

Benefits Insights

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Health Care Payment Cards

Many employers find that using electronic payment card programs to administer health flexible spending arrangement (health FSA) and health reimbursement arrangement (HRA) claims is helpful. These debit, credit or stored-value cards allow employees to pay for eligible health care expenses by swiping their cards when purchasing products or receiving medical services.

Allowable Transactions

The Internal Revenue Service (IRS) issued guidance on the use of health care payment cards in conjunction with employer-offered medical plans. Under the IRS's cafeteria plan regulations applicable to FSAs and HRAs, the cards can be used in the following situations.

First, health care payment cards may be used only on eligible medical expenses that are not reimbursed or covered by another source. Over-the-counter (OTC) medications are only eligible for reimbursement if they are prescribed to the individual and he or she presents the prescription at the time of purchase. The only OTC medication that can be reimbursed without a prescription is insulin. Health care payment cards may not be used to cover more than the maximum dollar amount of coverage available in an individual's FSA or HRA.

Second, health care payment cards typically may only be used at providers who have merchant category codes (MCCs) related to health care (for example, physicians' offices, hospitals, pharmacies, etc.). The term "MCC" refers to a four-digit industry code given to businesses as a classification mechanism based on primary line of business.

The IRS guidance allows automatic adjudication for certain card transactions, meaning that receipts need not be submitted for verification of expenses for which a health care payment card is used. This applies in three situations:

- When the total cost of the transaction is equal to the standard copayment for the service(s) received
- When the transaction is for recurring expenses that have previously been approved
- When the merchant provides expense verification to the employer when the transaction takes place

Any expense situations other than those listed above must be verified by submitting receipts to the plan provider. These transaction situations are also referred to as "pay and chase" purchases.

Should health care providers not have MCCs, health care payment cards can still be used at these facilities if they have Inventory Information Approval Systems (IIASs) in place.

IIAS software analyzes purchases made on the cards to determine if they are eligible medical care expenses for an individual. When employees try to use the card, IIAS compares the purchase with a list of items that qualify as medical expenses under the IRS code and approves only the purchases on that list.

IIAS also only allows charges to reach the amount specified on the employee's health plan. Should a transaction not be approved in full, the employee then has to provide another form of payment for the items that are not covered (known as a "split-tender" transaction).



Employers who sponsor health plans with health care payment cards that accept payments via IAS must maintain auditable records of all transactions. These records must have enough transaction-level information on the items purchased to prove to an IRS auditor that the purchases were allowable medical expenses.