

## **IMPORTANT: Benefit Card Regulatory Updates**

*CONEXIS Compliance*

### **IRS Regulatory Updates**

#### **Benefit Card and Inventory Information Approval System (IIAS)**

The electronic payment card guidance issued in 2006 (IRS Notice 2006-69) clarified that benefit cards may not be used at non-healthcare merchants such as discount stores or grocery stores unless an Inventory Information Approval System (IIAS) is utilized. Shortly thereafter, the IRS issued subsequent transitional relief which allowed continued use of benefit cards at supermarkets, grocery stores, discount stores, and wholesale clubs with non-healthcare merchant category codes (MCC) through December 31, 2007. **As a result, CONEXIS will be eliminating all non-healthcare merchants that have not implemented an IIAS from our approved MCC list effective January 1, 2008.**

An IIAS is a point-of-sale system that identifies eligible healthcare FSA 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 benefit card issuer’s system which approves the payment subject to coverage under the health plan (i.e., type of coverage provided, covered participant, etc).

CONEXIS’ card partner has updated its system to accommodate IIAS information. This new information will identify a merchant with a compliant IIAS in place and approve the transaction accordingly (regardless of MCC). Purchases made through a vendor utilizing an IIAS generally will not require additional substantiation. This means participants can use their CONEXIS Benefit Card to purchase FSA-eligible items from participating vendors without the need to submit receipts or supporting documentation.

The attached document contains additional information regarding Inventory Information Approval Systems as well as a list of participating merchants. The attached list of vendors is subject to change and the implementation dates are not final. Please note that pharmacies have been given until January 1, 2009 to comply with IIAS requirements.

While the merchants listed on the attached document will operate under an industry standard, some merchants (e.g. Walgreen’s, drugstore.com, and others) have chosen to maintain a custom IIAS solution. Typically, expenses incurred at these merchants will also be processed without the need to submit receipts or additional supporting documentation.

CONEXIS’ card partner will continue to actively encourage grocery stores, discount stores, and other retail store associations to develop a standard IIAS solution within the IRS timetable described above. CONEXIS will provide updates as more details regarding additional merchants and commitment dates become available.