

## Offsetting Medical Costs

Beginning in 2011, a few changes will impact families who use health flexible spending accounts to help reduce their annual medical bills.

By **Charlotte Huff**

Beth Davis didn't aggressively use her family's health flexible spending account (FSA) until last year, when her 8-year-old son was diagnosed with enthesitis-related juvenile idiopathic arthritis.

A series of scary months and frustrating referrals had led to Bruce's diagnosis, in April 2010. Shortly after, Davis learned that the family had already exhausted the \$1,000 reserved in their FSA.

"I ran out in June," reports Davis. The Florida mother, who got the news when she tried to fill one of her own prescriptions, plans to earmark more for the account next year.

The tax-savings vehicle, which allows an employee to deduct a specific amount each paycheck, helps to defray medical costs and thus is particularly helpful for those coping with a serious diagnosis like juvenile arthritis (JA). According to benefits administrator Ceridian Corp., the

accounts can save users an average of 30 percent annually. Even so, employees are understandably cautious about how much they deduct from their paycheck; any unused money is forfeited at year's end.

**But for those who can afford to deduct money, the savings can be vital, says Marty Rosen, executive vice president and co-founder of Health Advocate Inc., an employer-provided service which assists employees in navigating insurance and other health-related issues. "Especially for someone with a chronic illness, it's almost a no-brainer," Rosen says regarding the accounts. "It would be almost like burning money if you didn't do it."**

Beginning next year, though, the Davis family and others living with JA will have to stay on top of several new changes, implemented as part of the

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health reform law, the Patient Protection and Affordable Care Act.

Under the first change, effective January 1, a doctor's prescription will be required to obtain reimbursement through the accounts for over-the-counter (OTC) medications, such as ibuprofen and proton pump inhibitors. Families who heavily rely on FSAs also may want to consider some pre-planning steps, if they typically set aside several thousand or more in the accounts. Starting in 2013, no more than \$2,500 can be reserved annually.

### Assessing impact

Users of health FSAs tend to be married with children and fall within a middle-income bracket, with a median income of \$50,000 to \$70,000, according to data from SHPS, a benefits administrator.

Typically, one-fourth of FSA dollars are spent on medications, either prescription or over-the-counter, according to SHPS data. Only 20 percent of FSA users might be impacted by the impending \$2,500 cap, but they are more likely to have significant health issues.

To what extent children with JA are taking over-the-counter medications will depend upon the physician practice involved, says Randy Cron, MD, PhD, director of pediatric rheumatology at Children's Hospital of Alabama, which is affiliated with the University of Alabama at Birmingham.

At Dr. Cron's Birmingham practice, roughly 80 percent of his arthritis patients are on some type of biologic medication and OTC use is very minimal. "If they are relying on OTC nonsteroidal medications every day, it's a sign or a flag to us that we need to do something better to control their arthritis," he says.

But Dr. Cron sometimes gets referrals from practices in other states, where OTC use is more common. One difficulty is that regular use of medications, such as naproxen, can lead to the use of other OTC medications, such as antacids or proton pump inhibitors for stomach issues.

At this point, Davis says her son doesn't take any OTC medication. Naproxen and ibuprofen don't relieve his symptoms and her son's folic acid is prescribed.

But she was dismayed to learn about the impending requirement to get a doctor's prescription, in order to use FSA dollars. "That means I have to make an appointment with the doctor?" she asks. "That's another \$25 (for the doctor's co-pay) to see them."

### Planning ahead

**The new written prescription requirement for FSAs will require some additional organization and paperwork for patients and doctors alike, says Rosen, who also recently**

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co-authored *The Healthcare Survival Guide*. One step families can take is to ask their physicians to write a year's worth of prescriptions in advance for OTC medications to ensure that they will be covered when the new FSA provisions go into effect, he says.

Families also might want to take a second look at prescription alternatives, he says. Sometimes a similar medication, prescribed through a mail-order plan, might be cheaper than its OTC cousin anyway.

**Worried about the impending \$2,500 cap, Rosen advises families with JA to see if there is any medical treatment, such as dental work, that can be completed in the next few years before they are limited in flexible spending account contributions.**

Another option, for some employees, is to divvy up medical expenses between a health savings account and a flexible spending account, if both are offered through their employer, Rosen says. A health spending account, which is paired with a high-deductible health plan, can be used for medical costs. And the \$2,500 limit of the FSA can be reserved for dental and vision costs, when the requisite type, called a "limited purpose FSA," is available, he says.

Not everyone will be impacted by the new cap. Despite the family's higher health expenses, Davis doesn't plan to reserve more than \$1,800 in next year's FSA. But with plenty of medical bills to pay, any related tax savings will be put to good use, she says.

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## Some resources

For insight into changes related to health reform, including flexible spending accounts, tap one of these resources:

1. Consumer Reports: An online timeline of health reform changes through 2014.
2. Healthcare.gov: Federal officials have launched a site that explains the various details related to health reform, including new coverage options.
3. Kaiser Family Foundation: This 13-page document provides a summary of health reform's elements.