

SIGIS: Special Interest Group for IAS StandardsSM

FAQ for Merchants

Question 1: What is the Special Interest Group for IAS Standards?

A group of companies involved in supporting Flexible Spending Account (FSA) and Health Reimbursement Arrangement (HRA) debit card transactions formed a working group called the "IAS Standards Interest Group" to establish a voluntary industry standard to meet IRS requirements for operating an IAS by the mandated deadline of January 1, 2008. The working group has now incorporated as the Special Interest Group for IAS Standards (SIGIS) to manage the standards on an on-going basis. The SIGIS association is composed of a broad range of participants, including retailers, card issuers, third party plan administrators ("TPAs"), merchant acquirers, processors, financial institutions, trade association groups, software vendors, and payment card networks.

Question 2: What is an "inventory information approval system" as specified by the IRS?

The retailer's point of sale system identifies eligible healthcare FSA/HRA 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 payment card issuer's system which approves the payment subject to coverage under the health plan (i.e., type of coverage provided, covered participant, etc).

Question 3: What is different about the SIGIS standard than approaches implemented by some retailers?

A retailer may develop its own approach that is compliant with IRS requirements for an IAS, and then make separate contractual arrangements with individual TPAs or card issuer processors. With the IAS standard developed by the SIGIS association, a broad range of participating retailers will be able to implement a solution that is recognized industry-wide, which will enable acceptance of all FSA/HRA payment cards. Likewise, TPAs will implement a common set of procedures that applies to IAS transactions at participating retailers. Additional values that were not previously provided will be added to the authorization message, allowing administrators greater flexibility in debit card plan design than had been available before, including support for HSA and restricted-HRA plan designs.

Question 4: Who is eligible to participate in the SIGIS association?

The group is open to all participants involved in offering, processing or accepting healthcare payment cards for FSAs and HRAs. Thus, membership is open to retailers, card issuers, third party plan administrators, merchant acquirers, processors, financial institutions, trade association groups, and payment card associations.

Question 5: Do I need to implement an IAS system based on my merchant class of trade (MCC Code)?

Potentially, yes. The IRS states that the cardholder's use of the card is limited to merchants and service providers with specific merchant category codes (MCC) related to health care, including physicians, dentists, vision care offices, hospitals, and other medical care providers. The card can also be used at merchants or service-providers that do not have health care related merchant category codes, provided that those non-healthcare related merchants or service-providers use an Inventory Information Approval System (IIAS). It is required that attempts to use the card at merchants or service providers without a healthcare related MCC code and who have not implemented an IAS be rejected

A recent IRS ruling highlighted merchants in categories such as supermarkets, grocery stores, discount stores, wholesale clubs, mail order vendors and web-based vendors that sell prescription drugs as examples of merchants that would not be considered healthcare related and would therefore fall into the

class of merchants requiring the implementation of the IIAS system. Additionally, the IRS specified that after December 31st, 2008 merchants falling into the category of a Drug Stores or Pharmacy will also not be considered medically related.

Question 6: What do I need to do to be able to accept these cards from uninformed merchants that do not work with a member acquirer or trade association?

The IRS requires many merchants selling health care eligible products to support an Inventory Information Approval System (IIAS). The IIAS system is a combination of inventory management and point of sale systems that 1) confirm the health care eligibility of items purchased with a FSA or HRA card, 2) generate a payment transaction that contains the required IIAS information, and 3) includes an information archive system that allows the retailer to respond to an IRS audits as required.

The components of an IIAS system will typically include:

- An Inventory Management system that identifies Health Care Eligible Items based on UPC code and compares them to the item purchased for nationally branded, private label and special promotionally packaged branded items. The SIGIS association provides a list of nationally branded eligible products to its members.
- Health Benefit card identification system capability to identify FSA and HRA cards via BIN ranges of all FSA and HRA cards. The list of required BINS is provided by the merchant's Acquirer.
- Payment Authorization System / POS system that generates an IIAS Auto-Substantiation Transaction containing all required IIAS Data Elements, including an IIAS flag indicating an IIAS system was used, the Health Care Eligible Amount, and if supported, the Rx/Prescription Amount. The Rx/Prescription amount is a subset of the Health Care Eligible Amount. This system should support partial authorizations to improve the handling and acceptance of FSA and HRA card transactions.
- Settlement System that supports the settlement of approved IIAS transactions containing the required IIAS Auto-Substantiation information to a merchant acquirer.
- A Transaction Retention system that supports the storage and retrieval of IIAS auto-substantiation transactions to respond to IRS audit requests to confirm the eligibility of items purchased on a FSA or HRA card.

In addition to supporting a system capable of handling IIAS Auto-Substantiation transactions, a retailer must also join the SIGIS association by completing a membership agreement, complete a Merchant Self-Assessment / Checklist and complete certification with their Acquirer. These materials can be obtained from the SIGIS association on their website www.sig-is.org. The Membership Application, Agreement and User Registration should be returned directly to SIGIS. The contact information for SIGIS materials is:

SIGIS – Special Interest Group for IIAS Standards
2400 Camino Ramon, Suite 375
San Ramon, California 94583 USA
Phone: +1.925.275.6605
Fax: +1.925.886.3611

The Merchant Self Assessment should be returned to your Merchant Acquirer. If your Acquirer is unable to assist with this process, contact the SIGIS association at the above phone number or address.

Question 7: Can I buy your software or equipment necessary to run my IIAS?

The SIGIS association does not make or produce hardware or software. The SIGIS association is a standards organization that works with merchants, their acquirers, issuer/processors and Plan Administrators to develop consistent standards for the initiating and authorization of debit card transactions. The SIGIS association does provide members with the Eligible Items list that is used to identify eligible healthcare products in a merchant's inventory when supporting IIAS systems. It is suggested that merchants contact their payment card processor for information about how to support an IIAS.

Question 8: Where do I get equipment to support the IAS? Who installs it? Who do I call?

In many cases, you will not need new equipment, but will need updates to your existing software to support IAS processing. A number of POS vendors for the supermarket, chain drug store, and related retailers have updated their POS systems software to support IAS processing. For clarification or confirmation, you should contact your processing acquirer and/or POS software provider, the organizations providing your Credit Card / Debit Card solutions or the bank that provides your Credit Card processing. Your vendors will work with you to install any necessary updates.

A new POS solution could be required for retailers that do not have a POS system that can support electronic inventory management, UPC scanning, and the additional fields used in the auto substantiation of payment transactions that are required. POS solutions supporting the required elements of the IAS exist in the market today and additional solutions are likely to become available as more vendors work on their support for IAS solutions. Contact your POS vendor or acquirer/merchant processor for information about POS systems that are available to support IAS processing.

Question 9: What certification will be required to support the IAS standard published by the SIGIS association?

Retailers who elect to implement an IAS using the standard published by the SIGIS association must first be certified by the SIGIS association. Certification requires completion of an IAS Self Assessment Questionnaire, a technical processing certification, use of the industry eligible items list, and arrangements to support transaction data retention/retrieval. A retailer's acquirer will review the questionnaire and submit it to the SIGIS association for approval. A retailer will not be permitted to claim that it supports IAS transactions using the published standard until it has been certified to the IAS Standards developed and approved by the SIGIS association.

Question 10: If Merchants implements the SIGIS IAS, are they guaranteed 100% acceptance of the healthcare debit cards in the market

While an IAS system is required for non-healthcare Merchants to accept FSA and HRA cards under the IRS guidelines, having an IAS solution will not guarantee 100% acceptance of cards. Many SIGIS member issuer/processors and the majority of their TPA clients supporting FSA and HRA cards have enabled SIGIS IAS processing to authorize and auto-substantiate transactions; however, some employer benefit plans may require a level of transaction detail that is not accounted for with an IAS solution, thereby, preventing acceptance even at Merchants with a fully certified IAS solution.

Question 11: Will the SIGIS association assist retailers in determining which items are Section 213(d) eligible medical expenses?

Yes. The SIGIS association publishes an industry Eligible Product List for participating retailers to use as the basis to identify items in their inventory. Access to the Eligible Product List is available upon SIGIS membership approval. The Eligible Product List also enables plan administrators and third-party administrators (TPAs) to rely upon a more consistent identification of eligible medical items.

Question 12: How will the Eligible Product List be developed?

The SIGIS association will contract with a company experienced in list management and development, and will rely on a committee of plan administrators, retailers and other SIGIS members to review the list.

Question 13: Is it required that Merchants download the product list?

One of the critical issues in supporting an IAS solution for employer benefit plans and the third party administrators (TPAs) that support these programs is assurance that the items being approved through the IAS solution meet the health care eligibility standards established by the IRS as defined in IRS Code Section 213 rules. The SIGIS association has established a relationship with a third party to provide a standardized list of eligible health care related items. While the IRS does not mandate the use of the SIGIS Health Card Eligible list, Merchants supporting a SIGIS IAS solution must use the SIGIS provided Eligible Product List for nationally-branded items. In addition, Merchants may also flag private label and local market items as defined in the SIGIS Private Label Eligibility Criteria standards, see the Private Label FAQ for more info.

Question 14: How often is the product list updated?

The SIGIS Eligible Product List is updated monthly. Updates are generally available for download and use by the 9th business day of each month.

Question 15: Why are some items that we (the merchant) have identified as healthcare not represented on the list?

The source of the list includes most nationally-distributed, regular-stock items. As such, the following types of items will generally not be included: items specially created for an individual retailer (including but not limited to private label items); a local, regional, or specialty item; bonus items (e.g. 2 oz free); BOGOS (buy one, get one), or other in-and-out types of packaging with limited availability or distribution. Although these items will not be included in the data, they may in fact be eligible.

Because the source of the list is nationally-distributed, regularly-stocked products, private label/store brands will generally not be available for inclusion on the standard list produced by the SIGIS association. It is understood that some of these private label/store brand items are, in fact, eligible under IRS Code Section 213(d), and therefore, can be processed through the SIGIS IAS. Merchants that choose to supplement their inventory of SIGIS identified eligible items with their own private label items are free to do so, but must follow the process detailed in the Private Label Eligibility Criteria document. That document can be found at www.sig-is.org.

Additionally, dual-purpose items are not included as part of the standard list. These products may have both a medical purpose and a personal/cosmetic or general health purpose. As a result, Merchants are not permitted to identify any dual-purpose items (nationally-branded or private label/store brand) for IAS purposes. Examples of dual use items that would not be included:

- Baby Formulas/Nutritionals
- Dietary Supplements
- Vitamins

FSA/HRA cardholders that have a doctor's order for dual-purpose items may submit their sales receipt along with the additional information required by their plan administrator and receive a manual reimbursement. The current Eligible Products Criteria document may be found on the SIGIS website at www.sig-is.org

Question 16: What is the impact of supporting or not support the Rx Amount?

The majority of the healthcare debit cards in the market today allow for the purchase of all qualified healthcare items found on the SIGIS Eligible Product List, however there are a limited number of benefit plans that are designed to only reimburse Rx/Prescriptions. The impact of not supporting the Rx/Prescription Amount would mean denied transactions from those employer benefit plans. While these cards represent a minority of the FSA/HRA in the market today, a retailer could limit the customers that can use their cards by not support the Rx/Prescription Amount in the authorization.

Question 17: As a merchant, I implemented an IAS system, why are card transactions declining?

Merchants who have implemented IAS systems continue to see declines on healthcare benefit cards. While there have been some isolated issues, both at Merchants and at issuer processors, in the initial implementation of IAS, the vast majority of transactions are working as intended. That is to say, if the card transaction declines, it is most likely that the decline is valid.

A reference document called **MOST FREQUENT VALID REASONS FOR CARD DECLINE** can be found on the SIGIS website at www.sig-is.org. This list includes the main reasons why properly formatted IAS transactions at an IAS merchant can validly decline against cards that are IAS enabled. This is not intended to be an all-inclusive list, but represents the most common reasons that together account for most declines.

Question 18: What is the 90% rule?

In December of 2006, the IRS released guidance (Notice 2007-2) which clarified the types of merchants required to implement an IIAS in order to continue to accept healthcare related debit cards (see question and answer #5). In addition, the IRS also included a provision commonly referred to in the industry as the “90% Rule”. The following is an excerpt from that IRS guidance:

“Accordingly, after December 31, 2008, health FSA and HRA debit cards may not be used at stores with the Drug Stores and Pharmacies merchant category code unless:

- (1) the store participates in the inventory information approval system as described in Notice 2006-69, or
- (2) on a store location by store location basis, 90 percent of the store’s gross receipts during the prior taxable year consisted of items which qualify as expenses for medical care under § 213(d) (including nonprescription medications as described in Rev. Rul. 2003-102, 2003-2 C.B. 559).”

Question 19: Will the SIGIS Association be implementing a standard to address the 90% rule?

The SIGIS association is currently investigating solutions it would be able to implement as a standard for processing of transactions from merchants who fall under the 90% rule. In fact, several SIGIS board members recently held discussions with the US Treasury Department to seek clarification of the process in the absence of detailed formal IRS guidance. Based upon the Treasury Department discussion, SIGIS believes that it is not likely to receive additional information that would allow SIGIS to make a final determination as to its policy and/or procedure surrounding the 90% rule until sometime later this year. Like you, we anxiously await the IRS' final ruling on this subject which would provide SIGIS a better idea as to the specific transaction requirements needed to comply with the mandate and make a final determination regarding its policy with respect to implementing a standard.

Question 20: How can we get more information?

Plan administrators should contact their card issuer or processor, and merchants should contact their acquirer. [Contact us](#) for membership information in the SIGIS Association.

Updated July 10, 2008

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