

## Memo

**Date:** August 20, 2026

**To:** Agency Payroll, Human Resources, and Accounting Staff

**From:** Katie Karow, Director, Statewide Payroll Services  
Galen Benshoof, Director, Employee Insurance

### RE: Flexible Spending Account Debit Card & Unsubstantiated Pre-Tax Purchases

This memo outlines the payroll impacts and processing related to employees with unsubstantiated Flexible Spending Account debit card purchases for calendar year 2025.

Benefit Resource (BRI) administers the State of Minnesota's **Medical/Dental Expense Account (MDEA)** and **Healthcare Reimbursement Arrangement (HRA)**. Each year, employees who use their Flexible Spending Account debit card must provide documentation to substantiate eligible purchases or repay unsubstantiated amounts using one of the available repayment options. Final notice letters were mailed with a **June 30, 2026**, substantiation deadline.

Beginning **pay period ending (PPE) 8/25/2026** through **9/30/2026**, payroll transactions will be processed for employees who did not substantiate their **2025** pre-tax debit card purchases with Benefit Resource (BRI).

- **MDEA, State HRA, and Minnesota State HRAs:** Unsubstantiated or unpaid amounts will be treated as taxable income. Employees will see their remaining unsubstantiated **2025** balance on their paystub(s) as **Debit Card Overpayments (DCO)**, and the amount will be reported as taxable income on their **2026 Form W-2**. Employees may see their total amount processed on one paycheck or over several paychecks.
- **Employees no longer on payroll:** In addition to the DCO transaction, an **EPF (Employer Paid Social Security/Medicare)** transaction will be processed so the employer pays the employee's required Social Security and Medicare taxes if there are no remaining checks to withhold these taxes from the employee. The amount will also be reported as taxable income on the employee's **2026 Form W-2**.
- **Employees with no August or September pay:** The agency's fringe cost will be reflected in labor distribution using earnings code **XXX**.
- These transactions are taxable, so most affected employees will see a change in net pay. Agencies will also incur fringe costs.

### Questions?

Agency Payroll, HR, and Accounting staff should contact Tracy Faville at [tracy.faville@state.mn.us](mailto:tracy.faville@state.mn.us) if there are questions on the unsubstantiated debit card process.

**PLEASE SHARE THIS INFORMATION WITH APPROPRIATE AGENCY STAFF**