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IRS Issues Guidance Explaining 2011 Changes to Flexible Spending Arrangements

WASHINGTON — The Internal Revenue Service has issued guidance reflecting statutory changes regarding the use of certain tax-favored arrangements, such as flexible spending arrangements (FSAs), to pay for over-the-counter medicines and drugs.

The Affordable Care Act, enacted in March, established a new uniform standard that, effective Jan. 1, 2011, applies to FSAs and health reimbursement arrangements (HRAs). Under the new standard, the cost of an over-the-counter medicine or drug **cannot be reimbursed from the account unless a prescription is obtained**. The change does not affect insulin, even if purchased without a prescription, or other health care expenses such as medical devices, eye glasses, contact lenses, co-pays and deductibles. The new standard applies only to purchases made on or after Jan. 1, 2011, so claims for medicines or drugs purchased without a prescription in 2010 can still be reimbursed in 2011, if allowed by the employer's plan.

A similar rule goes into effect on Jan. 1, 2011 for Health Savings Accounts (HSAs), and Archer Medical Savings Accounts (Archer MSAs).

Employers and employees should take these changes into account as they make health benefit decisions for 2011.

Source:IRS

