

A stylized globe graphic on the left side of the page, composed of overlapping green and white curved segments that form a grid pattern. The globe is positioned on the left side of the page, partially overlapping the dark grey background.

The Beginner's Guide to Health Spending Accounts



Protect you and your family
Write off your medical expenses
Control your costs





Optimal Healthcare and "Life" Benefits

Olympia's All-in-one Benefits Program



HEALTH SPENDING ACCOUNTS

Optimize your Health Benefits and make claims online



TRAVEL MEDICAL INSURANCE

Protect yourself and your family on your next vacation



EMERGENCY MEDICAL INSURANCE

Prepare for life's unexpected emergencies

VIDEO OVERVIEW

Introduction

Paying for medical expenses should be affordable and easy

- **M. Galloway** *Canadian small business owner*

Small business owners across Canada, especially the one and two person companies, are looking for health insurance alternatives. Many have tried traditional insurance plans and find they don't fit their family's needs. Frustrated by the expensive insurance plans with poor coverage, many small business owners have decided to opt for no insurance plan and pay for their expenses out of pocket. Paying for medical expenses out of pocket or through an insurance plan is not very appealing or cost effective.

One ray of light in the small business owner's search for medical insurance is the Health Spending Account. This product is a viable alternative that many small business owners have adopted as their choice for paying their medical bills.

In this Beginner's Guide, we will explain the Health Spending Account, who qualifies for the product, how it works to save you money, the expenses you can claim, and how you actually use the product by making a claim.

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- 2 Do I qualify?
- 3 What kind of expenses can I claim?
- 4 How does a claim work?
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A Health Spending Account (HSA) is a product available to small business owners in Canada that combines elements of medical insurance and tax planning.

Also known as a Private Health Services Plan (PHSP), Health Spending Accounts were first introduced in 1989 by the Canada Revenue Agency as an alternative to traditional insurance plans for Canada's small business community.

At the core, the product **creates value for a business owner by turning *personal, out of pocket, after tax* medical expenses into a *legitimate business expense***. In the same way that rent is deducted as a cost of business, with a HSA, all personal and family medical expenses can be paid for through your business. This action reduces your cost of medical expenses and offers an effective mechanism to reduce the amount of tax you pay.

*What is a
Health
Spending Account?*



You are a very good candidate for a Health Spending Account if you answer **YES** to the following questions:

01

I operate a business

02

I have medical expenses

03

I pay income tax

Do I qualify?



There is a wide and deep range of eligible expenses for a Health Spending Account. Here is a highlight of these expenses:

- All prescription drugs
- All dental - includes orthodontics
- All optical - includes laser eye surgery
- Paramedical - includes chiropractor, massage, physio, orthotics
- Premiums - health and dental premiums paid through spousal plan
- Other Expenses - MRI, tuition for special needs

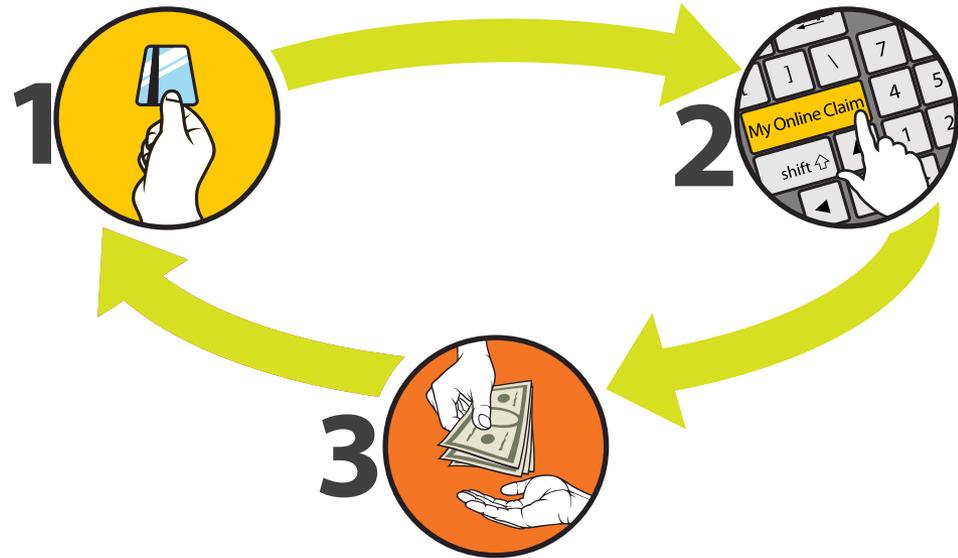
*What kind
of expenses
can I claim?*



Health spending accounts also provide savings to business owners where one spouse already has a traditional insured plan. The good news is spousal plan contributions can be submitted through the Health Spending Account. Co-payments for excluded items and deductibles are also eligible expenses with a Health Spending Account.

Eligible dependants are considered members of your Health Spending Account. An eligible dependant is defined as a spouse or any member of the household with whom you are connected by blood relationship, marriage or adoption, and who is financially dependent upon you at some point in the year. In addition, this dependant must be a Canadian resident, having resided in Canada for a minimum of 6 months out of the year.

Here is an example of the step by step process of making an online claim with a HSA. We will use a \$1,000 dental expense in this example.



*How does
a claim
work?*



- 1** Pay your dentist with your personal credit card. Submit an online claim through the provider's online claim platform. This involves entering data surrounding the expense: name of the patient, the type of service, service date and the amount (\$1,000).
- 2** After submitting the claim, your business remits an online payment to the Health Spending Account provider for the amount of the expense. This creates a trail of receipts to keep for your records (\$1,000).
- 3** The Health Spending Account provider will reimburse you personally for your initial out of pocket expense (+\$1,000). **The reimbursement you receive is 100% tax free to you personally. The \$1,000 payment from your business is %100 tax deductible.**

As the owner of a corporation, there are two options for paying medical expenses:

Choice 1 – you have no insurance plan and pay for your medical expenses out of pocket.

Choice 2 – you pay for your medical expenses through your corporation with a Health Spending Account.

Note: The following example is for a corporation. The results will be different for an unincorporated business.

*How does
a Health Spending
Account save
my business money?*



BELOW IS AN EXAMPLE
OF A SAVINGS COMPARISON
BETWEEN
THESE TWO CHOICES

Savings Comparison

CHOICE 1

No Plan
(After Tax)

TOTAL COST
\$7,120

43%
TAXES
\$3,120

AFTER TAX
MEDICAL EXPENSE
\$4,000

Your Co.
SAVES
\$2,821

CHOICE 2
Health Spending
Account
(Before Tax)

TOTAL COST
\$4,299

ANNUAL FEE
\$299

BEFORE TAX
MEDICAL EXPENSE
\$4,000

EXAMPLE

Ontario Incorporated
Engineer

Business Name: Your Co.
Personal Income: \$100,000
Marginal Tax Rate: 43.41%
\$4,000 Medical Expense

Choice 1 >

Out of Pocket: After Tax Medical Expense

The medical expense is paid for by you, personally, with out of pocket after tax dollars. After tax dollar is the amount remaining after personal income tax is paid. In this example's tax rate, your company would need to pay you \$7,120 (before tax). 43% would be paid in income tax (\$3,120). This would leave you with \$4,000 (after tax) to cover the cost of your medical expense.

Explained differently, each \$1 you spend on medical expenses requires your company to pay you approximately \$1.78 before tax. 43% (or 78 cents) is paid in tax to Canada Revenue Agency in the form of provincial and federal taxes.

Choice 2 >

HSA: Before Tax Medical Expense

On this side, the medical expense is paid through your corporation as a before tax business expense. Effectively, you are able to write off 100% of your medical expense through your corporation. Value is created by keeping the additional 43% tax inside your corporation.

The annual fee is an example of the cost you will need to pay your provider. Cost will vary by administrator. We used \$299 in this example as this is the annual, all inclusive cost of the Olympia HSA.

Conclusion & Your **FREE** Custom Savings Report

Hopefully this guide has given you some orientation in the world of Health Spending Accounts. Here's a quick review of what we covered:

- 1** A Health Spending Account is a product small business owners use as an alternative (or supplement) to a traditional insurance plan.
- 2** You are a good candidate for a Health Spending Account if you own a business, have medical bills, and pay income tax.
- 3** There is a comprehensive range of eligible expenses to protect you and your family.
- 4** Health Spending Account claims are made online with payments from your business being reimbursed to you personally. The payment from your business is considered a 100% tax deduction. The reimbursement to you, personally, is 100% tax free.
- 5** A Health Spending Account saves you and your business money by funneling your personal medical costs through your business as a legitimate expense.



Get Your FREE Savings Report

Find out what a Health Spending Account would look like at your business

Get My Report