

# **SIGIS: Special Interest Group for IAS Standards™**

## **90% Rule Program**

### **Implementation Procedures**

#### **for Issuer Processors and Merchants**

**November 2008**

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## INTRODUCTION

The *90% Rule Program Implementation Procedures for Issuer Processors and Merchants* is published by SIGIS: Special Interest Group for IAS Standards™. The SIGIS Management Committee is the committee of SIGIS Members responsible for maintaining and enhancing this Implementation Procedures document.

The Implementation Procedures publication is not intended as a stand-alone document for implementation; but rather is a policy document that sets forth the procedures for Issuers/Issuer Processors and Merchants and the services that SIGIS will support.

In IRS Notice 2007-02, the IRS provides that drug stores/pharmacies, which have 90% or more of gross sales that are prescriptions/Rx or over-the-counter Eligible Healthcare Products, can be viewed as “healthcare merchants” by plan administrators in the debit card programs. This means that these drug stores/pharmacies that have stores that meet the 90% Rule are not required to support an IAS in order for FSA/HRA card transactions to be approved. See below for the published IRS provisions in IRS Notice 2007-02

Accordingly, after December 31, 2008, health FSA and HRA debit cards may not be used at stores with the Drug Stores and Pharmacies merchant category code unless (1) the store participates in the inventory information approval system as described in Notice 2006-69, or (2) on a store location by store location basis, 90 percent of the store’s gross receipts during the prior taxable year consisted of items which qualify as expenses for medical care under § 213(d) (including nonprescription medications as described in Rev. Rul. 2003-102, 2003-2 C.B. 559).

It is optional for plan administrators to support flexible spending account (FSA) and health reimbursement arrangement (HRA) card transactions at merchants that qualify under the IRS’s 90% Rule. Plan administrator support for 90% Rule merchants will offer FSA/HRA cardholders utility at an important set of drug stores and pharmacies including those in hospitals, medical buildings and specialty prescription/Rx only stores. Participating 90% Rule drug stores and pharmacies should understand that there may be some declines for this reason.

## DEFINITIONS

The definitions below relate to terminology used in this document. Other defined terms that may be of interest can be found in the Bylaws and IPR Policy.

**Card Network:** Initially, Visa, MasterCard and Discover, plus other card networks as may be added in the future.

**Health Benefit Card:** A signature-based debit card that is tied to one or more of the following tax advantaged healthcare benefit accounts: Health FSA, HRA, and HSA and is a card number within an Identified BIN. These cards may also have other account balances that are not healthcare-related and/or are not subject to an IAS process.

**Health FSA :** Health flexible spending accounts as defined in Section 106(c) of the Internal Revenue Code, as subsequently amended.

**HRA :** Health reimbursement arrangement as defined in IRS Revenue Ruling 2002-41, as subsequently codified or amended.

**HSA :** Health Savings Account as set forth in Section 223 of the Internal Revenue Code.

**Qualified Healthcare Product:** Healthcare products that are considered under Section 213(d) of the IRS tax code to qualify as a deductible medical expense; these products include eligible medical over-the-counter and prescription (Rx) items. The eligible medical over-the-counter products will be deemed to be those items that are on the Eligible Product List as published by SIGIS.

## OPERATIONAL PROCEDURES

The 90% Rule Program will support the following operational procedures:

1. **Monthly Publication of 90% Rule Registered Merchants.** SIGIS will publish, for the benefit of Issuer Processors, on a monthly basis a list of the 90% Rule Store IDs/Card Acceptor IDs of the store locations of registered merchants. The list will be published on the first business day of each month. The format for the Issuer File is attached as Appendix A. The file will be available in two forms: 1) full file replacement and 2) adds/deletes only.

## ISSUER REQUIREMENTS

For Issuer Processors to participate in the 90% Rule Program, the following requirements apply:

1. **SIGIS Membership Required.** FSA/HRA Issuer Processors must be SIGIS members in good standing and membership fees paid.
2. **Issuer Support for 90% Rule List Updates.**
  - a. Issuers/Issuer Processors that elect to participate in the 90% Rule Program update the Store IDs/Card Acceptor IDs no later than the tenth business day of the month from January – November.
  - b. Due to systems freeze periods, Issuers/Issuer Processors will not be required to load a file update in December; however, a file will be distributed so that Issuer Processors that are able to load files can add any new Store IDs to enable cards to work. If an Issuer Processor elects not to load the December 90% Rule list, the Issuer Processor will load both the December and January lists within the first 10 business days of January.

## MERCHANT REQUIREMENTS

To register as a 90% Rule Merchant for the SIGIS 90% Rule Program, the following requirements apply:

1. **SIGIS Membership Required.** SIGIS will register 90% Rule store locations for SIGIS members in good standing, including membership fees that have been paid.
2. **90% Rule Program Registration.** Merchants that operate store locations that meet the IRS requirements register these stores on the SIGIS website after **11/22/2008** via an online registration capability at [www.sig-is.org](http://www.sig-is.org).

See Appendix B for the Sample Merchant Store Registration form. **It is essential that 90% Rule merchants communicate with their Acquirer/Acquirer Processor or POS/Merchant Servicer company to obtain the required information and data elements used in payment card authorization processing.** Failure to provide the exact data elements used in card authorization processing will cause a delay in the merchant's participation as a 90% Rule merchant and may result in declines of FSA/HRA card transactions. Participating merchants should review this form and have all necessary information before attempting to register on-line. Incomplete applications will not be accepted and the merchant will have to start over on the next registration attempt.

3. **Limited to Drug Stores and Pharmacies.** Only drug stores and pharmacies may register for the SIGIS 90% Rule Program. These merchants use the MCC 5912 or MCC 5122. Other types of merchants are not eligible to register for the 90% Rule Program.

The types of drug stores and pharmacies that may meet the IRS requirements for the 90% Rule are pharmacies operating in hospitals/medical buildings or mail order/Internet pharmacies that mostly fill prescriptions and have a very limited availability of other merchandise. Additionally, there are

specialty pharmacies, such as compounding pharmacies, which primarily sell prescriptions/Rx and may qualify. But in all cases, the drug store or pharmacy must be able to certify that 90% of the gross sales of the store are from prescriptions/Rx and/or healthcare products on the SIGIS Eligible Products List.

4. **Store Level Qualification.** The IRS requirement is that only stores whose gross sales are at least 90% from prescriptions/Rx and over-the-counter Eligible Healthcare Products can be certified as qualifying for the 90% Rule. If a merchant has other stores that do not meet the 90% Rule, the merchant will need to implement IAS capabilities in order for FSA/HRA card transactions to be approved after January 1, 2009. A merchant is also not permitted to average its total sales results over several stores.
5. **Terminal Level Qualification Not Permitted.** The IRS requirement is that drug stores and pharmacies must qualify based on sales at the store level. A merchant is not permitted to qualify, on a stand-alone basis a terminal or area of the store, such as the Pharmacy counter in the store.
6. **Qualifying Sales Only from Prescriptions/Rx and Eligible Healthcare Products.** The IRS has specified that “on a store location by store location basis, 90 percent of the store’s gross receipts during the prior taxable year consisted of items which qualify as expenses for medical care under § 213(d) (including nonprescription medications as described in Rev. Rul. 2003-102, 2003-2 C.B. 559).” To determine which over-the-counter healthcare products meet the 213 (d) requirement, it is expected that 90% Rule merchants, that sell non-prescription/Rx items, will evaluate their store-level product sales using the Eligible Product List available to SIGIS members.
7. **No POS or Data Retention Requirements.** There are no POS changes required for a merchant that is eligible to qualify stores under the IRS’s 90% Rule requirements and there is no need to support a list of FSA/HRA card BINs. The merchant completes registration at the SIGIS website. SIGIS will communicate the Store ID/Card Acceptor ID to participating Issuer Processors. 90% Rule merchants continue to accept payment cards in accordance with their current processes. There are no data retention requirements for 90% Rule Program merchants.
8. **Cardholder Receipt Requirements.** Unlike an IAS merchant where FSA/HRA purchases are auto-substantiated to Issuers, the IRS 90% Rule indicates that stores qualifying as 90% locations can be viewed as “healthcare merchants.” This means that plan administrators will apply their standard substantiation processes to transactions at these locations – and the customer may be asked to submit a sales receipt to document that the items purchased were prescriptions/Rx or Eligible Healthcare Products. Thus, it is likely that customers using a FSA/HRA card will be asked by their plan administrator to submit a sales receipt.
9. **Annual Re-Registration.** The IRS requires a 90% Rule merchant to register annually for each store location. SIGIS will support online annual re-registration. A 90% Rule merchant must complete re-registration within 120 days of the end of the merchant’s taxable year. If the re-registration has not been completed, SIGIS will automatically remove the merchant’s Store IDs/Card Acceptor IDs from the 90% Rule List published to Issuer Processors.

## APPENDIX A – ISSUER FILE FORMAT

### SIGIS 90% Rule Program Store ID File Format for Issuers/Issuer Processors

Field Description	Type	Length	Comments
<b>Header Record</b>			
Record Type	A/N	1	H
File Identifier	A/N	15	"SIGIS MERCHANTS"
Batch Date	A/N	8	CCYYMMDD
Batch Time	A/N	6	HHMMSS
<b>Detail Record</b>			
Record Type	A/N	1	D
Maintenance Flag	A/N	1	A = Add, C = Change, D = Delete
DBA/Store Name	A/N	25	
Street Address	A/N	40	
City	A/N	13	
State/Province	A/N	2	2-digit alpha
ZIP Code	N	5 or 9	Must be numeric
Merchant Category Code (MCC)	N	4	Must be numeric
<b>MasterCard Transactions</b>			
Acquirer ICA (DE 32)	N	6	Must be numeric; merchants must verify this information with their acquirer; incorrect information will cause declines and a delay in program start-up
Authorization Transactions: Card Acceptor ID-CAID (DE 42)	A/N	15	Must be numeric; merchants must verify this information with their acquirer; incorrect information will cause declines and a delay in program start-up
CAID Effective Date	N	8	MMDDYYYY
Settlement Transactions : Card Acceptor ID-CAID (DE 42)	A/N	15	Must be numeric; merchants must verify this information with their acquirer; incorrect information will cause declines and a delay in program start-up
CAID Effective Date	N	8	MMDDYYYY
<b>Visa Transactions</b>			
Acquirer BIN (Field 32)	N	6	
Authorization Transactions: Card Acceptor ID-CAID (Field 42)	A/N	15	Must be numeric; merchants must verify this information with their acquirer; incorrect information will cause declines and a delay in program start-up
CAID Effective Date	N	8	MMDDYYYY
Settlement Transactions : Card Acceptor ID (Field 42)	A/N	15	Must be numeric; merchants must verify this information with their acquirer; incorrect information will cause declines and a delay in program start-up
CAID Effective Date	N	8	MMDDYYYY
<b>Trailer Record</b>			
Record Type	A/N	1	T
Detail Record Count	A/N	7	Count of all records in file including header and trailer

## APPENDIX B – SAMPLE MERCHANT REGISTRATION FORM

### SIGIS 90% Rule Program SAMPLE Merchant Registration Form Online Registration Only – Do Not Submit Paper Form

Instructions: Each store location listed below is represented by the submitting merchant as meeting the 90% Rule in accordance with IRS requirements as outlined in IRS Notice 2007-2. SIGIS requires the following information to be provided on each store location being certified. Forms that are missing any information will be returned as incomplete.

#### Card Acceptor ID/Store ID Requirements:

1. It is required that each store location registered must have a Store Identification Number unique to that merchant's stores. A merchant must use unique Store IDs for each store. If the merchant does not support this requirement, the merchant must contact their acquirer to ensure that each store has a unique Store ID.
2. The Store ID or the Card Acceptor ID **must align** with the data value as submitted in payment card authorization request messages. Incorrect information may result in payment card declines. Merchants **must coordinate** with their merchant acquirer or payment card processor to ensure that the correct Card Acceptor ID is provided to SIGIS.

#### Merchant Information

<b>Parent Company Name, Address, City, State, ZIP</b>	Parent Company/Merchant Name: Address: City, State, ZIP Code: Website of Merchant: www.
<b>Merchant Contact Name, Phone, Email</b>	Merchant contact name: Telephone: Email Address:
<b>Taxable Year End</b>	/ (MM/DD)
<b>Acquirer or Acquiring Processor Company Name and Acquirer Contact Name, Phone, Email:</b>	Acquirer or Acquirer Processor Company Name: Company Address: City, State, ZIP Code:  Acquirer Contact Name: : Telephone: Email:
<b>Acquirer ID Used in Payment Card Authorizations:</b> (6-digit ICA for MasterCard and 6-digit BIN for Visa)	MasterCard ICA: Visa BIN:

#### Location Information

NOTE: Only "Affiliates" of the Parent Company may be listed. An "Affiliate" means any entity that is directly or indirectly controlled by, under common control with or that controls the subject entity. For purposes of this definition control means direct or indirect ownership of or the right to exercise (a) more than fifty percent (50%) of the outstanding shares or securities entitled to vote for the election of directors or similar managing authority of the

subject entity; or (b) more than fifty percent (50%) of the controlling interest representing the right to make the decisions for the subject entity.

<b>Location 1</b>		
DBA Name		
Street Address		
City		
State		
Zip		
MCC (DE/Field 18, 4 digits, must be numeric)		
<u>MasterCard Authorization Requests</u>		
Card Acceptor ID (DE 42) – Authorization (A/N, Maximum 15 digits in length)		Effective Date:
Card Acceptor ID --- Settlement (A/N, Maximum 15 digits in length)		Effective Date:
<u>Visa Authorization Requests</u>		
Card Acceptor ID (Field 42) – Authorization (A/N, Maximum 15 digits in length)		Effective Date:
Card Acceptor ID – Settlement (A/N, Maximum 15 digits in length)		Effective Date:
% of Gross Receipts In Most Recently Ended Tax Year From Sale of Healthcare Eligible Products (as defined by Section 213(d) of the Internal Revenue Code)		

<b>Location 2</b>		
DBA Name		
Street Address		
City		
State		
Zip		
MCC (DE/Field 18, 4 digits, must be numeric)		
<u>MasterCard Authorization Requests</u>		
Card Acceptor ID (DE 42) – Authorization (A/N, Maximum 15 digits in length)		Effective Date:
Card Acceptor ID --- Settlement (A/N, Maximum 15 digits in length)		Effective Date:
<u>Visa Authorization Requests</u>		
Card Acceptor ID (Field 42) – Authorization (A/N, Maximum 15 digits in length)		Effective Date:
Card Acceptor ID – Settlement (A/N, Maximum 15 digits in length)		Effective Date:
% of Gross Receipts In Most Recently Ended Tax Year From Sale of Healthcare Eligible Products (as defined by Section 213(d) of the Internal Revenue Code)		

**SAMPLE Merchant Attestation:**

By checking this box the undersigned on behalf of Merchant hereby acknowledges and attests that:

1. The information provided in this registration is true, accurate and complete, in all respects, and that the undersigned has the authority to make this acknowledgement and attestation.
2. The Merchant has read and understands the requirements of IRS Notice 2007-2 and the healthcare eligibility definitions contained in Section 213(d) of the Internal Revenue Code.
3. The Merchant agrees that in determining the percentage of its receipts that are eligible healthcare goods or services, the merchant must adhere to the criteria provided in Section 213(d) of the Internal Revenue Code. With respect to over-the-counter items, the merchant must refer to the SIGIS Eligible Product List and the SIGIS Eligible Product List Criteria for Supporting Private Label Items.
4. The Merchant agrees to comply with all requirements of SIGIS programs and understands that failure to comply may result in suspension of this registration and/or termination of its membership in SIGIS, as provided in the SIGIS Compliance Enforcement Policy.
5. The Merchant understands that not all of its card transactions will be auto-substantiated and that cardholders will in some cases be asked to submit receipts to their administrator to document the eligibility of their purchases.
6. The Merchant acknowledges that an annual re-registration is required on a store by store basis.
7. The Merchant acknowledges that full recognition of newly registered store locations may take 15-45 calendar days from the date of registration.
8. The Merchant acknowledges that not all employer healthcare plans will recognize this registration for purposes of using a healthcare debit card at their location. Therefore, use of the healthcare debit card by cardholders of those healthcare plans will likely be declined at their location.
9. The Merchant gives permission for its registered 90% Rule locations to be listed in the SIGIS 90% Rule Store List on the SIGIS website.

<b>Name:</b>	<b>Online Registration Only – Do Not Submit Paper Form</b>
<b>Title:</b>	
<b>Date:</b>	