Building Healthy Connections.

# Health Spending Accounts in Canada

***Tax free health care expenditures means significant savings for many Canadians***

Health Spending Accounts (HSAs) are the government's way of helping us to pay for needed health care expenditures beyond what is covered by provincial health plans.

A HSA is 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. These accounts are available to businesses of all sizes including self-employed individuals.

Similar to RRSPs, Health Spending Accounts are not taxable. These accounts must be used solely for reimbursement of health care expenses. Individuals channelling their health care expenditures through an HSA can save thousands of dollars per year.

Comparing RRSPs with HSAs can be helpful. Both are tax reducing strategies. HSAs, however, offer more immediate benefits. HSAs result in tax savings at the time of expenditure without the future tax burden that comes with an RRSP. In addition, HSAs do not require that funds be set aside for an indefinite period of time. The purpose of an HSA is to help pay for near term health related expenditures.

Health Spending Accounts (HSAs)
vs.
Registered Retirement Savings Plans (RRSPs)

Top Reasons to Consider a HSA First

1. Non-taxable expense/benefit
2. Immediate benefit
3. Excess cash not required
4. Not taxable when withdrawn
5. No spending limits

RRSPS were introduced in 1957 as a way to encourage Canadians to save for retirement. It wasn't until 1991, more than thirty years later, when their use became more widespread as a result of legislative changes. Similarly, HSAs were created in 1986 when Finance Minister Paul Martin introduced a new way for businesses to offer health benefits to their employees. Until recently the use of HSAs has been limited to those larger companies that have the expertise to understand and properly administer these plans. Only now, 25 years later, has technology simplified HSA education and administration to the level that it is now a practical consideration for a wider group of businesses and individuals.

Whereas RRSPs are a tax deferral strategy (that is, taxes are paid on funds at a much later date) HSAs are a tax free benefit. When investing in an RRSP, one must have excess funds to set

aside until retirement at which time these funds are accessible and taxable. An HSA provides a current benefit with no future taxation. It requires a little advance planning to channel funds normally spent on health related expenses during a calendar year through a Health Spending Account. This reduces taxable income, and taxes paid, for the current year. While an RRSP remains important for retirement planning purposes, a Health Spending Account warrants consideration by any self-employed individual in Canada. Furthermore, employers should consider HSAs as part of their employee benefits package. HSAs provide employees with a non-taxable benefit and complete discretion on use of funds while providing the employer with a greater ability to control corporate expenditures on health benefits.

Consider the hypothetical situation of Jerry. Jerry is self-employed (incorporated) and his family consists of a wife and two children. His parents are retired. Jerry takes medication for high cholesterol and high blood pressure. He hurt his back a few years ago and requires the services of a chiropractor. His wife requires thyroid medication. Their combined out of pocket health expenses of $5,000 per year are for items and services not covered by their provincial health plan. These items include dental expenses, prescription glasses and contact lenses for three of the four family members, medical lab fees plus other miscellaneous items. Jerry's parents are on a fixed income as are those of his wife. Both sets of parents rely on Jerry and his wife to help out with their medical expenses which include various prescriptions, assistive devices and services that total about $11,000 per year.

Health Spending Accounts (HSAs)
vs.
Private Health Care Insurance

Top Reasons to Consider a HSA First

1. Non-taxable expense/benefit
2. Covers more services
3. Dependents more broadly defined
4. No dollar limits for specific products/services

This brings Jerry's out of pocket health care expenditures to about $16,000 per year.

As Jerry and his family age they anticipate that these expenses could increase by 25% or more in the next five years.

Despite having a relatively successful business, Jerry struggles to pay these health care expenses along with all the other costs of home ownership and family.

Jerry has an Average Tax Rate of about 28%.

Jerry could set up a Health Spending Account to cover the above expenses for him and his family. He could save approximately $5,000 a year in the current year and more in future years.

A similar scenario plays out with larger companies that want to provide their employees with competitive health benefits.  A Health Spending Account offers additional benefits to these businesses.  It 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.

Health Spending Accounts (HSAs)

Who Benefits the Most?

1. Self-employed individuals
2. Employers
3. Employees receiving employer benefits

For employees, 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.  There are no 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 different than the traditional insurance based approach where limits may be imposed on the amount covered for some services.  The employee makes all decisions as to how these funds are utilized.

Technology plays an important role in the growth of Health Spending Accounts.  Similar to how the Internet has transformed how we manage our banking, HSAs can now be managed through your personal computer.  Funds can be deposited directly to your HSA account via credit card or from your bank account.  Claims can be filed online with receipts submitted electronically.  And there is a variety of reports providing access to claims and payments history, deposits, balances and more.

Over the past 20+ years Canada has put in place the infrastructure and tax incentives to support its model for health insurance coverage.  With utilization of the Internet to provide education, control and administration tools for Health Spending Accounts, Canada is in a position to deal with the pending cost containment of health care expenditures.  This is partially done by utilizing the Internet to help reduce administrative costs that have become a part of the management of services that Canadians utilize for covering their individual health care needs.

For more information on Health Spending Accounts, visit [www.PreAxia.com](http://www.PreAxia.com).