
About Health Care Spending Accounts

The Operation of a Health Care Spending Account

Three decisions need to be made about the administration and funding of a Health Care Spending Account for any company:

1. Philosophy

Does the company want to provide different benefits for management and executives when compared to all other employees, or should these employee groups receive the same benefits coverage?

For example, Executives could receive \$1,500 per year, Management \$700 per year, and all other employees \$450 per year. Health Care Spending Account levels can also be structured according to seniority. Alternatively, HCSA's can be used to supplement core benefit plan coverage. This will be key to the structure of a benefits plan going forward.

2. Carry Forward

There are three types of Health Care Spending Account accounts, designed according to the type of carry forward allowed under the plan. The selection is as follows:

a) Balance Carry Forward: This method allows the employees to roll over any accumulated credits in year one to year two. However, any remaining balance would revert to the employer if it had not been spent by the end of the second year.

b) Expense Carry Forward: Under this method, credits can only be used within each calendar year (January to December). Any remaining balance would revert to the employer at the end of the year. However, expenses from year one could be carried forward and claimed against the credits in year two.

c) No Carry Forward: Under this method, employees can only claim expenses against employer credits within that year.

■ **We recommend the Balance Carry Forward method (a).** This type of plan is easy for employees to understand. Balances can be communicated to the employees directly.

3. Funding

The employer's pre-determined contribution amount can be allocated to fund an employee's Health Spending Account in three different time periods as follows:

A. Monthly: The employer will pay an equal amount each month.

B. Pay-as-you-go: The employer will pay an amount equal to the total of the claim and expenses each month.

C. Annually: The employer will contribute a lump sum to all Health Spending Accounts on a specified date once per calendar year. Budgeting will determine the choice of funding for the company. We recommend either option A or option C in order to simplify the claims process.

About Health Care Spending Accounts

Taxability Status of Health Care Spending Account

- ✿ Certain criteria must be met for a Health Care Spending Account (HCSA) to be considered a tax deductible business expense, the same as a traditional benefits plan.
- ✿ Health Care Spending Accounts must be 100% funded through employer contributions set prior to the benefit year (i.e. a set amount per person per year).
- ✿ HCSA funds cannot be used to purchase additional insurance (i.e. Life Insurance, Long Term Disability).
- ✿ The amount of reimbursement is limited to the amount allocated to the account by the employer.
- ✿ Benefits must meet Income Tax definitions of eligible expenses (please refer to the list provided in Appendix A).
- ✿ Unused amounts in the HCSA cannot be paid out at year end as cash to the employee.

Advantages and Disadvantages of HCSA

Advantages

The greatest advantage of a Health Care Spending Account (HCSA) is it provides coverage to enable employees to specifically meet their needs over and above a basic insurance plan for catastrophic coverage. Each individual (and their dependents) can claim what they want within Income Tax Act guidelines.

This means that employees can claim excess vision care expenses; massage therapy as frequently as desired; orthodontic expenses for an adult; and other personal choices up to a predetermined annual maximum (for example \$500 per person). Employees are generally very satisfied with this level of choice.

Another advantage of an HCSA is that a set amount is provided for each employee each year, and therefore the employer can budget for that cost level. There are no annual renewal increases. If the employer chooses to increase the HCSA amount in a subsequent year, they may do so at their discretion, and in an amount appropriate to their overall financial status and budgeting process. However, the employer may choose not to change the HCSA amounts.

If a Health Care Spending Account is established instead of a conventional Health Care and Dental Care plan, this provides complete control over health care and dental care claim costs each year, because the employees can only claim up to their individual HCSA maximums.

Disadvantages

There are several disadvantages to an HCSA to be considered. There is a level of employee awareness of the total amount available in the HCSA. This awareness may increase utilization compared to a fully insured plan, as employees tend to try to "use up" the credits or "bank balance" available to them.

About Health Care Spending Accounts

Disadvantages, *continued*

A selection factor can also result in increased costs. Employees do not use all aspects of a traditional fully insured benefits plan equally because each individual's needs differ. An HCSA allows employees to spend their credits on their particular needs. This can result in greater utilization of the plan as a whole, which would drive costs up. In addition to possible cost increases overall, the HCSA has the disadvantage of requiring **100% employer contributions** dictated by taxation guidelines whereas premiums in a conventional plan may be split between the employer and employee.

Guidelines For Claim Expenses Eligibility subject to change by the Canada Revenue Agency

Whose Claims Are Considered Eligible?

You may submit claims for eligible expenses which are incurred by an employee, their spouse, or any other dependent for whom the employee is claiming a tax deduction in the taxation year the expense was incurred.

What Expenses Are Considered Eligible?

Eligible expenses include:

- ✿ Unpaid portions of expenses from regular health and dental plans such as deductibles, coinsurance amounts and amounts which exceed plan maximums;
- ✿ Expenses **not** covered under any other benefit plan (group, provincial, or private);
- ✿ Expenses listed as eligible medical expenses in the Income Tax Act, its regulations and
- ✿ Interpretation Bulletins (see following list). This list is subject to change as the Act is amended.

Eligible Expenses under the Income Tax Act

Medical Practitioners (if registered in the province where the expenses occurred)

- ✿ Chiropractors or Podiatrists
- ✿ Chiropractors
- ✿ Christian Science Nurses
- ✿ Christian Science Practitioners
- ✿ Dentists
- ✿ Massage Therapists
- ✿ Medical Doctors
- ✿ Naturopaths
- ✿ Nurses
- ✿ Occupational Therapists
- ✿ Optometrists, Oculists, or Ophthalmologists
- ✿ Osteopaths
- ✿ Physiotherapists
- ✿ Psychologists
- ✿ Speech Therapists
- ✿ Therapists or Therapeutists

About Health Care Spending Accounts

Eligible Expenses under the Income Tax Act, continued

Care and Facilities

- ✿ Expenses of a full-time attendant, or of full-time care in a nursing home, for an individual who has a severe and prolonged mental or physical impairment. The condition must be certified by a medical doctor or optometrist, where applicable.
- ✿ Expenses of a full-time attendant, if an individual lives in a self-contained domestic establishment (e.g., the individual's home), provided a doctor certifies that the individual is likely to be dependent others for personal needs and care for an indefinite period because of a mental or physical infirmity.
- ✿ Expenses of full-time care in a nursing home for an individual who, due to a lack of normal mental capacity, is and will continue to be dependent upon others for personal needs and care. The certification of a doctor is required to support the need for this care.
- ✿ Expenses for the care and/or training at a school, institution or other place (e.g., nursing home) when an individual has been certified to be someone who, because of a physical or mental impairment, requires the equipment, facilities or personnel provided by such place.
- ✿ An appropriately qualified person must certify that the individual's condition requires such care.
- ✿ Expenses of a public or licensed private hospital, including hospitals outside Canada.

Assistance Devices, Supplies, and Equipment

- ✿ Eyeglasses or other devices for the treatment or correction of a defect in vision
- ✿ Artificial eyes and limbs
- ✿ Crutches
- ✿ Wheelchairs
- ✿ Walkers
- ✿ Spinal brace/support
- ✿ Brace for a limb
- ✿ Iron lung/portable chest respirator
- ✿ Rocking bed for poliomyelitis victims
- ✿ Ileostomy or colostomy pads
- ✿ Cloth diapers, disposable briefs, catheters, catheter trays, tubing or other products required by an individual who is incontinent by reason of illness, injury, or infliction
- ✿ Truss for a hernia
- ✿ Artificial kidney machine
- ✿ Laryngeal speaking aid
- ✿ Aids to hearing
- ✿ Device or equipment, including replacement parts, designed exclusively for use by an individual suffering from a severe chronic respiratory ailment or a severe chronic immune system disregulation, but not including an air conditioner, humidifier, dehumidifier, or air cleaner

About Health Care Spending Accounts

Assistance Devices, Supplies, and Equipment (continued)

- ✿ Air or water filter or purifier for use by an individual who is suffering from a severe chronic respiratory ailment, or a severe chronic immune system disregulation, to cope with or overcome the ailments disregulation
- ✿ Electric or sealed combustion furnace acquired to replace a furnace which is neither, where the replacement is necessary solely because of a severe chronic respiratory ailment or a severe chronic immune system disregulation
- ✿ Device or equipment designed to pace or monitor the heart of an individual who suffers from heart disease
- ✿ Device that is designed to assist an individual with mobility impairment in walking Device designed exclusively to enable an individual with a mobility impairment to operate a motor vehicle
- ✿ Power-operated guided chair installation that is designed to be used solely in a stairway
- ✿ Mechanical device or equipment designed to assist an individual to enter or leave a bathtub
- ✿ or shower or to get on or off a toilet
- ✿ Power-operated lift designed exclusively for use by a disabled individual to allow access to different areas of a building or to assist the individual to gain access to a vehicle or to place the individual's wheelchair in or on a vehicle
- ✿ Electronic or computerized environmental control system designed exclusively for the use of an individual with a severe and prolonged mobility restriction
- ✿ External breast prosthesis that is required because of a mastectomy
- ✿ Hospital beds, including any necessary attachments prescribed for an individual
- ✿ Oxygen tent or equipment necessary to administer the oxygen (includes the oxygen)
- ✿ Custom made wig for an individual who has suffered abnormal hair loss as a result of disease, medical treatment or an accident
- ✿ Device designed to be attached to an infant diagnosed as being prone to Sudden Infant
- ✿ Death Syndrome in order to sound an alarm if the infant ceases to breathe
- ✿ Extremity pump or elastic support hose designed exclusively to relieve swelling caused by chronic lymphedema
- ✿ Inductive coupling osteogenesis stimulator for treating non-union of a fracture or aiding in bone fusion
- ✿ Infusion pump, including disposable peripherals, used in the treatment of diabetes, or a device designed to enable a diabetic to measure blood sugar levels
- ✿ Needles and syringes for injections
- ✿ Orthopaedic shoe or boot, or an insert for a shoe or boot, custom made for an individual in
- ✿ accordance with a prescription to overcome a disability
- ✿ Device or equipment, including a synthetic speech system, Braille printer and large printon-screen device, designed exclusively to be used by a blind individual in the operation of a computer
- ✿ Optical scanner or similar device designed to enable a blind individual to read print
- ✿ Device to decode special television signals to permit the vocal portion of the signal to be visually displayed
- ✿ A visual or vibratory signaling device, including a visual firm alarm indictor, for an individual who has a hearing impairment
- ✿ Electronic speech synthesizer that enables a mute individual to communicate by using a portable keyboard

About Health Care Spending Accounts

Eligible Expenses under the Income Tax Act, continued

Drugs

- ✿ Insulin
- ✿ Vitamin B12 and liver extract indictable for pernicious anaemia
- ✿ Drugs, medications or other preparations or substances prescribed by a medical practitioner or dentist and recorded by a pharmacist

Transportation, Meals, and Accommodation

- ✿ Expenses for transportation by ambulance to or from a public or licensed private hospital
- ✿ Transportation expenses paid to an individual who is in the business of providing transportation services to transport the patient and one additional person (if medically necessary, as certified by a medical practitioner) provided:
 - Substantially equivalent medical services are not available locally
 - The route taken is reasonable direct
 - The medical treatment sought is reasonable and the distance traveled is at least 40 kilometres
- ✿ If hired transportation is not readily available, reasonable expenses for private transportation will be eligible.
- ✿ Reasonable expenses for meals and accommodation for a patient and, if medically required, an accompanying person, provided the conditions for transportation expenses (specified above) are satisfied and the distance traveled is at least 80 kilometres

Dental Care

- ✿ Preventive, diagnostic, restorative, orthodontic, and therapeutic care
- ✿ Making or repairing of dentures by a licensed dental mechanic

Other Expenses

- ✿ Diagnostic, laboratory, and radiological procedures or services for maintaining health and preventing disease, or assisting in the diagnosis or treatment of an injury, illness or disability of an individual, when prescribed by a doctor or dentist
- ✿ Acupuncture treatment when performed by a qualified medical doctor
- ✿ Reasonable expenses for rehabilitative therapy, including training in lip reading and sign language, incurred to adjust for an individual's loss of hearing or speech
- ✿ Reasonable expenses for modifications to a home for an individual who lacks normal physical development, or who has severe and prolonged mobility impairment, so as to enable the individual to gain access and move around the home
- ✿ On behalf of an individual who requires a bone marrow or organ transplant: Reasonable expenses to locate a compatible donor and arrange for the transplant / Reasonable traveling, board and lodging expenses of the donor and the individual with respect to the transplant
- ✿ The cost of acquisition, care and maintenance (including food and veterinarian care) of an animal if the animal is specifically trained to assist an individual who is blind, profoundly deaf or has a severe and prolonged impairment that markedly restricts the use of the arms or legs. In addition, reasonable traveling, board, and lodging expenses incurred while in fulltime attendance at a facility that trains individuals in the handling of such animals are eligible.