



Cafeteria Plan Restrictions for Over-the-Counter Medicines

Clients and Friends:

June 16, 2010

Our sweeping 2010 health care reform legislation affects cafeteria plans in several ways. One significant change will be the \$2,500 limitation for Flexible Spending Arrangements (FSAs) starting on January 1, 2013 - SIG will send more about that as the time approaches.

However, a significant change is happening sooner. On January 1, 2011, purchases of over-the-counter (OTC) medicines and drugs will no longer be tax-free under your FSA or HRA unless you have an appropriate "prescription" from a licensed health care professional.

There is currently no federal guidance about the definition of an OTC prescription. We also don't yet know how long you might be able to use a particular OTC prescription before it has to be renewed. But we do know that the following medicine and drug categories are among those that will be disallowed next year, unless you have a prescription, or some sort of acceptable letter of medical necessity from an appropriate medical provider:

Allergy & Sinus	Baby Rash Creams	Laxatives
Antibiotic Products	Cold Sore Remedies	Motion Sickness
Anti-Diarrheals	Cough, Cold & Flu	Pain Relief
Anti-Gas, Antacids	Digestive Aids	Respiratory Treatments
Anti-Itch & Insect Bite	Feminine Anti-Fungal/Itch	Sleep Aids & Sedatives
Antiparasitic Treatments	Hemorrhoidal Preps	Stomach Remedies

OTC medicines and drugs in these categories will have "dual status" in cafeteria plans. If you have a prescription, your purchase will be eligible for cafeteria plan reimbursement; without a prescription it will not be eligible. Because of this, there will be no way for your OTC purchase to be automatically run through FSA debit cards (e.g., "Benny Cards"). Even if you obtain a prescription or a letter of medical necessity from your provider, it will likely require a separate claim submission to the third party administrator.

We understand that this change will affect about a third of the products on the current OTC list. SIGIS, an industry nonprofit organization serving the businesses in the cafeteria plan world (e.g., retailers, card issuers, third party plan administrators, etc.) will be updating the product list to reflect movement of these items from the "eligible" to "dual purpose" category.

The remaining, allowed OTC items that are not medicines or drugs (e.g., bandages, gauze, saline, wrist braces, reading glasses, etc.), will still be eligible for tax-free reimbursements after December 31, 2010, without a prescription.

An Important Note on Timing: The January 1, 2011 effective date applies to all cafeteria plans regardless of when your plan year will end. For plans that do not end on December 31, the January 1 change will take effect "mid-year" so you may want to tell your participants well in advance so they can take advantage of the current tax-free status of OTC medicines. Note also that if your calendar-year plan has a grace period that runs into the first few months of 2011, your expenses for OTC medicines purchased during the grace period would not be reimbursable without a prescription.

We will work to keep you informed as regulations are issued, when the OTC dual-status list is published, and as your FSA administrator works through the changes in their claims systems. In the meantime, if you have any questions or concerns regarding implementation of this cafeteria plan change, or how this will affect your group or your employees, please feel free to contact your Account Manager or call the Benefits Helpline at 206-957-7066 (toll-free 800-946-7066). You can also send an email to Questions@SIGinsures.com.

This HCR update and additional one-page HCR updates can be found on our Sprague Israel Giles, Inc. website. You can find us at <http://www.SIGinsures.com/employeebenefits.html>.

Questions? Call your Account Manager directly or the Benefits Helpline at 206.957.7066 www.SIGinsures.com