

Health FSA Reimbursement for Orthodontia

This is a summary of rules relating to reimbursement of orthodontia expenses for Flexible Spending Accounts (“FSAs”). Whereas IRS rules generally 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 also be reimbursed by two other methods described below.

The Rules

IRS regulations allow a Health FSA participant to be reimbursed for orthodontia services before services are provided, but only to the extent that the employee has actually made the payment in advance of the service in order to receive the service. Where the employee is prepaying for services, the date of service is deemed to be the date of payment. This is an exception to the standard rule for FSAs, which holds that reimbursement is based on the date of service rather than the date of payment.

If your situation or needs are such that you wish to be reimbursed based on services incurred or based on a payment plan rather than by lump sum payment, those options are available. These methods are especially helpful for participants who do not make lump-sum payments or who have significant expenses over a multi-year period. Previous informal IRS guidance has confirmed that it is permissible for orthodontia expenses to be reimbursed according to a deferred payment plan.

3 Options for Reimbursing Orthodontia Services

(1) Lump sum payment reimbursed fully at the time of payment

Example: Employer sponsors a calendar year Health FSA with a maximum amount of \$2,500. Employee elects \$2,500 for the 2014 plan year. Employee’s eligible dependent is scheduled for orthodontia treatment, which will last over a two-year period in 2014 and 2015. On March 1, 2014, Employee pays the orthodontia expenses in full with a lump sum payment of \$2,500. Employee could elect to be reimbursed the full lump sum payment as soon as the payment is made.

Documentation Requirements:

Submit documentation from the orthodontist showing:

- The name of the person receiving treatment
- The beginning date of the treatment
- The contracted amount
- The amount you paid
- The services to be rendered

(2) Payment plan

Example: Employer sponsors a calendar year Health FSA with a maximum amount of \$2,500. Employee’s eligible dependent is scheduled for orthodontia treatment, which will last over a two-year period in 2014 and 2015. Employee does not pay the full amount upfront, and instead, makes scheduled monthly payments of \$300. Employee may be reimbursed for each payment after the payment is made.

Documentation Requirements:

For the first claim, submit your payment contract with the orthodontist or similar documentation showing:

- The name of the person receiving the treatment
- The beginning and ending date of the treatment
- Total contracted amount

- Scheduled monthly payment amount
- Total amount of your first payment (including any initial fees or records fee)
- The services to be rendered

For each claim thereafter, submit documentation from the orthodontist showing:

- The amount you paid
- The name of the person receiving treatment

(3) Lump sum payment reimbursed over multiple years (Services incurred)

Example: Employer sponsors a calendar year Health FSA with a maximum amount of \$2,500. Employee elects \$2,500 for the 2014 plan year. Employee's eligible dependent is scheduled for orthodontia treatment, which will last over a two-year period in 2014 and 2015. On March 1, 2014, Employee pays the orthodontia expenses in full with a lump sum payment of \$5,000. Employee could elect to have the lump sum payment apportioned over the services schedule and reimbursed a portion of the total payment each time service is provided, even though the full payment was made in 2014. In order to be reimbursed, a claim will need to be submitted each time services are rendered.

Documentation Requirements

For the first claim, submit your payment contract with the orthodontist or similar documentation showing:

- The name of the person receiving the treatment
- The beginning and ending date of the treatment
- Total contracted amount
- Allocation of expenses over life of the contract
- The amount you paid
- The services to be rendered

For each claim thereafter, submit documentation from the orthodontist showing:

- The name of the person receiving the treatment
- The services rendered

Note: You may also submit an individual orthodontia expense with a one time service and payment date.

For any individual reimbursement, submit documentation from the orthodontist showing:

- The name of the person receiving the treatment
- The services rendered
- The treatment date
- The amount you paid

Keep in mind:

(1) 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 a participant in the Health FSA.

(2) Documentation should come from your orthodontist

Credit card slips, bank statements, or cancelled checks are not valid documentation under IRS rules.

If you have any questions or need assistance, feel free to contact us by email (Flex@ProBenefits.com), by phone (888-722-8382 toll free), or on the web at www.ProBenefits.com.