

# What's New at DCM Consulting

## Health Spending Accounts can help Canadians stretch their health-care dollars

Thu Feb 4, 3:08 PM By Malcolm Morrison, The Canadian Press

TORONTO - The health spending account may be one of the best-kept secrets when it comes to tax-free breaks. These accounts were first introduced in 1986 by Canada Revenue Agency, aimed at both the self-employed and employees at companies. Essentially, they are like a special savings account where a capped amount of money is deposited to be used exclusively for health issues, everything from dental expenses to eyeglasses, and is a non-taxable benefit for the employee.

Employer contributions to an HSA do not constitute a taxable benefit and all claims paid are tax-free benefits (except for Quebec residents). The HSA can help self-employed Canadians deal with health costs and assist companies in focusing their health-care spending on their workers.

"We think it's of tremendous value for people to be putting money aside for their own health-care needs and wants," said Marla Schwartz, co-president of Benecaid, an employee benefits provider that specializes in health spending accounts.

"Basically, what you're doing is you're taking your out-of-pocket, after-tax expenses and converting them into pre-tax expenses."

Let's say you've quit a job where you had a generous health benefits package, including dental and eye care. You can't take advantage of your previous group benefits plan but you can arrange to have money deducted from your earnings on a pre-tax basis.

But you must use a third-party to administer the benefit, like Benecaid, in order to take advantage of the tax-free status.

This is not an insurance plan - you still have to pay the dentist for your filling, but the money comes from pre-tax dollars.

And there are caps on contributions. "It's \$1,500 per adult covered by the plan in contribution per calendar year and \$750 per dependent child under the age of 18," said Schwartz.

The contributions can be used for a wide variety of medical issues, including such things as routine dental expenses, eye exams, glasses and dental bridgework. The money can also be used for things that aren't typically covered in traditional health benefit plans, such as dental implants.

"Predominantly people use it as their form of self-directed health benefit plan," said Schwartz.

And just because you're working for yourself and no longer part of a group plan, you can take the money in your account and use it to buy insurance.

"Just because you're using it for a self-directed benefit plan doesn't mean that you shouldn't take precautions and protect yourself and your family against any unforeseen and or catastrophic risks," she said.

"So you may buy insurance to provide that protection and pay for it through the plan."

There is already a mechanism in place for Canadian taxpayers to get a tax credit for medical expenses called the Medical Expense Tax Credit. Only expenses in excess of the lesser of \$2,011 or three per cent of net income can be claimed. The lowest tax rate is applied to the medical expenses to determine the amount of the tax credit.

But Schwartz argues it can be more effective to use your Health Spending Account.

"Let's say whether you're incorporated or unincorporated, you put \$3,000 into the health spending account for 2010. If you have a \$1,000 medical bill, you would try and deduct the \$1,000 medical bill from your tax return - but you would not meet the minimum threshold for the medical tax credit... so there's no benefit to you."

Schwartz says Benecaid also has many companies as clients who want to offer a more personalized level of employee health benefits. In other words, instead of paying a flat premium to an insurance company for a set menu of benefits, a company pays in money to individual HSA accounts.

That means that an employee who has perfect eyesight and doesn't need a vision-care option could instead opt to pay for a smoking cessation program.

"It's called consumer-driven health care," she said. "Premiums are driven by claims. In this case, you have budget certainty. You know exactly what your health plan is going to cost you as an employer."