Health Spending Account

MDM Insurance Services Inc.

What is a Health Spending Account?

A Health Spending Account (HSA) provides reimbursement for medical and dental expenses that qualify under the Income Tax Act, and that are not covered elsewhere.

An HSA works essentially like a bank account. A credit amount is allocated to each employee. The employees use the credited amount to cover an extensive range of medical and dental costs incurred for themselves or their dependents.

How is an HSA tax-effective?

To offer benefits in a tax-effective manner, an HSA must be funded solely by employer contributions, and it must comply with regulations set out by the Canada Revenue Agency (CRA).

An HSA funded by employee payroll deductions is no longer tax-effective, since the credits must be subtracted from an employee's pay after tax has been deducted. This means that if an employee wants to put $500 in their HSA, it will cost them $714 in gross salary, assuming a 30% tax bracket.

HSA credits fully funded by the employer use pre-tax dollars. As no income tax is paid on these dollars, the purchasing power of a $500 HSA is actually $500.

Advantages of an HSA

Employee	Employer
• Credit amounts are non-taxable (except in Quebec). • Covers a broad scope of health and dental services. • Gives the employee more control to spend their credits on what they need. • Offers an expanded definition of dependent.	• Employer paid credits are tax-deductible. • Effective cost containment strategy as benefit spending is limited to a defined contribution amount. • Can be coordinated with the group plan, or offered on a stand alone basis.

CRA Requirements

The basic specifications set out by CRA for the structure of an HSA are as follows:

- The amount of credits allocated to an employee's HSA must be elected once annually, and can only be changed due to a change in the employee's family status.

- HSA credits must be used to reimburse expenses incurred during the plan year. If there are unused credits at the end of the year, CRA states that they can be dealt with in the following two ways:

  - use-it-or-lose-it feature
    - any remaining amount in the account at the plan year-end is forfeited and returned to the employer; or

  - carry-over feature
    - either unused credits are rolled over for the following 12 months, or the unclaimed expenses can be carried forward to the following 12 months.

HSA Program at MDM

MDM offers a flexible Health Spending Account Program that can be designed according to your requirements.

Our administration team will ensure that claims are properly adjudicated, and your Health Spending Account Program complies with CRA regulations.

Benefit from our *Ability!*

Contact us for further information on our Health Spending Account Program.

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