Johnstone's BENEFITS

THE JOURNAL

solid group plans made simple

COST PLUS AND HSA

We are often asked the difference between a Cost Plus plan and a Health Spending Account (HSA). Both provide tax preferred and cost effective health and dental benefits. The decision on which plan is most suitable depends on the objectives, the structure of the plan, and the eligible participants.

Private Health Services Plans

Simply defined, a Private Health Services Plan (PHSP) is **an alternative to traditional health insurance**. Used by thousands of small business owners across Canada, a PHSP is a cost-effective way to provide health and dental benefits to employees. Both incorporated and unincorporated businesses (self-employed proprietors, partnerships) can have PHSPs, but there are different restrictions on each. The treatment for corporations is more favourable than that for unincorporated businesses.

CRA considers that a plan is a PHSP as long as **all or substantially all** (generally, 90% or more) of the premiums paid under the plan are for medical expenses that are eligible for the Medical Expense Tax Credit (METC). These expenses include prescriptions, medical, dental, vision care and hospital expenses.

There must be a document which outlines the coverage for employees under the PHSP. In this document, the organization can set different annual limits for PHSP benefits provided to different employee groups in the company. If there are no limitations to the coverage, the plan will be unlikely to qualify as a PHSP. Companies decide the employee's annual benefit allotment by class, and while there are no regulations on dollar amounts, CRA has indicated that benefits should be reasonable within relation to the individual's remuneration package.

Cost Plus Plans

Cost Plus plans are the most common and straightforward means of implementing a PHSP. It can also be offered as a component of a flexible benefit plan or as a complement to a traditional group insurance plan to be used to offset any expenses that have not been covered under those types of plans. Under the "cost-plus" structure, employees will initially pay for their medical bills, the employee will then make a claim with the insurance company contracted by the employer and be reimbursed.

Section 248(1) of the Income Tax Act defines a PHSP as *(1) a contract of insurance in respect of hospital expenses, medical expenses or any combination of such expenses, or (2) a medical care insurance plan or hospital care insurance plan or any combination of such plans, except provincial and federal government health care insurance plans.*

It is against CRA rules that such a plan is set up for just owners or shareholders, so should be structured to include all senior management employees, which could be just the owner in a corporation with a single employee.

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**.

Health Spending Accounts

Health Spending Accounts (HSAs) are typically partnered with a group benefits plan and provided to a larger group of employees. The group insurance benefits have often been stripped down – for example, no vision care and/or dental, higher than normal deductible, etc. HSAs provide the employee flexibility as to how to use the account, rather than being allocated to a particular expense. The HSA can be used to pay for these routine and predictable expenses.

An HSA is a great tool to supplement a traditional benefits plan and provides flexibility for employees and their families. Employees value choice, and an HSA is a way for employers to offer choice while keeping liabilities fixed for their business. As the employer-paid HSA contributions and the benefits received are all non-taxable in the hands of employees, employers can add an HSA to their benefits program as an optimal form of compensation. The CRA allows an HSA to pay for 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. In addition, health and dental expenses not eligible under the group plan but which meet the Income Tax Act's definition of "health expenses" eligible for the medical expense tax credit are also covered by HSAs.

Note: "employer" refers to the Corporation and in CRA's view, is a totally separate entity from the "active" owner of the company.

Plan advantages

The **'cost'** advantage of these plans is that they are in essence a 'defined contribution' plan, which gives the employer budget control and no uncertainty about premiums. You determine how much you will spend in any given year.

The **'benefit'** advantages of these plans include eligibility (no pre-existing conditions, no age limitations), as well as no limitations that are common in group insurance plans, such as deductibles, co-insurance limits, number of practitioner visits or cost of treatments, etc. CRA's guidelines state eligible expenses that qualify for reimbursement under a Cost Plus plan or HSA are those that qualify under the Medical Expense Tax Credit (METC), which include medical, drugs, vision and dental expenses.

There are also **'tax'** advantages of these plans. Any premiums paid to a PHSP by a company are considered business expenses and 100% deductible against business income. There are no CPP or EI premiums charged on these payments. And all premiums paid, and benefits received are 100% tax free to the recipient, which can be the owner or employees.

How are these plans paid for?

HSAs are 100% paid by employer. Funds are remitted into account for each eligible employee that the employee then uses for reimbursement of eligible expenses. These accounts are set up on a 'use it or lose it' basis as specified in the plan document.

Cost Plus plans can be set up in one of two ways – (1) pay as you go, or (2) pre-funded plan.

Pay-as-You-Go: Your company submits a remittance form along with receipts for services and a company cheque equal to the cost of the service; plus the administration fee and HST/GST. The insurer or trust company (administrator) then sends a tax-free benefit cheque to the employee personally.

Pre-Funded Plan: Your company funds your Cost Plus plan to cover claims as they are submitted. The administrator processes the claims and pays with funds from the plan. This method is efficient in terms of avoiding time delays for processing and issuance of company cheques for proper claim amounts.

Interested in more information on these plans, and what is most appropriate for your business? Contact Marcus Acaster at 604 982 1655.

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