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Important Changes to Your District's Unreimbursed Medical Expense Account

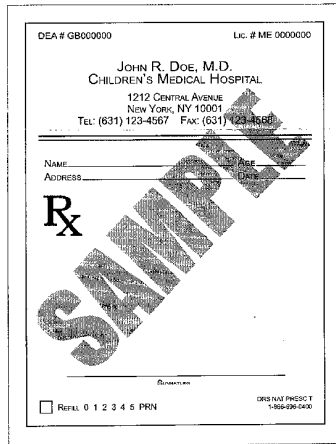
By now, most everyone is aware of the recent passage of the health care reform law (Affordable Care Act). Included in the law are some new requirements that will affect your District's Unreimbursed Medical Expense Account. Below is an overview of these requirements and when the changes will be implemented.

Over-the-Counter Drugs and Medicines

Effective January 1, 2011, in order to be reimbursed for over-the-counter drugs and medicines purchased on or after this date, the participant must provide a medical practitioner's prescription for the item(s). American Fidelity will require a new prescription be submitted as we will not be able to use any information that may have been previously provided (doctor's statements will no longer be accepted). The prescription must be legible and will be valid for one year from the date of issue. It must include the same information as required for a drug or medicine that is available by prescription only.

This normally includes:

- 1) The name and address of the patient;
- 2) The name and quantity of the drug prescribed and directions for use;
- 3) The date of issue;
- 4) The name, address, and phone number of the prescriber, his or her license classification, and his or her federal registry number;
- 5) A description of the condition for which the drug is being prescribed;
- 6) The signature of the medical practitioner issuing the order.



DEA # GB000000 Lic. # ME 000000

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1212 CENTRAL AVENUE
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NAME _____
ADDRESS _____

Rx

SAMPLE

Refill: 0 1 2 3 4 5 PRN

DRUG PRESCRIPTION

Example of a medical practitioner's prescription

It is not clear at this time how the new law will affect over-the-counter items that do not fall into the category of drug or medicine (such as bandages, reading glasses, sunscreen, hot/cold packs, hearing aid batteries, etc.). The Internal Revenue Service has stated that they are working on clarification that will be available in the near future, but the exact date of this guidance is not known. Until further clarification can be provided, participants should carefully calculate the amount of contributions placed into the Unreimbursed Medical Expense Account for over-the-counter items. The IRS will not allow the participant to change their election as a result of this new requirement.

For participants that have elected to use the Flex debit card, there will be a significant change in how the card works. The Special Interest Group for IAS Standards (SIGIS) has stated that over-the-counter medicines, drugs and biological treatments that require a prescription would be deleted from the list of eligible items. Therefore, if a flex debit card is being used to purchase one of these items, the card will decline that portion of the purchase. The participant can manually submit the receipt, voucher and medical practitioner's prescription to American Fidelity to be reimbursed. The affected items include the following categories:

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

The new law does not affect eligible medical expenses that are not considered over-the-counter, such as prescription drugs, co-pays, deductibles, prescription eyeglasses or contact lenses, orthodontia, etc.

Coverage for Adult Children

The Internal Revenue Service has made an exception to allow the pre-taxation of employer sponsored health coverage on adult children who have not reached age 27 by the end of the tax year. This will also allow for participants in the Unreimbursed Medical Expense Account to claim eligible medical expenses on these individuals. The adult children do not need to be full-time students or tax dependents and marital status is not considered. Claims for dependents of the adult children would not be eligible for reimbursement. This change can be retroactive up to March 30, 2010.

A copy of this publication is also being mailed to all AFA Section 125 flexible spending account participants. Please feel free to contact your Flex Administration Team at 800-325-0654 with any questions regarding these changes.

As a new law, the Affordable Care Act is expected to be clarified by guidance from agencies such as the Internal Revenue Service and Department of Health and Human Services and its interpretation may change. This notification reflects our best understanding of the law on the date of its distribution. Any further clarification affecting Section 125 plans will be communicated to our customers as it becomes available.