Johnstone's BENEFITS

THE JOURNAL

solid group plans made simple

HEALTH SPENDING ACCOUNTS

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.

Canada Revenue Agency (CRA) considers that a plan is a PHSP if 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).

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 classes 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 CRA does not provide specific regulations on dollar amounts, it has indicated that benefits should be reasonable within relation to the individual's remuneration package and their position at the company. Industry standards have determined that an allotment of 10-15% of the employee's income is considered reasonable. NOTE: this does not necessarily include all take-home income, such as dividend income, but rather based on a reasonable income an employee would be compensated to operate in their specific duty.

Health Spending Accounts

Health Spending Accounts (HSAs) are PHSPs and are typically partnered with a group benefits plan to cover gaps in traditional insurance. Traditional plans often have limits or exclusions – for example, no vision care, maximums on dental, physio, massage, etc.

Incorporated businesses, including shareholder employees and all other corporate employees, are eligible to participate in an HSA. Corporations with as few as one employee can be eligible as well.

In the case of unincorporated businesses or sole proprietors, the owner and their employees are also eligible IF the owner has at least one arm's-length employee.

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.

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**.

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 – as selected by the employee. 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.

Plan Advantages

There are several advantages of Health Spending Accounts (HSAs) including:

- **COST**: these plans 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.
- **FLEXIBILITY**: employees can use their HSA funds to cover a variety of medical expenses beyond their group benefits plan, including expanded 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.
- **TAX**: 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.
- **SIMPLIFIED CLAIMS PROCESS**: many HSA providers have simplified their processes for submitting claims and managing the account.

How are HSAs paid for?

HSAs are 100% paid by the employer. The employer makes an annual contribution, often referred to as credits, to the HSA, which is then used by the employee to pay for eligible expenses. These accounts are set up on a 'use it or lose it' basis as specified in the plan document.

An HSA is meant to be an employee benefit rather than one exclusively for shareholders or owners. Prior to plan set up, the following condition(s) should be met:

1. Must be an active business; cannot be generating passive income.
2. The benefit is available to all employees, including those who are neither a shareholder nor related to a shareholder (regardless of whether they have chosen to participate in the plan); if the HSA is not available to all employees, there is a logical reason to exclude some employees.
3. The benefit is comparable to that offered to non shareholder employees of businesses of a similar size who perform similar responsibilities.
4. Employees who are also shareholders must be collecting T4 income.

HSAs should not exclude non-shareholders or arms length employees unless meeting the outline above. To avoid any issues, it is recommended that employers refer to their tax authority for all plan designs and limitations prior to setup.

CONTACT US

Johnstone's Benefits

Phone: 604 980 6227

Toll Free: 1 800 432 9707

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.