SLOAN GROUP

HELPING YOU TAKE YOUR BUSINESS TO THE NEXT LEVEL

DISCUSSION PAPER #11

HEALTH SPENDING ACCOUNTS EXPLAINED

DEDICATED TO EXCELLENCE. COMMITTED TO YOUR SUCCESS.

4646 Dufferin Street – Suite 6 – Toronto – Ontario – M5E 5S4 Tel: 416-665-7735 Fax: 416-649-7725
www.sloangroup.ca info@sloangroup.ca

Health Spending Accounts Explained

Background
Every province in Canada has a publicly-funded healthcare system which provides most medical services at no charge to patients. Employers who wish to provide additional coverage to employees usually opt for group insurance plans to pay for expenses such as prescription medications, chiropractic, eyeglasses and dental services.

Experience has indicated that over 90% of medical and dental expenses covered by employee health plans are predictable and can be budgeted for rather than insured. Insurance works best when the probability of something occurring is low but the financial consequence is high. For example, you collision insurance on your car because the repair cost of an accident could be enormous.

The Issue
However, buying insurance for a regular dental check-up seems impractical because you expect to go and know the cost is relatively low. In similar fashion, most prescription drugs are affordable and the need is infrequent.

A Health Spending Account removes the illusion that health benefits are insured and lets each employee take responsibility for their own expenditures.

Who Decides What's Covered?
Good health care is a relative concept that cannot be universally agreed to. Traditionally employers have decided which products or services would be covered and to what extent. Decisions are based on economics and their concept of appropriate treatment. Costs are controlled through deductibles, specific definitions of covered services, limits and numerous exclusions.

A Health Spending Account lets employees control what their own health coverage budget is spent on. They can express their unique wants and needs within the parameters of the Income Tax Act.

…2/

4646 Dufferin Street – Suite 6 – Toronto – Ontario – M5E 5S4 Tel: 416-665-7735 Fax: 416-649-7725
www.sloangroup.ca info@sloangroup.ca

New Model for Healthcare Spending
Changing the focus from ***limiting access*** to products and services to empowering staff to make their own health care decisions within a budget and thereby ***improving access*** is the major benefit of a Health Spending Account. A simple example will illustrate this point:

- consider a group insurance plan whereby the monthly premium for a full range of services is $150, shared 50% between the employer and the employee
- the plan has a limit on Chiropractic of $300 per annum
- an employee has no other healthcare spending needs

In this case the employee would have paid $900 for the year AND the employer would have also paid $900 for that year, so the employee could get only $300 in benefits. The group insurance company is pooling employees and pooling groups to limit their exposure to large, but infrequent claims.

A Health Spending Account transfers control to the employees. A Health Spending Account promotes a positive change in attitude and increased morale and loyalty whereby:

- employees scrutinize expenditures and make individual cost-benefit decisions.
- claim adjudicators pay **all** claims permissible by law.
- the employer defines the funding level rather than products or services covered.

Technical Talk
Employee compensation is often comprised of taxable income, taxable benefits and non-taxable benefits. Health benefits are a favorite non-taxable benefit because the employer cost is a tax-deductible business expense and there are no tax consequences to the employees. Employer contributions to the Plan are fully tax deductible when made.

An employee would need to earn almost $2,000 (at top tax rates) in order to pay $1,000 of health expenses personally. A better alternative is to establish a Health Spending Account to at a cost of $1,217 thereby saving $783.

…3/

4646 Dufferin Street – Suite 6 – Toronto – Ontario – M5E 5S4 Tel: 416-665-7735 Fax: 416-649-7725
www.sloangroup.ca info@sloangroup.ca

Technical Talk (continued)

Health benefits fall into one of two main categories; defined benefit (insurance) or defined contribution (Health Spending Account). With a defined contribution health plan, the employer makes a predetermined monthly contribution for each class of employee and employees are reimbursed for any eligible expense. The cost of a Health Spending Account is the sum of contributions plus 10% administration fee and 11.7% in taxes.

The unclaimed contributions to employee accounts are rolled forward at the end of the calendar year and are refunded to the employer if not used by the end of the second year. The amount refunded is taken into income by the employer (but remember that the expense was recorded when the contribution was made).

Canada Revenue Agency's position on Health Spending Accounts is contained in Interpretation Bulletin IT339R2.

We can help

If you have questions or need assistance with this or business, please contact

Stan Swartz, CMA, CFP at 416.665.7735
or by email stan@sloangroup.ca

SLOAN GROUP MEMBERS

Infologix Inc.
Infonumerix Inc.
Sloan Partners LLP