Health FSA Reimbursement for Orthodontia Expenses

This is a summary of rules relating to reimbursement of orthodontia expenses for Flexible Spending Accounts (“FSAs”). In general, IRS rules prohibit reimbursement for prepayment of expenses (including one-time lump sum payments for medical services not yet incurred), the current regulations include an exception for orthodontia that allows participants to be reimbursed for prepayments for qualified expenses. Participants may be reimbursed by two methods described below (based on the initial treatment plan/contract set up by the orthodontist).

The Rules

IRS regulations allow a Health FSA participant to be reimbursed for orthodontia services before full services are provided, but only to the extent that the employee has actually made the payment of the full treatment in advance of the service in order to receive the service. Some orthodontists offer a discount if a lump sum payment is made vs. being set up on a monthly payment plan.

Example 1 – Lump Sum Payment: Employer sponsors a calendar year Health FSA with a maximum amount of $2,500. Employee elects $2,500 for the 2012 plan year. Employee’s eligible dependent is scheduled for orthodontia treatment, which will last over a two-year period and the cost of the full treatment (less the $1,000 covered by insurance) is $2,600. On March 1, 2012, the participant’s child has the banding for the orthodontia treatment and the Employee pays the orthodontia expenses in full with a lump sum payment of $2,600. Employee may submit documentation for the payment along with a copy of the Truth in Lending Statement/contract and be reimbursed up to $2,500 from his 2012 Health FSA. Even though all services are not yet incurred, the service is deemed to be “incurred” on day of payment (3/1/12) and initial banding.

Example 2 – Monthly Payment Plan: Employer sponsors a calendar year Health FSA with a maximum amount of $2,500. Employee elects $2,000 for the 2012 plan year. Employee’s eligible dependent is scheduled for orthodontia treatment, which will last over a two-year period and the cost of the full treatment (less the $1,000 covered by insurance) is $2,600. On March 1, 2012, the participant’s child has the banding for the orthodontia treatment and the Employee signs a Truth in Lending Statement (contract) to be set up on a monthly payment plan. The contract requires a $600 initial down payment and 24 monthly payments of $83.33. Employee may submit a claim for the $600 down payment in March and each month starting April 1, can submit for reimbursement of $83.33. (The total the employee can submit for the 2012 plan year is $1,349.97 ($600 down payment and $83.33 for the remaining 9 months of the plan year). This leaves $650.03 for other out-of-pocket expenses the employee may incur during the plan year for family office visits, prescriptions, dental and vision expenses.

Please keep in mind:

(1) For lump sum payment at the beginning of treatment, the IRS requires that the payment must be made prior to reimbursement from the Health FSA.

(2) Employee must be an active participant in the plan. To be reimbursed for orthodontia expenses, the employee must be actively employed (or participating through COBRA) and making contributions to the Health FSA.
**Documentation Requirements:**

**For lump sum payments:** Submit a copy of the treatment plan/contract (Truth in Lending Statement) from the orthodontist showing the name of the person receiving the treatment, the beginning date of the treatment, the contracted amount, the amount covered by insurance, discount for paying in a lump sum (if any) and total amount due for the treatment and amount you paid. Credit card slips, bank statements, or cancelled checks are not valid documentation under IRS rules.

**For monthly payment plans:** For your first claim, submit a copy of the treatment plan/contract (Truth in Lending Statement) from the orthodontist showing the name of the person receiving the treatment, the beginning date and ending date of the treatment, total contracted amount, the amount covered by insurance, initial down payment and scheduled monthly payment amount. For each claim thereafter, submit documentation (payment coupon) from the orthodontist showing the monthly charge and the name of the person receiving the treatment. Please note: once you are set up on a monthly payment plan, you cannot “pay off” the balance early and get FSA reimbursement for the payoff amount.

If you have any questions, please do not hesitate to contact Arcadia Benefits Group at 1-866-329-4333 or by email at: info@arcadiabenefits.com.