

Health Care Spending Accounts: Simple, Flexible and Affordable

By Scott Beckett, BSc., MBA

A Health Care Spending Account is a simple, flexible and affordable tool that allows a business to reimburse employees for certain health care expenses. These accounts are tax efficient for both the business owner and the employee. A Health Care Spending Account is a wonderful way to compensate team members and an important step toward happy, healthy and productive employees.

How do they work?

An employer decides who will receive an account and the level of reimbursement, making this employee benefit very flexible. For example, if you have three employees (including yourself), each employee could be entitled to reimbursement for, say, \$500 of qualified health care expenditures. A qualified health care expenditure is generally an out of pocket expense that is medically necessary and provided by a certified medical practitioner (think doctor, dentist, registered physiotherapist, optometrist, etc.).

Signing up and administering these accounts is simple. As a starting point “Google” Health Care Spending Accounts, find a reputable supplier and enroll online (see www.beniplus.com). Most Health Care Spending Account websites have simple enrollment and minutes later, you will have a functioning Health Care Spending Account Platform. You will have to appoint an administrator and provide banking information. Each employee would then receive a welcome email and would be reimbursed for qualified medical expenses, up to the maximum allowable.

How much does it cost?

Health Care Spending Accounts are much more affordable than you think. It is the business owner who controls the total cost. Using our example above, where each employee receives \$500 of potential reimbursement: $\$500 \times 3 \text{ employees} = \$1,500$. Generally, administration costs are a maximum of 10% or up to \$150. This varies by provider. Some providers also charge a set-up fee. Generally, this is nominal and reasonable.

Total cost in our example = $\$1,500 + \$150 = \$1,650$ plus provincial taxes, which vary by province. Modern Health Care Spending Account platforms do not require a float or “money on account”. The plan administrator receives notification of when a claim has been submitted and the account is then topped-up with enough money to pay the claim and cover the administrative cost and taxes.

What would my accountant tell me?

If you own the business, your accountant will tell you that the reimbursement, any fees and taxes are a deductible business expense. For owners, any amount reimbursed for their own personal medical expenses, like dental cost, prescription drugs, etc., is not part of their taxable income. In other words, this is rare business expense that is both deductible to the business and not considered taxable income to someone

who is both an owner and employee. Your accountant would also tell you the reimbursements are not added to your employees' taxable income. So, your employees need to know this is a great benefit and extremely tax efficient form of compensation.

What can go wrong?

Most people have a reasonable level of caution regarding new ideas and often wonder what can go wrong? Rather than have you guess, here are some common examples of things that we see go wrong:

1. Abuse by owners who try to put large expenses through the account by their ownership versus employment status. This turns your Health Care Spending Account into a shareholder benefit versus an employee benefit. The expense is no longer deductible, and the reimbursement is now considered taxable income.
2. Only expenses incurred after the account is established can be reimbursed. Old expenses that pre-date the Health Care Spending Account are not eligible. Only medical expenses can be reimbursed. The Canada Revenue Agency provides a comprehensive list on their website. Once again: medically necessary, out of pocket, provided by a certified medical practitioner licensed within the scope of their expertise.

Beyond the above, this is a low risk, simple, flexible and affordable business tool that allows business owners to provide a wonderful tax efficient form of compensation that will be appreciated by employees. ***A Health Care Spending Account is a great way to compensate team members and an important step toward happy, healthy and productive employees.***

About Scott Beckett

Scott Beckett is an insurance marketing specialist with 32 years of experience in many unique and varied aspects of the insurance industry. Scott holds an MBA (1997) from the Richard Ivey School of Business and a Bachelor of Science (1984) in Statistics and Actuarial Science from the University of Western Ontario. Scott is a member of the Conference for Advanced Life Underwriting (CALU) Scott is also a member of the Financial Advisors Association of Canada (Advocis). He is a frequent author on the subject of Benefits, Executive Benefits and Executive Compensation and a frequent guest speaker at industry schools, continuing education events and meetings. Scott is a founding partner in Kearns Edgewater Financial Services Inc. (KEFSI) a "bespoke" insurance marketing firm in downtown Toronto specializing in employee and executive benefits and sophisticated planning for successful Canadians. Scott is also a co-founder and co-owner of BeniPlus Inc.