



Benefits Briefing

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***December 5, 2002
Issue # 2***

Editor's Note

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In an effort to keep you informed of regulation issues and new developments, we will be sending quarterly issues of our newsletter, **Benefits Briefing**. If there are HR contacts at your company who would benefit from this, please give us their names and email addresses, and we will add them to the distribution list.

Debit Cards and FSA Claims

Many of you may have read recent articles in benefit or human resource periodicals touting the virtues of the use of Debit Cards as a more convenient way for employees to access their Health and Dependent Care Reimbursement Accounts. Most of these articles are written or sponsored by the credit card companies. While the use of a Debit Card is a convenience for employees, there are both costs and risks associated with it.

Harry Becker, Chief of the Health and Welfare Branch of the IRS, has consistently indicated that the IRS position is that **all FSA claims must be substantiated**. From a conservative approach, that means a signed claim form and receipt must be submitted for all claims. After using the Debit Card, employees must still submit a claim form and receipt substantiating the claim.

Debit Card vendors argue that the technology exists to validate certain transactions, like drug and physician's office co-pays, which should be substantiation enough. At the recent Employers Council on Flexible Compensation Symposium for Administrators, Mr. Becker refused to comment further on the IRS position while indicating that issuing guidance on the use of Debit Cards was on the IRS's business plan for the current fiscal year ending June 30, 2003.

From the employer's or administrator's perspective, there are currently additional costs associated with issuing Debit Cards for the employee's convenience. Most credit card vendors charge a fee of between \$1.50 and \$1.75 per participant per month. Additionally, if you want to take the conservative approach recommended by most professionals until the IRS issues more liberal guidance, there is the potential for a significant increase in administration costs following up on unsubstantiated claims. "Pay and chase", as it has been called, could be very time consuming following up on employees and ex-employees who have used the Debit Card and not submitted a claim form and receipt.

At Tri-Star, we recommend taking a wait and see approach. Automatic electronic verification could reduce our administration costs and partially offset the cost of the card. If the IRS issues guidance allowing for automatic electronic verification of certain claims without further substantiation, we will be prepared to identify and partner with a Debit Card vendor and offer a card to our clients.

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DOL (Department of Labor) Regulations

The Department of Labor (DOL) issued final regulations regarding claim determinations and appeal rights relating to health claims, including those for medical, dental, vision, prescription drug, and certain EAP that provide medical benefits. These regulations specified certain time requirements for claims to be processed and for decisions on appeals. These regulations also state that Summary Plan Descriptions (SPD) must be updated to include a description of the new claims and appeal procedures. These regulations are effective for claims filed under a plan for the first plan year beginning on or after July 2002, but no later than January 1, 2003.

These time requirements require an approval or denial on initial claims as follows:

- Urgent pre-service claims 72 hours
- Pre-service claims 15 days
- Post-service claims (including Health FSAs) 30 days

For pre and post service claims, there is a 15-day extension available. Since Tri-Star processes claims for our clients at least two times a month (depending on the schedule you have set up with us) we are already in compliance on this requirement.

If the initial claim is denied, a denial letter must be sent that must include: the specific reason for denial, reference to relevant plan provisions, description of any additional information needed to perfect the claim, and a description of the plan procedures, time, limits, and the right to sue. Claimants will have 180 days (rather than the current 60 days) to file an appeal. The time requirement for a decision on appeal of denied claims is:

- Urgent pre-service claims 72 hours
- Pre-service claims 30 days
- Post-service claims 60 days

Tri-Star has modified our denial letters to meet these new requirements and have documented our claims appeal procedures. Please contact Stephanie Latina at stephanie.latina@tri-starsystems.com if you would like a summary of our HCRA claims procedures to include in your SPD.

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Online Enrollment

The first of seven employers conducting Open Enrollment on Tri-Star's Internet Enrollment Site for the first time has been completed and would have to be considered an overwhelming success. This employer had over 700 eligible employees spread across the country in 10 separate locations and 96.5% of the employees used the Internet site to enroll.

The Director of Employee Benefits wrote: "I was very impressed with the web-site itself, the service and responsiveness on Tri-Star's part and the responses that we received from our employees. We received very little resistance in using the Internet from our employees and received numerous comments about how much easier the entire process was this year as a result of using the Internet."

If you would like to see a demonstration of Tri-Star's Internet Enrollment Site contact Ken Dixon at 314/985-0284 or ken.dixon@tri-starsystems.com.

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From the IRS...New for 2003

The following are some changes announced by the IRS for 2003:

- Reimbursement for medical mileage will be at 12 cents (currently at 13 cents for 2002) per mile.
- Change in Dependent Care Credit—A taxpayer may take into account \$3,000 (currently \$2,400) of employment-related dependent care expenses for one qualifying individual, and \$6,000 (currently \$4,800) for two qualifying individuals. This does not change the maximum amount that can be contributed to a Dependent Care Reimbursement Account offered by an employer.

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Contact Us

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