Johnstone's Journal

JOHNSTONE'S JOURNAL is published monthly, and designed to provide topical information of interest not only to plan administrators, but to all employees who enjoy coverage under the benefit plan. Feel free to make copies, and use as a payroll stuffer.

PHONE: 604 980-6227 or 1-800-432-9707 www.jbenefits.com September 2012

Health Spending Accounts (HSA)

An Efficient and Effective Benefits Solution

A Group Benefits Solution

In this time of ever-rising health care costs that strain the feasibility of group benefits coverage, a Health Spending Account (HSA) is a benefit that provides budgeting certainty for the employer. The cost of providing this benefit is fixed for each employee, and the employer can adjust it, if desired, based on the company's financial performance. It also empowers employees to make wiser and potentially more cost-effective choices in their healthcare spending, since each employee has control over the decision-making process and how he or she spends the funds in the account.

An HSA account essentially works like a special chequing account to cover each employee's health care expenses. Claims are made against this account to pay for health and dental expenses that are not covered under a regular benefit plan. Claims are paid until the account reaches $0, or the annual deadline is met.

Canada Revenue Agency Rules

The Canada Revenue Agency (CRA) establishes the rules that govern HSA plans. Probably the most important one to know is that a product or service is eligible only if it qualifies as a Medical Expense Tax Credit (METC) under the Income Tax Act (118.2). The tax advantage is designed to assist with medically necessary expenses, and not intended to cover services that have a substantial element of personal consumption and choice. Therefore, cosmetic procedures are not eligible.

The Benefits of an HSA

There are even more advantages to adding an HSA:

Tax Effective (in all provinces except Quebec)

- Employer contributions are made in pre-tax dollars, which is a significant advantage because no **income tax, CPP, EI, or WCB** withholdings are required
- Employer contributions are corporately tax deductible, as are insurance premiums
- Employees receive this benefit **tax free**

Flexible

- Employees choose how to spend their HSA allocations, as long as it meets CRA criteria
- Employers can choose how much they will allocate based on employee class, length of service, salary, etc.

Employer liability is limited

- As the employer sets the limit annually, there are no surprises of future premium increases.

Conclusion

In reviewing and planning your benefit program, consider adding an HSA. Many employers are now integrating these plans with their current coverage, as they are tax effective and add significant flexibility. You can provide an HSA to all employees, or just to enhance senior managers' compensation. Note, if you have employees, an HSA cannot be provided for the owners only.

Contact Johnstone's to learn how to make one work for your company.