. We were one of just a few TPAs bucking the tide by not opening cards to use at discount stores, grocery stores, supermarkets, and warehouse clubs. Oh sure, we had a few clients (maybe 10% of those offering cards) that had the card open, but for the most part, Notice 2006-69 would be a significant expansion of the card’s capabilities for our participants.”

Thoughts on IIAS Implementation

Phil comments, “Plan administrators have long struggled with how to make health care purchases through FSA debit cards more convenient to the end-user, while maintaining compliance with federal regulations that demand each transaction be substantiated as an FSA eligible expense. The new guidance further tightened requirements for FSA purchases. Beginning in January of 2008, substantiation was required at the point-of-sale, through an IIAS validation method. In effect, the “pay-and-chase” practice of gathering substantiating receipts after the purchase occurred was all but eliminated for FSA card transactions at grocery stores and other high volume claim sources. This left employers, administrators, and data processors bracing for the worst.”

“The nightmare scenarios of greater administrative costs, competing TPA and retailer solutions, member confusion, and reduced participation were never realized, however, thanks to the formation of SIGIS. Originally birthed from several leading data processing and payment card firms, SIGIS brought together such previously disparate parties as chain pharmacies, grocery stores and wholesalers, to payment card issuers and data processors, to third party benefits administrators, for the purpose of creating an industry wide solution.”

“With only a few months to react, SIGIS led the industry toward a single, scalable, end-to-end solution that would meet the compliance needs of plan sponsors and TPAs, the data processing needs for issuers and processors, item level product identification for merchants, and, above all, individual member convenience. Their proposed solution works by comparing an individual item’s UPC or SKU number against a pre-established list of FSA-eligible healthcare products, sorting bandages and aspirin from magazines and candy bars at the point of sale. As the items are scanned at the register of a SIGIS member retailer, the eligible healthcare items would be immediately identified and validated. Once the individual swipes his/her FSA card, the eligible items are deducted from the FSA balance and he/she receives a prompt for another form of payment for the non-healthcare items. This was only possible, however, if the retailers bought into the solution.”

“For the first time, retailers found themselves with significant skin in the game for substantiating FSA transactions. Prior to IIAS, there were some proprietary solutions among retailers, but this new IRS mandate meant that FSA card transactions would no longer be allowed at those retailers lacking an IIAS. Whereas previously, the difference between partnering with a data processor or TPA meant a difference in the customer’s convenience (“pay and chase” versus substantiation at the POS), the new reality dictated that FSA card transactions were either validated via IIAS at the point of sale or declined outright. Retailers were faced with a potentially substantial loss of revenue, as FSA participants migrated to those IIAS compliant locations where their FSA card could still be used.”

“The risk of lost revenue in this new regulatory landscape united each party along the FSA transactional chain: merchants, data processors, card issuers, and benefits TPAs. With the combined force of these groups now united under a single banner, the SIGIS solution was successfully launched on January 1st.

2008, to the collective applause of plan sponsors and employee members everywhere – as the unanticipated impact for the FSA enrollee was to drastically reduce the need for validation of FSA card transactions subsequent to the purchase (no more faxing in receipts). As it turned out, the IRS mandate for IAS validation proved to be more opportunity than obstacle.”

[Editor's Note: Can you tell Phil is passionate about IAS?]

Efficiency Gain?

Kelsey is passionate about how IAS has worked for her firm, too. She says, “The proof is in the pudding! When we compare data from January – June, 2007 to January – June, 2008, the numbers speak for themselves.

January – June, 2007	112,906 debit card transactions were auto-adjudicated out of a total of 193,138 swipes. 58% of transactions were auto- adjudicated.
January – June, 2008	177,815 debit card transactions were auto-adjudicated out of a total of 236,310 swipes. 75% of transactions were auto- adjudicated.

That’s a gain of 29% in additional transactions that did not require manual review. Our participant base has remained constant in these two years, so these numbers also show that the cards are being used more. And, we are only six months into 2008 with this data.

This has allowed our claims unit to reduce staff, which allows us to maintain costs that we, in turn, pass on to our clients. We expect these numbers to increase in 2009 when most pharmacies are required to comply with IAS.”

“The experience at Creative Benefits is similar to that reported by Kelsey,” Jody indicates. “We’ve taken a different track, though. The substantial gains in auto-adjudication rates have allowed us to cross-train staff and focus on other efficiency improvements we can make with the card. We have a direct card relationship, which allows us to make changes more nimbly than some administrators. We are communicating with participants about their experience, typically right at the transaction event, so we’ve been able to focus on participant education in ways we haven’t been able to before.”

“We know, for example, when the participant uses their card at an ineligible merchant and has had a declined transaction. Communicating at the time of the transaction helps us to educate the participant immediately and saves a call center contact, which further increases our efficiency.”

Phil reports, “The FSA industry is now reaping the benefits of greater auto-substantiation (7-10% increase), reduced manual claim volume (more than a 5% decrease), greater participant satisfaction (survey scores up 5-7%), and increased card utilization (up to 30%). For an industry that typically sees enrollment of eligible employees between 20% - 25%, increased ease of use comes as welcome news indeed.”

What about applying IAS to pharmacies and drug stores?

Both Phil and Kelsey report optimism about this additional requirement. Jody is a bit pensive, however. She indicates, “We are a bit cautious about what will transpire on January 1. Remember, we didn’t experience the negative participant experience most TPAs did on January 1, 2008, because for our participants, when the card worked now at a grocery store, discount store or supermarket, it was a win for them. It truly was an expanded service and so we had a lot of positives with IAS.”

“January 1, 2009, though will likely be a bit different. For our cardholders, they will have a potentially negative experience if they use the card at a merchant that does not implement IAS as of January 1, 2009. That’s a huge concern for us, and we are hitting it hard. Communications with clients, brokers and other business partners are just the start. We’re also communicating directly with participants with every transaction that is coming through from a pharmacy or drugstore that is not an IAS transaction. Our hope is to get the participants conditioned to understand that their experience may be different on January 1.”

“We’re measuring the traffic in these cases, and we may staff our call center on January 1 to handle participant support more effectively. Additionally, we’re aggressively working with merchants, our card processor and the mail order pharmacies to identify and try to mitigate any potential negative experience.”

The true benefits?

Kelsey believes, “The true benefit is to the end-user. If a TPA can provide participants with a process that allows them immediate access to their FSA dollars and without paper, they are happy users. The request for documentation of FSA debit card transactions that cannot be auto-adjudicated makes participants uneasy. Participants do not understand the necessity to submit receipts. Their reasoning is that they are at the doctor’s office and because their doctor does not provide services that are not medical in nature, the TPA should know the expense is eligible. They do not realize that most doctors have had to move into the market of selling supplements and other non-eligible products to stay competitive. They often feel threatened by the request for information if they did not participate in the FSA plan prior to debit cards and have never submitted what I fondly call a “traditional claim.” The worst words a TPA customer service representative can hear are “This stupid card isn’t worth my time.” I will always blame marketing efforts in the early 2000’s by some large TPA’s for misleading participants to believe debit cards were paper-free.”

“We have all come a long way to improving this process. Whether it has been in employee communications, advances in technology not limited to IAS or simply the shared knowledge we have gained at industry meetings, the FSA debit card has made great strides over the past 5 years. We do not use the term “benefit” loosely as a TPA. If we are not perceived as being able to offer a benefit to the employee, we are not needed.”

“I believe there will always be a need for the TPA, even as debit card technology advances to the next level. I look forward to that next level and hope it brings an even more user-friendly card to the marketplace.”

Jody agrees. “It’s all about enhancing the participants’ experience. The sooner the participants get their funds and the easier the process, the happier they are and the less the client hears that’s negative. We all win, because the plan runs itself, from the client’s perspective. We, as TPAs, win, too, because we can focus on increasing efficiencies, understanding the metrics of our administration, and on increasing business through more clients, but more easily by more participants under existing clients.”

In Summary?

Phil thinks, “The future looks even brighter for IAS adoption. Many of the larger retail pharmacies chose to adopt early, and many of the rest are expected to come on-line as of the 1/1/2009 deadline. This means that nearly all prescription drug and OTC purchases, which are the majority of FSA transactions made with an FSA card, will be auto-substantiated at the point-of-sale. Also, as SIGIS continues to raise its profile through branding and marketing, the group hopes to see its certification mark proliferated throughout the retail world as a symbol of convenient healthcare shopping.”

“There is also now the ability to offer the FSA debit card in a way that we have not been able to before, which opens the door to market opportunities for us,” Kelsey adds.

Jody’s comments add, “We’re very close to being able to turn the card into the best practice for delivering tax-advantaged health care account reimbursements. It’s exciting for us to see efforts finally paying off.”