

FSA Substantiation

Frequently Asked Questions

The importance of FSA substantiation

The IRS requires that participants in flexible spending accounts (FSAs) provide documentation to prove that their purchases are eligible expenses.

Participants must provide proper substantiation for FSA expenses to confirm their eligibility for reimbursement under the FSA plan. Failure to do so could lead to the disallowance of expenses, potentially resulting in additional tax liability for the participant.

What is the reason for needing substantiation?

Proof is necessary to demonstrate that FSA funds are solely utilized for qualified expenses and to adhere to IRS regulations considering the tax benefits linked with FSAs.

How often does LBS request information from a participant to substantiate a debit card claim?

On average, LBS auto-substantiates between 85% to 95% of all debit card transactions. On the occasion that LBS is not able to auto-substantiate a transaction, LBS will request information from the participant.

What should participants do when they receive a request for information?

Once a participant locates the requested information, it takes less than a minute to submit the information to LBS on the member portal or mobile app. Under the Tasks section of the home page is a link to any pending information requests. Simply select the information request and upload the backup.

Additionally, participants can mail the information if they prefer not to use the member portal or mobile app.

What if participants do not provide the requested information on their transaction?

While LBS never wants to turn off a participant's debit card, the IRS mandates that cards can be disabled if the participant does not provide support for their transaction. LBS will send the member at least two notifications requesting information before a card is disabled.

What are the available options for participants whose cards are disabled?

Cards that are disabled can be reactivated by either providing the requested information or paying back the transaction amount. Participants can pay back the transaction amount over the phone by contacting LBS customer service.



It's important to note that participants always have access to their FSA funds by filing claims via the member portal, mobile app, or paper claim form. Having the card disabled does not prevent a participant from accessing their FSA funds using these methods.

What suggestions are there for participants to try and limit the information requests they receive?

There are a couple of actions participants can take to limit the number of requests for information:

- If paying for multiple services at a provider's office, request that they charge you separately for each service. This allows LBS to tie each payment to a specific service.
- Make sure the amount you pay is equal to your patient responsibility as determined by your health insurance. You can do this by waiting for your Explanation of Benefits (EOB) before paying and ensuring the amount you pay your provider ties to your EOB.

How are employees impacted by substantiation requirements?

Employer-sponsored FSAs must adhere to IRS guidelines regarding documentation to prevent disqualification. Failure to comply could lead to employee contributions being taxed and reimbursements treated as taxable income. Following substantiation rules is crucial to avoid these penalties.

What type of documentation is needed to substantiate my claim?

To ensure that expenses are eligible for reimbursement from your plan, the IRS mandates that you provide documentation with specific details, such as:

- Provider or merchant's name
- Date of service received or item purchased
- Description of service received or item purchased
- Amount after insurance coverage, if applicable

Note that an itemized receipt or Explanation of Benefits (EOB) typically has all the required information.

Examples of unacceptable forms of documentation include:

- Provider statements that display only the payment amount, remaining balance, or balance from previous transactions.
- Credit card receipts
- Bills or invoices for medical expenses that have been paid in advance (i.e. services not yet used)