

Go Paperless. Cut Costs and Increase Profits

Health Spending Accounts in Canada

The Internet brings paperless automation and improving margins to HSA Sellers in Canada

Health Spending Accounts (HSAs) are one of many products available to those who advise businesses and individuals how to best manage their financial resources. Yet they are not well understood by many of the financial and health insurance specialists who could be directing their clients to these services. Perhaps it is because health benefits are not normally considered when it comes to financial planning. They should be. For many, health expenditures can be one of the largest annual expenditures. It only makes sense to consider them in light of both overall health spending and prudent financial planning.

The Internet has changed the way of doing business for many industries. Recent innovations in the application of technology has now provided opportunity for those who have, thus far, avoided consideration of HSAs for the clients. This technology simplifies the process of selling, setting up and administering these services. Those who understand the value of HSAs and make use of these technology tools can benefit from greater margins, better service to their clients and less effort. It allows these agents to capture more business at the expense of those who choose not to utilize these same products and technology tools.

Consider how the travel industry has changed, how we now access the media and how we deal with our financial institutions. It is this same technological upheaval that is coming to the Group Benefits industry. For those unfamiliar with the term, Group Benefits refers to health care benefits provided by one group, an employer or association, for its employees/members. It is how many Canadians pay for the many health related expenditures not covered by provincial health plans.



Group Benefits and health care funding options can be confusing to understand and involve many rules and limitations. Nevertheless, they are important to anyone who requires access to health care services – namely, every person in Canada. These services have traditionally been sold by health insurance agents licenced to sell such products. Increasingly, however, they are also being sold through financial agents who understand the tax benefits of these products. For these agents, Health Spending Accounts have become a valued product in their portfolio of service offerings.

Imagine a fully automated system where you, as an agent, have your own web site for promoting these HSAs and for managing your clients. All you require is an office computer with Internet access and a web browser – tools currently at your disposal. Your clients enrol and set up their accounts through your web site. No paper required. Plan acceptance is immediate rather than weeks later. All employer deposits to employee accounts are electronic with full access to management reports. Likewise, employees set up and access their on-line accounts without submitting paper documentation. They can determine fund availability, file claims and access reports using their own personal account accessible from your web site.

Reimbursement claims are filed electronically at the convenience of the employee. They can check their account to determine the status of a claim in process and determine when a reimbursement will be deposited into their bank account. As with most automated systems, these reimbursements occur in days rather than weeks. Elimination of paper and administration costs are a major convenience that result in cost and labour savings for all involved. The agent (you) need not get involved in the administration at any level. Furthermore, you are provided with management reports and electronic communication tools. You can electronically communicate with your clients, share information with them and promote new products for their consideration.

This system is in use today by agents and their clients for the combined purposes of health care management and financial planning.

History of Health Spending Accounts

Health Spending Accounts, or HSAs, date back to 1986 when Finance Minister Paul Martin introduced a new way for incorporated companies to offer health benefits to their employees. A few years later, a similar option was made available to non-incorporated companies. While these accounts have been available in various forms, it is only recently that market forces have made HSAs more enticing. Escalating health care costs and reduced corporate budgets have conspired to encourage businesses to be more efficient in their provision of employee health care benefits. One only has to look toward the United States for an example of



out-of-control health care expenditures. As these businesses look closely at their Group Benefit expenditures, they find HSAs to be an increasingly attractive option.

What is a Health Spending Account

A HSA is, quite simply, a special bank account administered by a third party. Employers deposit funds into the account on behalf of their employees. Employees then have access to these funds for reimbursement of health care expenditures. Similar to Health Savings Accounts in the USA and RRSPs here in Canada, Health Spending Accounts offer advantages to both employer and employee.

Advantages of a Health Spending Account

For the employer providing the Health Spending Account, this is a tax-deductible business expense. It is also a controllable expense in that only the employer can decide to change the value of this benefit. There is no requirement that the amount of benefit be increased on an annual basis nor does the value of this benefit impact on the services available to the employee. By providing these funds monthly, rather than annually, the employer is better able to control costs by discontinuing payments for those who leave the company.

For the employee, a Health Spending Account is a non-taxable company benefit. That is, amounts deposited into the account by their employer are not taxable to the employee. Furthermore, the employee has complete discretion as to how the funds are used. Employers or third parties have no ability set limits on how much money can be spent on specific services. The only limitation is the amount of money available in the account. This is quite different than the traditional insurance-based approach to employee benefits where limits may be set on the amount that is covered in a particular category. It is the employee who makes all decisions as to how these funds are utilized. And since there is no third-party dictating dollar limits for specific services, all expenditure decisions are based on need rather than allowable limits.

The entire health care industry benefits from individuals taking more direct control of their own health care expenditures. Each employee has a known and fixed amount available for their use. It is in their best interest to seek out the most economical services they can so that more money is available for use elsewhere. Health care providers should respond by ensuring their services are being delivered in the most economical way possible.



Health Spending Accounts, much like other options for providing employee health benefits, tends to be labor intensive. Enrolment applications must be completed and filed by the employer and for each employee. Claims submitted for reimbursement require additional documentation including receipts. This adds to the cost burden of all who are involved in the process. As the agent selling and supporting such a service, responsibility for the proper management, problem resolution and associated costs can become your responsibility. Fortunately, paper management, record keeping and associated costs no longer need to be part of this equation.

One might assume that such a system would first be developed in the United States by virtue of its larger population and out of control health care costs. One would be wrong. Canada has taken a lead in cost containment of health care expenditures. This is done by utilizing the Internet to help eliminate administrative costs that have become a necessary part of the management of the health plans that Canadians utilize for covering their individual health care needs.

To learn how PreAxia can help you build your HSA business or to learn more about Health Spending Accounts, visit our web site at www.PreAxia.com for details.

