



Health Spending Accounts for Incorporated Businesses

What is a Health Spending Account?

The HSA is a tool that allows you to pay for 100% of your medical expenses through your business as opposed to paying for them personally. This means you and your company get to save a lot of money.

At the core, the HSA is a contract between your corporation and yourself. The contract is based on CRA guidelines that allow your corporation to reimburse you for out-of-pocket medical expenses. The reimbursements are 100% tax free to you and 100% tax deductible for your company. Basically, you get to withdraw money from your company without having to pay income tax.

Now, let's find out how an HSA saves you money on your medical expenses.

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Understanding Health Spending Accounts.

The purpose of this guide is to show you why the Health Spending Account is the most affordable alternative to pay for medical expenses.

We'll start of by taking a look at the 3 options you have for paying medical expenses. Next, we'll take a quick look at how taxes affect the cost of your medical expenses. Afterwards, we'll explore the mechanics of a Health Spending Account including how a claim is made and the eligible expenses. Finally, we'll present you two HSA options from Olympia.

Please note this guide is for a corporation with only one employee (the business owner) and, if applicatlbe, their spouse as the second employee.

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Case Study Profile

This guide assumes the following conditions:

1. You own a corporation with no employees other than yourself and your spouse.
2. You have 2 dependent children.
3. As a family, each member will require about \$900 per year (or \$3,000 as a family) to maintain your health. We did an analysis of over 1 million claims and also looked at Statistics Canada to determine this number. In some years, this number can be much higher (if you get braces or laser eye surgery) but over an average number of years, the approximate out of pocket total will be \$3,000 per year.
4. It is fine if you do not have a spouse, or dependent children. Subtract or add \$900 for each dependant.
5. You earn between \$90,000 and \$140,000.

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How can I pay for medical expenses?

You have three options to pay for your medical expenses:

1. Traditional health insurance

You pay a monthly or quarterly premium in exchange for coverage. Quite often this option results in a feeling of “not enough coverage for what I’m paying for”. There are many exclusions, especially with dental and vision. Insurance can be complex, costly, and restrictive.

2. No insurance/ out-of-pocket

Many small business owners don’t have health insurance because it’s too expensive and the coverage is poor. This means they have no plan and they pay for their medical expenses “out of pocket”. Don’t feel bad if your in this situation – it’s actually more cost effective than having insurance.

3. Health Spending Account

The cost effective alternative to insurance and paying for medical expenses out of pocket.

What is the true cost of a medical expense?

It is important to realize that medical expenses are a personal expense (we could be talking about the premiums your spouse pays for an insurance plan or out of pocket dental costs, etc). Another term for personal expense is after-tax expense.

Therefore, to understand the true cost of your medical expenses, you need to understand the impact of taxes.

How do taxes impact the cost of my medical expenses?

As a business owner, you receive income from your corporation. In Canada, we have a progressive tax structure. Meaning the more income you make, the more the government takes. Your *marginal income tax rate* will have a significant effect on the *total cost* of your medical expenses. Your marginal tax rate is the combination of your provincial tax rate and the federal rate.

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Below you can see the different tax rates for increasing levels of T4 income in Ontario. The “After Tax Factor” column on the right is the gross amount you must earn to bring home \$1 after-tax for that particular tax bracket.

For example, if you earn \$100,000, you would have to gross \$1.78 to bring home \$1 after-tax. 78 cents of your gross \$1.78 (or 43%) would be taxed leaving you with \$1 after-tax.

Taxable Income	Marginal Tax Rate (%)	After Tax Factor
First 41,536	20.05	1.25
over \$41,536 up to \$45,282	24.15	1.32
over \$45,282 up to \$73,145	29.65	1.43
over \$73,145 up to \$83,075	31.48	1.46
over \$83,075 up to \$86,176	33.89	1.51
over \$86,176 up to \$90,563	37.91	1.61
over \$90,563 up to \$140,388	43.41	1.78
over \$140,388 up to \$150,000	46.41	1.88
over \$150,000 up to \$200,000	47.97	1.92
over \$200,000 up to \$220,000	51.97	2.03
over \$200,000	53.53	2.07



\$1.78 Gross Income (Before Tax)



\$0.78 Marginal Tax



\$1 After-Tax

The diagram above illustrates the concept from the previous page. If you earn \$100,000 and have a marginal tax rate of 43%, you will have to gross \$1.78 to get \$1 in your pocket.

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How much would it cost you to have health insurance?

For a family of 4, your monthly premiums for a health and dental insurance would be about \$400 per month. That's \$4,800 per year. We can assume you will have deductibles of approximately \$1,000 on top of your premiums.

The cost of the yearly premiums and deductibles would be \$5,800.

The \$5,800 is a personal medical expense. The total cost to your business, including taxes, is \$10,300. Remember - you gross \$10,300, pay tax of \$4,500 (or 43%) and you have \$5,800 after-tax.

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How much would it cost you to pay your medical expenses with no insurance?

At the beginning of the guide, we assumed your family of 4 needs \$3,000 per year to maintain its health. Your total cost to pay for \$3,000 in medical expenses would be \$5,340.

Again, \$5,340 gross income taxed at 43% would leave you with \$3,000 after tax.

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How much would it cost you to pay your medical expenses through an HSA?

In this scenario, you will pay \$3,000 for your medical expenses. The key difference is the \$3,000 is no longer a personal expense. Medical expenses become a business expense when you pay through an HSA.

You will not pay income tax on the \$3,000. Therefore, the \$3,000 medical expense only costs your company \$3,000!

SAVINGS COMPARISON

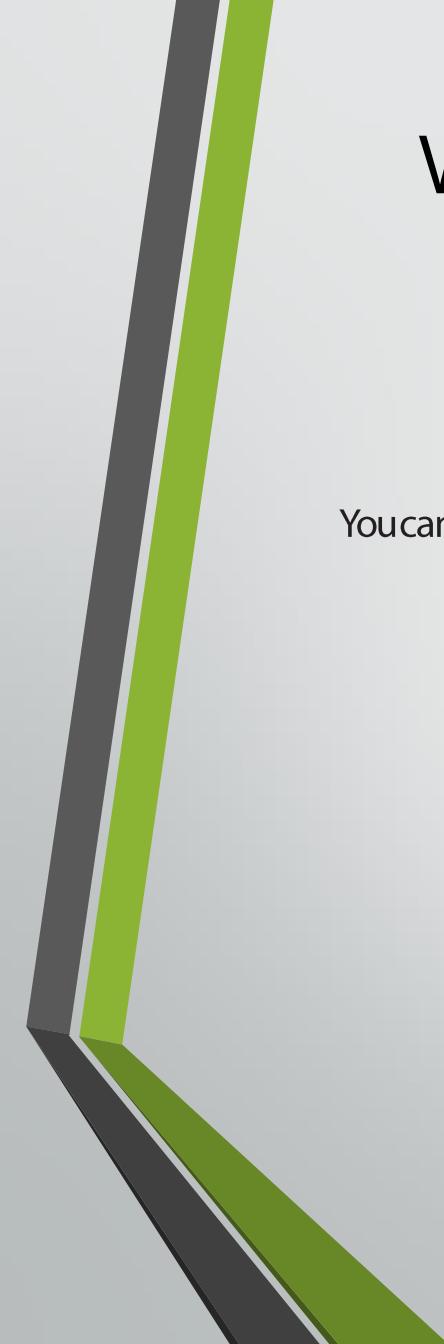


On the left you can see the true cost to your company when you pay for a \$3,000 medical expense personally with after-tax dollars.

On the right, you can see that instead of paying the government 43% tax, you pay Olympia an annual HSA membership fee of \$399. Your company saves almost \$2,000 in taxes with an HSA!

The total cost to pay for medical expenses





What can I claim with a Health Spending Account?

You can claim virtually all medical expenses.

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How does a claim work?

Let's see how you would pay for a \$3,000 medical expense



Step 1 - Pay for the \$3,000 medical expense on your personal credit card.

Step 2 – Login to your HSA account with Olympia and submit the details of your receipt online. You hold on to the original.

Step 3 - Send a payment online to Olympia from your business bank account for \$3,000.

Step 4 - Olympia reimburses you personally for your original personal expense. A direct deposit of \$3,000 will be made to your personal bank account.

The \$3,000 reimbursement is **TAX FREE**.

The \$3,000 payment from your corporation is **TAX DEDUCTIBLE**.

Am I paying for the expense twice?

Remember at the beginning, we defined the HSA as a contract between your corporation and yourself. The contract states your corporation will reimburse you for out of pocket medical expenses.

Each step in the claim process is necessary to fulfill the conditions of that contract. Steps 1 and 2 are your personal requirements or out of pocket medical expenses. Step 3 fulfills your corporation's requirement to fund the HSA. This payment creates the tax deduction for your company. Step 4 is the reimbursement for your out of pocket medical expense. The net cost of the 4 step process is \$3,000 to your business. Keep in mind, that's far better than the amount it would cost your business if you had to pay taxes on the \$3,000.

Let's say in 2016 you had no HSA, \$3,000 in medical expenses, and an income of \$100,000. In 2017, you decide to run the \$3,000 through an HSA. You will now only pay income tax on \$97,000 instead of \$100,000. The \$3,000 is not part of your taxable income!

Do I qualify?

To qualify you must own a corporation, pay income tax, and have medical expenses.

Olympia HSA Plan Options

There are two different HSA Plan options.

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OLYMPIA HSA PLUS

ANNUAL MEMBERSHIP
\$399 / YEAR

NO ADMINISTRATION FEES
NO SETUP FEES
MEDICAL TRAVEL INSURANCE
EMERGENCY MEDICAL
CATASTROPHIC DRUG INSURANCE }

\$450 Value!

Olympia HSA PLUS is a complete benefit package that includes a Health Spending Account with no set up fees, no administration fees, a medical travel insurance plan, emergency medical insurance plan, and a catastrophic drug insurance plan. This plan provides the most value.

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Travel Medical Insurance

- Coverage per trip of up to 90 days
- Up to \$2,000,000 of coverage
- Coverage up to and including age 69
- Single and family coverage (for employees, spouses of any age and/or dependent children)
- No deductible
- No pre-existing condition clause up to age 65

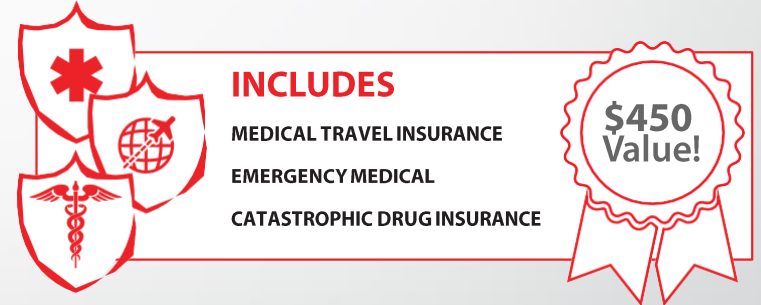
Emergency Medical Insurance

- Semi-Private Hospital \$5,000 per covered person per year
- Ground Ambulance \$5,000 per covered person per year
- Accidental Dental \$5,000 per covered person per year
- Home Care Nursing \$10,000 per covered person per year
- Convalescent Home Care \$10,000 per covered person per year
- Ambulatory/Mobility \$5,000 per covered person per year
- Assistive Devices

Catastrophic Drug Insurance

- Single and Family coverage
- No Medical Underwriting
- \$2,500 deductible
- \$25,000 per person/per year
- \$100,000 lifetime maximum
- Coverage up to and including age 69

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Olympia HSA Basic is a stripped down version of the PLUS package. You receive a Health Spending Account with no administration fees. No insurance plans are included.

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What's next?

- [Get started](#) with your HSA by completing a 5 minute application online.
- Please contact me directly at 1 888 588-2845 ext. 1 or email me at yatesr@olympiabenefits.com if you need more information .
- I hope this guide helped you understand your options for paying medical expenses and how the HSA is a clever alternative for a small business owner.