



Healthcare Debit Card: **SUBSTANTIATION GUIDELINES**

HR MANAGEMENT

PAYROLL SERVICES

BENEFIT ADMINISTRATION

The IRS has established specific guidelines that require all FSA transactions—even those made using a healthcare payment card—to be substantiated (verified that the purchase was an eligible medical expense). The IRS rules governing the substantiation requirements are detailed in Revenue Ruling 2003-43 and Notice 2006-69.

When in doubt, keep your receipt

Employees should save all receipts and documentation for healthcare services they paid for with their healthcare debit card. Most purchases of eligible expenses made with a Benefits debit card to will be auto-substantiated at the point of sale at IIAS class vendors. If the claim cannot be auto-substantiated, the IRS requires that the employee submit documentation to support the claim. Using IIAS-compliant merchants rather than 90% merchants for pharmacy and OTC purchases will significantly cut down on receipt requests.

Receipt Requirements: Common Misconceptions

“If the healthcare payment card is used for an eligible service or expense, no further receipts or documentation are needed to support the expense.” This is not true in all cases and applications.

“Any claim at a doctor, dentist or vision provider will not require receipts.” This is also not true. Since not all services from a medical provider or pharmacy are eligible medical expenses, receipts are required to verify said eligibility. For example, a dentist may perform teeth whitening, which is not eligible to be reimbursed under an FSA.

Mangrove’s Substantiation Process

There are two ways purchases may be substantiated in compliance with IRS requirements:

- **Auto-Substantiation**

Substantiation may be made automatically through electronic evidence

Examples include:

- **Co-pay matching**

Charges that exactly match the dollar amount, or up to 5 times the dollar amount, for a co-pay under the employer’s group health plan. For example, a \$10, \$20, \$30, \$40, or \$50 charge at a doctor’s office under a health plan with \$10 office visit co-pays. Even dollar amounts are set up in the system from \$0 dollars to \$500.

- **Recurring Claims**

Charges that exactly match the provider and dollar amount for a previously approved and substantiated transaction. For example, a fixed monthly orthodontia payment.

- **Real-time substantiation**

Charges that are verified as eligible expenses by the merchant, service provider or other third-party vendor. For example, a store automatically approving qualified purchases using IIAS.

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For further information or to read the Revenue Ruling 2003-43 ruling in its entirety, please visit the IRS online at <http://www.irs.gov/pub/irs-drop/rr-03-43.pdf>

For further information or to read the Notice 2006-69 ruling in its entirety, please visit the IRS online at http://www.irs.gov/irb/2006-31_IRB/ar10.html

- **Manual Substantiation**

All purchases that do not qualify for auto-substantiation must be manually substantiated with receipts or other documentation submitted for review. Examples include:

- **Doctor, dentist, or other provider where the amount paid is not even dollar amounts or equal to the co-pay**
- **Prescription and over-the-counter transactions where the amount paid is not equal to the co-pay and/or the merchant is not AAIS compliant.**

Q: Why does Mangrove require receipts purchased at a 90% merchant?

I have heard that if a merchant can qualify its stores under the 90% Rule that FSA/HRA cardholders will not need to submit sales receipts to their plan administrator. Is this correct?

A: Generally, no. Unlike an IIAS where the merchant substantiates the items being purchased at the point of sale, the 90% Rule indicates that stores that qualify as 90% locations can be viewed as “healthcare merchants”. This means that plan administrators will apply their standard substantiation processes to transactions at these locations, and the customer may be asked to submit a sales receipt to document that the items being purchased were prescriptions/RX or eligible healthcare products. It is possible that in some cases the card issuer processor will be able to match a transaction amount with Pharmacy Benefit Management (PBM) system information, and can determine that the card transaction amount matches the pans co-pay on prescriptions for example. In this case, the customer may not be asked to submit a sales receipt. But in the absence of an automated matching program like this, it is likely that customers using a FSA/HRA card will be asked by their plan administrator to submit a sales receipt.

Mangrove’s auto substantiation is currently averaging about 82% without requiring receipts or documentation.