What is a Health Care Spending Account (HSA)?

The HSA acts like a bank account for health and dental benefits. Plan sponsors fund member accounts to a dollar amount annually, then their staff can draw down amounts to pay for their health or dental expenses.

The advantages to the plan sponsor are a clear understanding of their overall costs as the sum of all member accounts. For staff members, they enjoy the flexibility to pick and choose how to spend their accounts. Also, the expenses themselves are more liberal than typically included in a traditional benefits plan, as any expense that qualifies as an eligible medical expense under the federal Income Tax Act (Canada) can be reimbursed through the HSA. Finally, HSA's include additional flexibility, as they can be used to pay expenses for any family members, as long as they qualify as dependents under the Income Tax Act (Canada).

HSA's have become popular ways to introduce flexibility and choice for plan members. For plan sponsors, the ability to introduce cost controls into benefit programs has become an important way to sustain benefits coverage.

FAQ

How Does the HSA Work?

The plan sponsor/store owner decides on the dollar amount that the HSA will have available for each member. This account can be set up and administered through an insurer or a third-party provider who specializes in claims payment.

Over the course of the year, as claims against the account are made, the balance draws down. If the balance reaches $0, the member will have to wait until the next benefit year for a refresh back to the funding maximum.

At the end of the benefit year, unused HSA dollars can be carried forward to the next year. The remaining balance must be used by the end of the following benefit year, or it is forfeited.

How Does a Business Offer a Health Care Spending Account?

Canada Revenue Agency (CRA) defines the rules with respect to establishing and offering a Health Care Spending Account.

Incorporated employers can offer an HSA as long as they have at least one employee. Owners of these businesses can partake of this arrangement so long as they are bona fide employees of the business earning a salary.

CRA also requires that the following rules be observed:

- The HSA limit should be set prior to the beginning of the benefit;
- The limit should be the same for all employees of the same class;
- The HSA limit cannot be changed or terminated prior to the end of the benefit year;
- The HSA limit must be 100% funded by the plan sponsor; and
- Remaining balances at the end of the benefit year cannot be paid out to the member.

Are There Any Tax Advantages to the Plan Sponsor or the Member?

Owners of businesses who provide an HSA in compliance with CRA rules can deduct the total cost incurred with the HSA – reimbursed medical expenses and associated administration fees and taxes – as a business expense.

Best of all, the members' medical expenses are reimbursed from their HSA dollars tax free. At the end of the benefit year, any eligible out-of-pocket expenses not reimbursed through the HSA can still be accumulated to qualify for the CRA's Medical Tax Credit at the time of the member's income tax filing.

How Can the Member Use their HSA Dollars?

This is where the flexibility of an HSA is best appreciated. The member can choose to use their HSA dollars to pay for any medical expense defined by the Income Tax Act (Canada) as a qualifying expense for the medical expense tax credit:

- Coordinating with a plan to pay for out-of-pocket expenses, like deductibles; and
- Claiming medical or dental expenses for family members, as long as they qualify as dependents from a tax perspective.

What are Eligible Medical Expenses Under an HSA?

CRA determines what medical expenses are eligible under an HSA. These are the same medical expenses that are eligible for a tax credit when filing your personal income taxes each year.

In addition to the more commonly known expenses covered, like paramedic services, vision care, and dental services, the CRA list also includes other expenses, which are considered medically necessary, such as:

- The cost of specially trained animals for those with a specific disability or medical condition;
- Incremental cost of gluten-free products for those with a specific diagnosis like celiac disease;
- Medical marijuana, provided certain conditions are met; and
- Renovation and construction costs required to modify a home to improve access when the person has a severe and prolonged mobility impairment or lacks normal physical development.

Please note that not every medical expense can be claims. Excluded from the CRA list:

- Medical aids, monitors, and services that are not considered medically necessary, such as a glucometer for an individual who is not a diabetic; and
- Medical services that are or may be considered purely cosmetic in nature, such as cosmetic surgery, cosmetic orthodontics, or Botox injections.

For the complete list, including all conditions and requirements, please visit the CRA website.