

IIAS Standards Interest Group

An Industry Standard for IIAS Compliance

September 18, 2007

What is the IIAS Standards Interest Group?

A group of companies involved in supporting Flexible Spending Account (FSA) and Health Reimbursement Arrangement (HRA) debit card transactions formed a working group called the "IIAS Standards Interest Group" to establish a voluntary industry standard to meet IRS requirements for operating an IIAS by the mandated deadline of January 1, 2008.

The IIAS Standards Interest Group is composed of a broad range of companies, including retailers, card issuers, third party plan administrators ("TPAs"), merchant acquirers, processors, financial institutions, trade association groups, software vendors, and payment card networks.

When was the IIAS Standards Interest Group formed?

Group members met extensively with IRS in 2006 in an effort to get the transition relief provided by IRS Notice 2007-2 which was published in December 2006. Meetings to design an industry approach for an IIAS standard began in early 2007.

What is an "Inventory Information Approval System" as specified by the IRS?

The retailer's point of sale system identifies eligible healthcare FSA/HRA purchases by comparing the inventory control information (e.g., UPC or SKU number) for the items being purchased, against a pre-established list of eligible medical expenses. The list is restricted to "eligible medical expenses" as described in Section 213(d) of the Internal Revenue Code (including eligible non-prescription items). The eligible medical expenses are totaled and sent to the payment card issuer's system which approves the payment subject to coverage under the health plan (i.e., type of coverage provided, covered participant, etc).

What is different about the IIAS Standards Interest Group than approaches implemented by some retailers?

A retailer may develop its own approach that is compliant with IRS requirements for an IIAS, and then make separate contractual arrangements with individual TPAs or card issuer processors. With the IIAS standard developed by the IIAS Standards Interest Group, a broad range of participating retailers will be able to implement a solution that is recognized industry-wide, which will enable acceptance of all FSA/HRA payment cards. Likewise, TPAs will implement a common set of procedures that applies to IIAS transactions at participating retailers.

Additional values that were not previously provided will be added to the authorization message, allowing administrators greater flexibility in debit card plan design than had been available before, including support for HSA and restricted-HRA plan designs.

When will merchants be ready to meet the IRS IIAS requirements?

MasterCard and Visa have published technical requirements in support of the standard published by the IIAS Standards Interest Group. As a result, in October 2007, FSA/HRA card issuers and processors will be able to support the processing of real-time or automatic substantiation of the amount of eligible medical expenses in a cardholder's purchase. It is anticipated that the January 1, 2008 IRS deadline will be met by numerous retailers. See Attachment A for a current list of retailers who intend to implement an IIAS using the standard developed by the IIAS Standards Interest Group. This list is expected to grow as retailers have the opportunity to test their systems later this fall; updates to this list will be provided.

What benefits can TPAs expect with an IIAS capability?

IIAS-compliant transactions enable real-time, auto-substantiation that funds approved for disbursement from an FSA/HRA card are for eligible medical items. IIAS transactions represent the end of "pay and chase," for pharmacy and over-the-counter medical purchases, offering a more cost-effective approach than previously was possible.

Why is this good for consumers?

Consumers with FSA and HRA cards will be able to use their card more conveniently than ever before, reducing the number of times that they have to send in sales receipts after using their FSA/HRA card – bad news for the shoeboxes that are being used to store sales receipts!

Why will retailers want to implement the IIAS standard published by the IIAS Standards Interest Group?

If a retailer's merchant category code (MCC) is not healthcare-related, the IRS requires plan administrators to only approve FSA/HRA card transactions when these merchants support an IIAS. Thus, by implementing the IIAS Standards Interest Group standard, retailers with non-healthcare MCCs will be able to continue accepting their customers' FSA or HRA cards after January 1, 2008.

Additionally, retailers that begin to identify eligible healthcare items on all sales receipts, regardless of the method of tender, will be more FSA-friendly for all customers.

What types of merchants are expected to support an IIAS?

The IRS requires merchants that sell qualified medical expense goods and services (but that do not have a health care MCC) to have an IIAS in place by January 1, 2008 for purposes of accessing FSA/HRA funds. This includes any merchant with an MCC of:

Grocery/Supermarkets:	5411
Discount Stores:	5310
Warehouse Clubs:	5300
Convenience Stores:	5499
Online Pharmacies:	5960, 5964 5965, 5969

IIAS required by January 1, 2009:

Drug Stores/Pharmacies	5912
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How does a retailer know which transactions need IIAS support?

All FSA or HRA payment card transactions at non-health care MCC retailers will require IIAS support under the IRS requirements. Retailers participating and deploying the standard published by the IIAS Standards Interest Group can use a Health Care BIN file provided by their acquirer to identify the transactions that require IIAS processing.

Will my company need to become part of the IIAS Standards Interest Group and will there be any fees?

To benefit from real-time, auto-substantiation transactions using the standard published by the IIAS Standards Interest Group, companies that accept and process transactions for FSA/HRA cards will want to consider becoming members of the IIAS Standards Interest Group. Information on membership will be available by October. The membership fees have not been finalized yet, but there will be several levels of participation and related fees to ensure low cost access to license the standard.

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Will the IIAS group assist retailers in determining which items are Section 213(d) eligible medical expenses?

Yes. The IIAS Standards Interest Group will publish an industry Eligible Healthcare Items/Categories List for participating retailers to use as the basis to identify items in their inventory. The industry list will enable plan participants and plan administrators to rely upon a more consistent identification of eligible medical items.

How will the Eligible Healthcare Items List be developed?

The IIAS Standards Interest Group will contract with a company experienced in list management and development, and will rely on a committee of plan administrators, retailers and other IIAS Standards Interest Group members to review the list.

What's happening to meet the data retention requirement?

The IIAS Standards Interest Group has developed data retention requirements and is working through approaches to most cost effectively support both data retrieval requests and responses to enable plan administrators to meet IRS audit requests. More information will be published in September.

What certification will be required to support the IIAS standard published by the IIAS Standards Interest Group?

Retailers who elect to implement an IIAS using the standard published by the IIAS Standards Interest Group must first be certified by the IIAS Standards Interest Group. Certification requires completion of an IIAS Self Assessment Questionnaire, a technical processing certification, use of the industry eligible items list, and arrangements to support transaction data retention/retrieval. A retailer's acquirer will review the questionnaire and submit it to the IIAS Standards Interest Group for approval. A retailer will not be permitted to claim that it supports IIAS transactions using the published standard until it has been certified to the IIAS Standards developed and approved by the IIAS Standards Interest Group.

Who is eligible to participate in the IIAS Standards Interest Group?

The group is open to all companies or organizations involved in offering, processing or accepting healthcare payment cards for FSAs and HRAs. Thus, membership is open to retailers, card issuers, third party plan administrators, merchant acquirers, processors, financial institutions, trade association groups (such as FMI and NACDS), and payment card associations (Discover, MasterCard and Visa).

Has the IRS approved the IIAS Standards Interest Group approach?

Although there is not currently a mechanism for formal IRS approval, the IIAS Standards Interest Group and its members have met with IRS and Treasury representatives over the course of the last two years to review the planned approach. In the most recent meeting this summer, the approach was vetted and comments were favorable.

How can we get more information?

Plan administrators should contact their card issuer or processor, and merchants should contact their acquirer.