



What is substantiation and why is it required?

You went to the local pharmacy, picked up your medicine, and then received a request for substantiation. If you've ever wondered "What is substantiation and why is it required?" you're not alone.

Let's start with the basics.

What is substantiation?

Within the IRS tax code, there is a rule that states every expense or transaction from an FSA must be substantiated. This means there needs to be proof or evidence that the funds were only used for eligible medical expenses. When using a pre-tax benefits card to access funds from an FSA, certain systems or rules try to automatically prove the funds were only used for eligible medical expenses. But, sometimes the systems and rules can't prove that the funds were used for eligible expenses. When this occurs, you might be asked to provide "documentation support" or receive a "receipt request".

It may go something like this:

1. You have a medical-related purchase or service that is (as far as you know) an eligible expense.
2. You use your pre-tax benefits card to pay for the expense and go home.
3. Life is good. You had money in your account and paid for your expense.
4. A few days pass and you receive a "request for substantiation".
5. You think back to your purchase and aren't sure why you're receiving a request for substantiation, since your card went through and you were confident it was eligible.
6. Life is not good.

It is understandable that receiving a request for substantiation can be frustrating. Many people wonder why they need to submit documentation if the original transaction was approved. Sometimes, people are offended that their transaction is being questioned as an eligible expense.

Why is substantiation required?

It is kind of like the old saying "if you are living under my roof, you will live by my rules". Only the "roof" is the IRS. It is a little bit of give-and-take. The IRS is permitting you to use the funds in an FSA on a tax-free basis. In exchange, they require evidence that funds were used for eligible expenses. Employers hire companies like Surency to ensure these requirements are met. And ultimately, the employer can continue to offer their employees these tax-free benefits.

When you see a substantiation request come through from Surency, they are simply asking you to provide evidence that the expense was eligible since they didn't receive enough information to confirm it automatically.

Why did you approve my transaction only to decline it later?

Your benefit card is designed to work at stores where **most** of the items sold are eligible. Keyword being “most.” But, many of these places also sell ineligible items or services (e.g. a local pharmacy).

When you pay for an item at these locations, your transaction is approved assuming you likely purchased an eligible item. The transaction information is reviewed against a series of rules and previous activity to determine if we have enough information to ensure it is eligible. The problem is, the transaction information that is passed doesn’t typically indicate WHAT was purchased.

Why do certain expenses seem to be flagged for substantiation ALL THE TIME?

The long and short of it is that **where** you buy a service or item has a greater influence than **what** you buy on whether you receive a request for substantiation. That’s why, in some cases, you could buy the exact same item at two different locations and only be asked for supporting documentation on one item.

There are different kinds of merchants (businesses or places that provide medical services) which will impact how often you receive a substantiation request.

But, don’t you get the information you need from my provider?

“I used my card. It provided all the information Surency needed, right?” Not exactly. The transaction information is generally limited to date, merchant, merchant type and amount. It doesn’t generally indicate WHO the service is for or WHAT was provided. Additionally, it is not as simple as picking up the phone and asking for the information. HIPAA privacy rules and high security standards prevent health care providers from freely sharing those details with anyone that requests them. So, when it’s possible the expense is ineligible and information is not available, you receive a request for substantiation.