

HEALTH SPENDING ACCOUNTS

Practical – Affordable – Cost-Effective

A health spending account (HSA) is a 100% employer-funded vehicle that allows employees to use pre-tax corporate dollars to pay for a wide range of health and dental related expenses that are not covered by an employer's group plan, or government health plans. HSAs may require additional employee communication and education up-front, but generally they are easy to understand and well-received by employees.

Tax Effectiveness

- HSAs are a tax deductible business expense 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.
- HSAs allow employers to deliver tax-effective compensation to employees using pre-tax dollars; employees receive benefits tax-free.

Flexibility

HSAs provide flexibility for both employers and employees.

- Employees choose how to spend their HSA allocation, subject to Canada Revenue Agency (CRA) eligibility criteria (see details below).
- Employers choose how much they will allocate to the employee's account, making annual HSA costs predictable.

How HSAs Operate

HSAs work much like a bank account. The employer grants each employee an allocated HSA credit which is communicated to the claims adjudicator each year. (The credit must be consistent by class of employees, to meet CRA rules.) Throughout the year, employees submit eligible claims, which are paid up to their account balance. Once the claim is reimbursed to the employee, the claims adjudicator bills the employer for the claim paid plus an administration fee and any applicable taxes.

THE JOHNSTONE'S ADVANTAGE

Our mission is simple:
Treat each client as if they were our only client.

Our value is clear:
We are completely independent. We work for you and offer total flexibility on insurers and plans.

We offer all your group insurance services including administration, brokerage, consulting, and communications.

We provide dedicated client support, customization and flexibility to meet all of your company's benefits needs.

And we make
solid group plans simple.



Eligible HSA Expenses

- Health and dental expenses which are eligible under the group plan but not fully reimbursed, such as deductibles and expenses above the co-insurance limit.
- Health and dental expenses not eligible under the group plan but which meet Canada's Income Tax Act (ITA) definition of health expenses eligible for the medical expense tax credit.
- Health and dental expenses for extended family who live with the employee and who are financially dependent upon them.

Forfeiture Rules

CRA requires that HSA accounts include a “use-it-or-lose-it” feature. This means that employees do not get to “cash out” any unused balances; instead these are forfeited. An employee who terminates employment (voluntarily or involuntarily) also loses his or her unused account balance. This element of risk to the employee is one of the reasons why HSAs are not a taxable benefit under the ITA.

The employer must choose one of the following “use-it-or-lose-it” approaches when establishing the HSA. The chosen approach then applies to all employees in the program and remains the same in future years.

- The most common approach is the BALANCE CARRY FORWARD method, which allows unused balances in the HSA to be carried forward to the next year. Any balance from the previous year still remaining at the end of the following year, is forfeited. Employees may only claim expenses incurred in the current policy year against their account balance.

- The EXPENSE CARRY-FORWARD method allows employees to carry claim expenses forward from the previous year, but forfeit any remaining account balance at the end of each year.
- The NO CARRY-FORWARD is the least common method. Employees may only claim expenses incurred in the current year against their account balance, and forfeit any remaining account balance at the end of each year.

HSA Payments and Communications

Johnstone's Benefits can help your organization design, administer and adjudicate HSA programs, as well as develop effective employee communications to support these programs.

Contact us to learn more about Health Spending Accounts!

CONTACT US

Johnstone's Benefits

3095 Woodbine Drive
North Vancouver, BC
V7R 2S3

Phone: 604-980-6227

Toll Free: 1-800-432-9707

Fax: 604-983-2935

Website: www.jbenefits.com

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 share with your employees.

