



BeniPlus

Benefits Made Better 



Flexible Spending Accounts

What They Are & Why They're Essential for
Small Business Benefits Programs

Executive Summary

Small business is the engine that drives the Canadian economy. What large and small employers have in common is simple: human resources—people—will always be their greatest asset. Studies show that happier employees are more productive which also benefits the bottom line.

In a tight job market (and BDC Canada does not expect labour shortages to get better for at least a decade), competing for top talent is tough, especially for small businesses that don't provide employee benefits. Historically, small businesses have been less likely to offer employee benefits, but because small businesses compete with large companies for top talent, more small businesses are thinking of benefits as a recruitment and retention tool.

However, small businesses often find traditional benefits cost-prohibitive. A 2015 survey by the [Conference Board of Canada](#) found that, on average, benefits cost \$8,330 per full-time equivalent. Even a more modest traditional benefits plan costs \$300 to \$500 per month per employee (\$3,600 to \$6,000 per year).

Because of these prohibitive costs, small businesses are increasingly turning towards more affordable benefits plans based on the flexible spending account model.

Flexible spending accounts provide small business owners with a cost-effective way to offer competitive benefits packages and improve employee retention and recruitment outcomes. Flexible spending accounts allow small businesses to offer benefits for as little as \$100 to \$200 per month per employee (\$1,200 to \$2,400 per year).

In this white paper, we'll look at what a flexible spending account is, what can be included in one and why small businesses are using flexible spending accounts to bring benefits to their employees (including owner-employees).

What is a flexible spending account & what can employees use it for?

A flexible spending account is a benefits account that allows small businesses to offer simple, flexible and affordable benefits to their employees.

Components of a flexible spending account



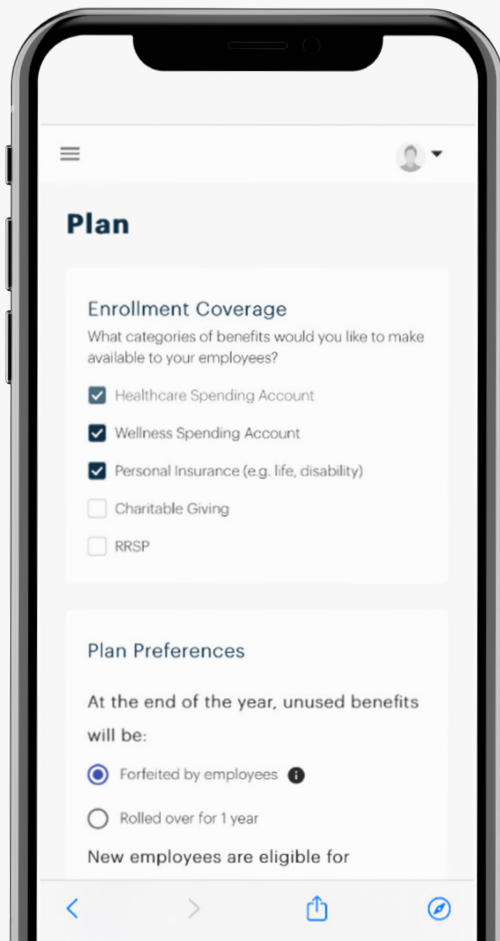
A healthcare spending account (HSA)

The HSA is a benefits account that lets employees claim out-of-pocket medical expenses such as prescription drugs, dental work, vision care, glasses, hospital bills and paramedical services, including chiropractic, registered massage therapy, etc. The Canada Revenue Agency provides a list of eligible benefits that can be claimed in a healthcare spending account. For a list of eligible expenses, [visit here](#).



A wellness spending account (WSA)

The WSA is for non-medical, wellness expenses. This can include gym memberships, fitness equipment, sports fees or lessons, insurance and care for children, elders and pets.



Other flexible spending account options for employers and employees

Small businesses can offer employees more ways to use their benefits by providing options like these:

Registered retirement savings plan (RRSP)

If your company includes this option, employees can invest some of their benefit dollars and prepare for the future by contributing to their RRSP.

Personal insurance

With this option in your flexible spending account, employees can purchase personal insurance for themselves and their families. This can include life insurance, long-term disability insurance, critical illness, travel and even traditional health and dental plans.

Charitable giving

This option allows employees to allocate some of their benefit dollars to charity. For example, at BeniPlus, our charitable giving partner is CanadaHelps and through this collaboration, employees can donate to more than 18,000 registered Canadian charities.

Why small businesses are turning to benefits programs with flexible spending accounts

Small business owners are increasingly offering employee benefits plans based on flexible spending accounts. Now that we've talked about what you can do with a flexible spending account, let's look at the main reasons small businesses are saying yes to benefits and flexible spending accounts.

Three reasons small business owners provide employee benefits with flexible spending accounts:

1. They want to boost their employee recruitment and retention efforts.
2. There's finally an affordable alternative to traditional benefits.
3. Benefits expenses come with tax advantages for employers and employees.

Now, let's look at each of these reasons in more detail.

Benefits & flexible spending accounts

How they boost recruitment and retention efforts

In a 2018 report called, **Labour Shortage: Here to Stay**, the Business Development Bank of Canada (BDC) said, "We do not expect labour shortages to get better for at least a decade." This same report indicates that 39% of small and medium sized businesses have a hard time finding and hiring employees already.

The Canadian Federation of Independent Business (CFIB) agrees about the Canadian labour shortage and indicates that the **smaller the business, the higher the vacancy rate.**

Small business owners aren't only competing with other small businesses for top talent. Small businesses compete for top talent with businesses of all sizes and budgets, including global companies, cool tech start-ups and everything in between.

Offering employee benefits helps with recruitment and retention efforts because, for jobseekers and employees, benefits are no longer a nice-to-have; **they're essential.**

60%

of employees—and

51%

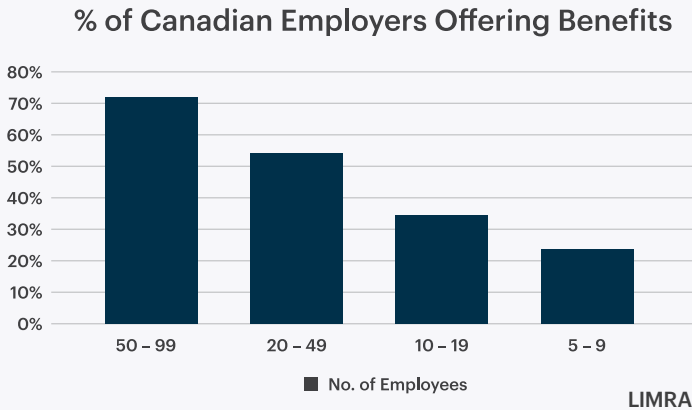
of employees under financial stress—would take a lower-paying job if it offered better support for personal well-being than their current job. This includes benefits that support physical and mental health.

Morneau Shepell

51%

of employers believe health and wellness benefits will be more important for employee retention in the next three to five years.

2018 Employee Benefit Trends Study (MetLife)



Talented people go where they're made to feel welcome. And they stay where they're treated well.

Plus, providing benefits helps you stand out against other small and medium-sized businesses. According to a 2011 LIMRA report, the smaller the business, the less likely they are to offer benefits. While times have changed since 2011, they haven't changed dramatically which means you can differentiate your small business from the rest by offering employee benefits.

Benefits & flexible spending accounts

There's finally an affordable alternative to traditional benefits

Historically, small business owners didn't provide employee benefits because they were too rigid, expensive and complicated to manage; not only that, many of these options simply weren't available to small businesses, even if they wanted them.

And while traditional benefits plans are becoming increasingly available to small and mid-sized companies, they're still expensive.

Traditional benefits are often structured medical and dental plans that businesses pay for through fixed and regular monthly premiums. A 2015 survey by the **Conference Board of Canada** found that, on average, traditional benefits cost \$8,330 per full-time equivalent. More modest traditional benefits plans still cost \$300 to \$500 per month per employee (\$3,600 to \$6,000 per year).

That's where flexible spending accounts come in; now small business owners can opt out of traditional plans and opt into plans that work for the business, the employees and the budget. Flexible spending accounts allow small businesses to offer benefits for as little as \$100 to \$200 per month per employee (\$1,200 to \$2,400 per year).

\$8,330

On average, traditional benefits cost \$8,330 per full-time equivalent.

Conference Board of Canada

\$1,200 to \$2,400

Flexible spending accounts allow small businesses to offer benefits for as little as \$1,200 to \$2,400 per year per employee.

Tax advantages: employers & employees

Providing benefits gives small businesses tax advantages. According to the CRA, eligible contributions a small business makes to its employee benefits program are tax deductible for the company. Plus, business owners who work in the business can pay for medical expenses through the company; doing this means using pre-tax dollars instead of after-tax dollars, which results in significant savings. These tax efficiencies represent a long term, sustainable competitive advantage; the less money withdrawn from the business to pay for benefits, the more is left to reinvest in the business.



Case Study 1

Make raises go further with benefits

An Ontario business owner wants to give a high-performing employee a 5% raise on her \$75,000 salary, which equals \$3,750.

Option 1

Give the 5% raise in cash	5% raise	= \$3,750
	After taxes	= \$2,582
	Total after-tax value of the raise	= \$2,582

Option 2

Give 2.5% of the raise in cash and put 2.5% into the employee's healthcare spending account (HSA)	2.5% raise	= \$1,875
	After taxes	= \$1,298
	+ 2.5% for the HSA	= \$1,875
	Total after-tax value of the raise	= \$3,173
		\$1,298 + \$1,875

↑ **23%**

Assuming the money in the HSA is used fully by the employee, the 5% raise is worth **\$3,173 after tax versus \$2,582**. That's because half the raise is received tax free via the HSA. This increases the employee's after-tax spending power by almost 23%.



Case Study 2

Tax savings for business owners who also work in the business

A business owner who also works in the business has a \$1,000 medical expense.

Option 1

Pay with after-tax dollars

If this business owner who works in the business pays out-of-pocket for this medical expense, the business would need to pay him a salary of \$1,428.57 to cover that expense.

Medical expense	= \$1,000
Taxes	= \$428.57*
Total cost for the business	= \$1,428.57

Option 2

Use a healthcare spending account (HSA)

If this same business owner had a healthcare spending account with BeniPlus, for example, the business would spend less on taxes.

Medical expense	= \$1,000
HSA administration fee	= \$75
Total cost for the business	= \$1,075
Total savings for the business with an HSA	= \$353.57 \$1,428.57 - \$1,075

\$1,000
non-taxable income

And because it's a medical expense, that **\$1,000 is non-taxable income** for the business owner—a double win. And, the higher the tax rate, the greater the savings.



Conclusion

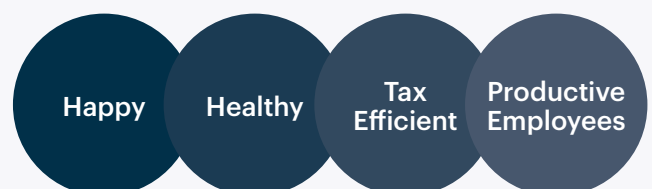
A flexible spending account is an essential element of affordable benefits programs. It's worth exploring how flexible spending accounts help small businesses, their employees and owners who work in the business.

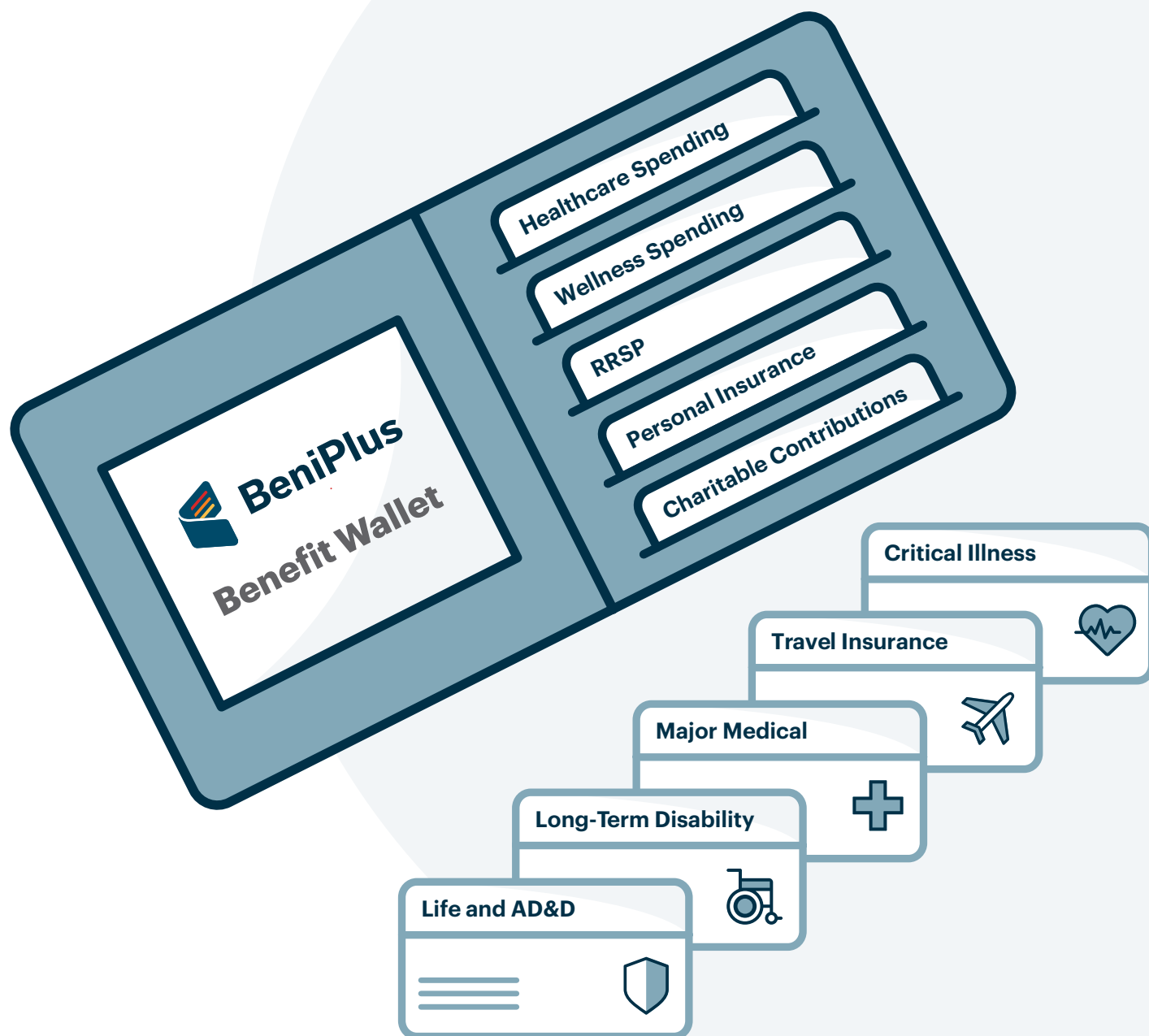
With a Flexible Spending Account

Employee Benefits



Owner Benefits





About BeniPlus

BeniPlus specializes in providing simple, flexible and affordable group benefits to small business owners. Our Benefit Wallet is a flexible spending account; benefits can include health and dental, wellness, savings, giving and personal insurance.

Take 10 minutes today to get a quote for our simple, flexible and affordable employee benefits program that can help your business stand out to top talent and save on taxes.