

IRS allows FSA funds to purchase over-the-counter drugs

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A recent IRS ruling has given brokers and agents more ammunition with which to sell flexible spending accounts (FSAs) to reluctant employers and employees. IRS and the Treasury Department have decided that consumers may now use the pretax funds in their FSAs to reimburse themselves for the cost of over-the-counter medicines.

"Since many prescription drugs have moved to the over-the-counter market, this action today makes paying for them a little bit easier to swallow," says Treasury Secretary John Snow. Although dietary supplements such as weight loss aids or multivitamins are not covered by the agencies' directive, consumers who rely on nonprescription medicines to aid chronic health problems can use FSA pretax dollars if properly substantiated.

Although over-the-counter drugs are generally less expensive than prescription versions, the cost to consumers is greater overall, as the price is usually greater than the copay consumers would pay for prescribed medications covered by insurance. IRS Commissioner Mark Everson lauds the ruling as "a sensible expansion and simplification of the program consistent with existing law."