Health Care Reform: OTC Medications and FSAs, HSAs and HRAs

As of Jan. 1, 2011, the Affordable Care Act (ACA) changed what is considered a “qualified medical expense” for purposes of reimbursement.

For reimbursements from account-based health plans—including health flexible spending arrangements (FSAs) or health reimbursement arrangements (HRAs), as well as distributions from health savings accounts (HSAs)—*qualified medical expenses* now only refers to medication or a drug prescribed by a physician, with the exception of insulin. Insulin does not require a prescription to be considered a qualified medical expense. If a medication or drug is available over-the-counter (OTC), but is prescribed by a physician, it is considered a qualified medical expense.

What Does This Mean?

This means that employees with an FSA or HRA now cannot use funds in those accounts for OTC medications, unless prescribed by a physician. Employees may continue to use FSA and HRA account funds for medications prescribed by a physician or for insulin. Also, distributions from an HSA may not be used to pay for OTC medications, unless prescribed by a physician.

Employees with an FSA or HRA now cannot use funds in those accounts for over-the-counter medications, unless prescribed by a physician.

Tax Implications

Distributions from HSAs are subject to a 20 percent excise tax on the amount used on non-qualified medical expenses.

For more information regarding FSAs, HSAs and HRAs, visit www.irs.gov/publications/p969/index.html.