



# FLEX FLASH

## HEALTHCARE REFORM HIGHLIGHTS

### Definition of a Qualified Child

The Health Care Act changed the definition of a qualifying child to include any child of the taxpayer who has not reached the age of 27 as of the end of the tax year. However, keep in mind that the child will have to meet the other requirements as outlined under IRC Section 152(f)(1). The effective date of this change was March 20, 2010, with an exception for some grandfathered plans.

### W-2

The Internal Revenue Service (IRS) released guidance stating that employers **will not** be required to report the aggregate cost of employer-sponsored health coverage on employees' W-2 forms issued for 2011. This W-2 reporting requirement was introduced by the Affordable Care Act. The IRS delayed the W-2 reporting requirement to give employers more time to make necessary changes to their payroll systems.

The delay in the Form W-2 requirement provides significant short-term relief to employers and to the service providers that prepare W-2 Forms.

The W-2 reporting requirement is first required for the 2012 tax year—that is, the value must be reported on the Form W-2 issued in January 2013 for the 2012 tax year. More details in the November 1, 2010 Flex Flash.

### Over-The-Counter (OTC) Drugs and Medications

Starting on January 1, 2011, OTC drugs and medications cannot be reimbursed from an FSA, HAS, or a Health Reimbursement Arrangement (HRA) unless they are accompanied by a doctor's prescription.

However, all is not lost. This new ruling does not exclude all OTC expenses. Items like aspirin and cough syrup would be out, unless a doctor's prescription is obtained for their use. Items like adult diapers, blood glucose monitors, and diabetic test strips can be purchased on a pre-tax basis without a doctor's prescription.

Participants that utilize a healthcare debit card will no longer be able to use their card at the drug store or pharmacy for OTC drugs and medications. They may obtain a prescription for these items from their doctor and turn in a paper (manual) claim to PIOPAC Fidelity along with the doctor's prescription.



Enrollments are taking place now and employees must be made aware of the OTC changes in order for participants to accurately determine their annual election to the FSA.

#### **Health FSA Contribution Limit**

A contribution limit will apply to health FSAs starting January 1, 2013. Previously, there were no Internal Revenue Service (IRS) limits placed on individuals or cafeteria plans and the employer set the limit for their cafeteria plan.

Under the Health Care Act, health FSAs will be limited to \$2,500 per calendar year (not plan year). This dollar amount will be indexed for inflation starting after 2013.

#### **Eligible OTC Medical Supplies**

- This rule does not apply to eligible OTC medical supplies that are not drugs or medicines. Medical FSA and HRA funds can continue to be used for these expenses (without a Certification of Medical Necessity). This means that they can be either purchased with a benefit card or a claim may be submitted for reimbursement.