



## IC MEMORANDUM 09-12

**TO: Insurance Coordinators of Agencies Participating in the KEHP Flexible Spending Account & Health Reimbursement Account Program**

**FROM: Department of Employee Insurance (DEI) Flexible Benefits Branch (FBB)**

**RE: Recoupment of Unsubstantiated Claims & Non-Qualified Expenses (NQE)**

**DATE: May 11, 2009**

Beginning this week, the Flexible Benefits Branch will begin notifying members who have failed to respond to Humana's multiple requests to provide substantiation for FSA and HRA expenses.

We will be mailing notification letters and advising members who have unsubstantiated claims that we will be recouping unsubstantiated funds from the member's current HRA balance or requesting repayment to the Kentucky State Treasury.

We have attached the four notification letters that some of your employees may receive. **If your employees have any questions they should contact Humana Spending Account Administration at 800-604-6228.**

Commonwealth of Kentucky  
Personnel Cabinet  
Department of Employee Insurance  
2<sup>nd</sup> Floor, State Office Building  
501 High Street  
Frankfort, Kentucky 40601

Web Site: <http://kehpc.ky.gov>

KENTUCKY GROUP HEALTH  
INSURANCE BOARD:

TIMOTHY LONGMEYER, CHAIRMAN  
Personnel Cabinet

SHARON CLARK  
Kentucky Department of Insurance

RICHARD DAVENPORT  
Kentucky Education Support  
Professional Association

ELAINE FARRIS  
Kentucky Department of Education

JUDITH GAMBILL  
Kentucky Teachers Retirement System

BOBBY HENSON  
Kentucky Retirement Systems

MARY LASSITER  
Office of State Budget Director

TOMMY LOVING  
Advisory Committee of State  
Health Insurance Subscribers

CRIT LUALLAN  
Auditor of Public Accounts

BRENT MCKIM  
Kentucky Education Association

JONATHAN MILLER  
Finance and Administration Cabinet

JASON NEMES  
Administrative Office of the Courts

RONNIE O'NAN  
Kentucky Transportation Cabinet



**FOR ACTIVE EMPLOYEES  
HRA with Balance**



*Date*

*Member Name*

*Member Address*

*Member Address 2*

*Zip Code*

Re: Health Reimbursement Account (HRA) Claim

Dear *Member*:

The Kentucky Employees Health Plan (KEHP) has been notified by Humana that a non-qualified HRA expense was reimbursed to you. After repeated requests by Humana Customer Service, you have not provided adequate documentation to substantiate this claim as required by the IRS.

**Therefore, your current HRA balance has either been reduced by the amount of the outstanding claim(s) as listed on the back of this letter or by the amount remaining in your account. You are still responsible for any remaining balance.**

Guidance for substantiation of claims for Health Flexible Spending Accounts (FSA) and Health Reimbursement Accounts (HRA) is covered under federal law by the IRS. Based on IRS guidelines, all claims must be substantiated. If the substantiation requirements are not satisfied, the IRS could treat all health FSA reimbursements as taxable, whether or not properly substantiated. *See* IRS Notice 2006-69, 2006-31.

The KEHP Health FSA and HRA Summary Plan Descriptions outline the process to substantiate a claim following IRS guidelines and Revenue Ruling 2003-43. In addition, the Debit Card Agreement signed by all KEHP plan members utilizing the HumanaAccess Visa Debit Card states:

You understand and agree that your Card may be immediately suspended or revoked for failure to comply and you must immediately repay your employer for such expenses in accordance with the employer's repayment methods. Repayment methods include but are not limited to, a payment by personal check or an off-set adjustment against other Eligible Expenses whether or not originated as a Card transaction. Moreover, if you use the Card for non-eligible expenses, you will be liable for any taxes, penalties and other expenses payable under the applicable law as well as any expenses that we or the employer may incur as a result of such impermissible use.

If you have any questions you may contact **Humana Spending Account Administration at 800-604-6228.**



*An Equal Opportunity Employer M/F/D*

**FOR ACTIVE EMPLOYEES  
HRA w/o Balance**



*Date*

*Member Name*

*Member Address*

*Member Address 2*

*Zip Code*

Re: Health Reimbursement Account (HRA) Claim

Dear *Member*:

The Kentucky Employees Health Plan (KEHP) has been notified by Humana that a non-qualified HRA expense, as listed above, was reimbursed to you. After repeated requests by Humana Customer Service, you have not provided adequate documentation to substantiate this claim as required by the IRS.

**To remedy this outstanding claim, you now have fifteen (15) days from the date of this letter to reimburse the KEHP for the claim(s) listed on the back of this letter. Please make your check payable to the Kentucky State Treasurer in the amount of \$xx.xx and mail to:**

Department of Employee Insurance  
Flexible Benefits Branch-NQE  
501 High Street  
Frankfort KY 40601

If funds to reimburse for this claim are not received within 15 days from the date of this letter your HumanaAccess VISA Debit Card privileges will be suspended, as will reimbursement for traditional paper claims. The KEHP will have no other alternative than to seek reimbursement through additional means, which may include deduction from pay or other compensation, and the issuance of a corrected W-2.

Guidance for substantiation of claims for Health Flexible Spending Accounts (FSA) and Health Reimbursement Accounts (HRA) is covered under federal law by the IRS. Based on IRS guidelines, all claims must be substantiated. If the substantiation requirements are not satisfied, the IRS could treat all health FSA reimbursements as taxable, whether or not properly substantiated. *See* IRS Notice 2006-69, 2006-31.

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If you have any questions you may contact **Humana Spending Account Administration at 800-604-6228.**

**FOR ACTIVE EMPLOYEES FSA**



*Date*

*Member Name*  
*Member Address*  
*Member Address 2*  
*Zip Code*

Re: Flexible Spending Account (FSA) Claim

Dear *Member*:

The Kentucky Employees Health Plan (KEHP) has been notified by Humana that a non-qualified FSA expense was reimbursed to you. After repeated requests by Humana Customer Service, you have not provided adequate documentation to substantiate this claim as required by the IRS.

**To remedy this outstanding claim, you now have fifteen (15) days from the date of this letter to reimburse the KEHP for the claim(s) listed on the back of this letter. Please make your check payable to the Kentucky State Treasurer in the amount of \$xx.xx and mail to:**

Department of Employee Insurance  
Flexible Benefits Branch - NQE  
501 High Street  
Frankfort KY 40601

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If you have any questions you may contact **Humana Spending Account Administration at 800-604-6228.**

**FOR TERMINATED FSA/HRA EMPLOYEES**



*Date*

*Member Name*

*Member Address*

*Member Address 2*

*Zip Code*

Re: FSA/HRA claim

Dear *Member*:

The Kentucky Employees Health Plan (KEHP) has been notified by Humana that a non-qualified FSA or HRA expense was reimbursed to you. After repeated requests by Humana Customer Service, you have not provided adequate documentation to substantiate this claim as required by the IRS.

**To remedy this outstanding claim, you now have fifteen (15) days from the date of this letter to reimburse the KEHP for the claim(s) listed on the back of this letter. Please make your check payable to the Kentucky State Treasurer in the amount of \$xx.xx and mail to:**

Department of Employee Insurance  
Flexible Benefits Branch - NQE  
501 High Street  
Frankfort KY 40601

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If you have any questions you may contact Humana Spending Account Administration at 800-604-6228.