KECHNIE BENEFITS

262 Queen Street South
Kitchener ON N2G 1W3
T: 519 571-2020 | 866 710-7080
F: 519 571-2424 | 866 710-7888

HEALTH CARE SPENDING ACCOUNT

Plan Summary: Employer Information

Health Care Spending Accounts allow employers to provide employees with pre-tax dollars to pay for eligible health care expenses. **In order to be tax-effective, HCSA's must be funded by employers.** HCSA dollars that are deposited by the employer to pay for eligible health care expenses are not included in employees' taxable incomes except in Quebec where the dollars used are taxed at the provincial level. Pay deductions used to fund the account are taxable to the employee.

HCSA's provide employees with tax advantages to help them pay for certain expenses on a non-taxable basis. If they carefully and conservatively anticipate expenses for the coming plan year, employees can use their HCSA credits wisely and increase spendable income by allocating the pre-tax HCSA dollars toward specific health care expenses.

Employers also benefit by obtaining tax deductions for the HCSA dollars they provide to employees and reductions in the employer's payroll-related taxes.

The only drawback offsetting the significant tax benefits of HCSA for employees is that dollars set aside in HCSAs must be used to pay for eligible expenses incurred during the same or the next plan year in which the HCSA contributions were made. **Any credit balances that remain unspent at the end of the specified plan year (depending on the makeup of the plan) could be forfeited to the employer.** The employer can then chose what to do with the unspent credits.

To fund the HCSA, the employer provides each employee with a specified amount of credits to allocate to the HCSA before the start of the plan year. **Except when there is a life event, such as marriage or birth of child, the employee cannot change the election once the plan year has begun.**

An HCSA entails little additional expense or administrative burden for the employer.
HCSAs also offer smaller employers the opportunity to provide tax savings to their employees that help defray the burden of health care expenses above and beyond their core plan. In general, HCSAs provide cost-effective plans without the financial and resource investment required by a full-fledged cafeteria plan. They can be very well received by employees.

Save time and money by keeping it simple:

- Set maximum and minimum amounts of credits to be deposited in the health care account.
- Set minimum amount of claim to be reimbursed.
- Process reimbursements once a quarter, rather than as they come in.

Limit exposure to risk by:

- Increasing the number of deposits into the employee's HCSA, from once a year to quarterly or monthly,
- Pro-rating the maximum HCSA benefit for midyear plan entrants,
- Restricting the type of expenses that are eligible for reimbursement,
- Reducing the maximum amount of annual reimbursement available.
- Adding Co-Ins and/or deductibles to core plan setup.

Applicable Fees:

1. Plan set-up costs will apply. The size of the group will determine the actual cost.
2. Adjudication fees apply on eligible claims paid and administration fees may apply depending on the size of the group.
3. Taxes : both premium tax and RST/GST/HST will be added where applicable.

How does HCSA work?

The employer sets aside an amount of money to be credited to each employee's Health Care Spending Account. This amount is credited to the employee's HCSA on the 1st of January of each year. The amount of credits allotted will remain the same throughout the plan year.
Once the account is depleted, no further claims can be reimbursed until the next deposit, on the 1st day of the new year. Employees will be informed of their account balance after each claim payment. The HCSA terminates when employment with the company terminates or upon retirement. The employer has the right to terminate the plan with 30 days notice. The employee has 60 days after termination to submit claims for reimbursement. After this time, the account(s) will be closed.

Important

There are two possible scenarios and the employer can only choose one. There cannot be two different choices within the same group:

1 - claims can roll over to the next year.
2 - credits can roll over to the next year.

At the end of each plan year, <u>if the employer has chosen to roll claims</u>, any amount of credits remaining in the HCSA is returned to the employer to do with as he pleases. Credits cannot be directly returned to the employee. Claims that have not been reimbursed or have partially been reimbursed can be rolled over to the new plan year to be paid with the new years' credits. (See example below)

Examples of Claims Rollover:

Jim's employer, The Happy Company, has decided to offer a Health Care Spending Account to its employees. The company has elected to allocate $1,000.00 to each employee's account. The company has also elected to roll over claims.

Example 1

	Credit	Claim	Paid
January 1st, 2013 (allocated to Jim's account)	$1,000.00		
March 15th, 2013, claim paid		$350.00	$350.00
July 27th, 2013, claim paid		$150.00	$150.00
September 30th, 2013, claim paid		$500.00	$500.00
November 12th, 2013 claim submitted		$125.00	$ 0.00
December 15th, 2013 claim submitted		$100.00	$ 0.00
December 31st, 2013, balance of account		$ 0.00	
January 1st, 2014 (new allocation to Jim's account)	$1,000.00		
November 12th, and December 15th claims processed			$225.00

Jim depleted his account when the September 30th claim was paid. The claims submitted on November 12th and December 15th are still eligible for reimbursement but because the account is empty they cannot be paid until a new deposit is made on January 1st, 2014.

Example 2

	Credit	Claim	Paid
January 1st, 2013 (allocated to Jim's account)	$1,000.00		
March 15th,2013, claim paid		$350.00	$350.00
July 27th, 2013, claim paid		$150.00	$150.00
September 30th, 2013, claim paid		$200.00	$200.00
December 31st, 2013, balance in account	$ 300.00 * (returned to the employer)		

1st January 2014, (new allocation to Jim's account) $1,000.00

The $300.00 remaining in Jim's account at the end of 2013 is returned to the employer. Jim has $1,000.00 at his disposal for 2014, to claim eligible expenses not reimbursed by another plan.
* Jim's employer will advise him of what will be done with the end of year remaining credits in the HCSA where/if applicable.

Credits Rollover:

<u>If the employer has chosen to roll credits</u>, then any remaining credits at the end of the plan year are carried over to the new plan year to be added to the new year's deposit. Employees will have 30 days to submit any outstanding claim for expenses incurred in the old plan year to be reimbursed with that year's credits. If all credits have been spent, then the claims cannot be paid. Any first year (2013) credits remaining at the end of the second year (2014) are returned to the employer.

Examples of Credits Rollover:

Jim's employer, The Happy Company, has decided to offer a Health Care Spending Account to its employees. The company has elected to allocate $1000.00 to each employee's account. The company has also elected to roll over credits.

Example 1

	Credit	Claim	Paid
January 1st, 2013 (allocated to Jim's account)	$1,000.00		
March 15th, 2013, claim paid		$350.00	$350.00
July 27th, 2013, claim paid		$150.00	$150.00
September 30th, 2013, claim paid		$500.00	$500.00
November 12th, 2013 claim submitted		$125.00	$ 0.00
December 15th, 2013 claim submitted		$100.00	$ 0.00
December 31st, 2013, balance of account	$ 0.00		

January 1st, 2014 (new allocation to Jim's account) $1,000.00

Jim depleted his account when the September 30th claim was paid. The claims submitted on November 12th and December 15th cannot be reimbursed because there are no credits remaining in the account to pay the claims. Any unpaid claim is no longer eligible.

Example 2

	Credit	Claim	Paid
January 1st, 2013 (allocated to Jim's account)	$1,000.00		
March 15th, 2013, claim paid		$350.00	$350.00
July 27th, 2013, claim paid		$150.00	$150.00
September 30th, 2013, claim paid		$200.00	$200.00
December 31st, 2013, balance in account	$ 300.00 * (Rolled over to the next year)		

January 1st, 2014, (new allocation to Jim's account) $1,000.00

Total credits available in 2014: $1,300.00

The $300.00 remaining in Jim's account at the end of 2013 is rolled over to the new plan year and is available for use to reimburse expenses incurred in the new plan year (2014) only. Jim has $1,300.00 at his disposal for 2014, to claim eligible expenses not reimbursed by another plan. At the end of 2014, any credit remaining from the 2013 plan year will be returned to the employer.

How to claim:

Step 1 - Submit the receipts to group benefit insurance carrier.
Step 2 - Submit the balance to your spouse's group plan, if applicable.
Step 3 - Submit both explanations of benefits (where applicable) to us with a completed and signed claim form. You can obtain a HCSA claim form from the plan administrator or by going to our website: **www.kechnie.com**

Please note:

These are partial lists only. If you require more information, you can contact us at ***1-866-710-7080*** *or go to the Revenue Canada web site: « www.cra-arc.gc.ca " under publications, interpretation bulletin IT519.*

Examples of eligible expenses:

Professional services:

- ✓ Chiropractor
- ✓ Nurse
- ✓ Optometrist
- ✓ Podiatrist/chiropodist
- ✓ Physician (*This is not normally covered by your benefit plan*)
- ✓ Dentist (*Restorative/diagnostic/preventative/orthodontics*)
- ✓ Massage therapist
- ✓ Acupuncturist (If a qualified medical practitioner)
- ✓ Facilities fees for the treatment of alcoholism or drug addiction treatment centres, including meals and lodging.
- ✓ Licensed private hospital
- ✓ Full-time attendants or care in a nursing home
- ✓ Medical equipment and devices prescribed by a medical practitioner.
- ✓ Fertility treatments (not covered by the provincial or benefit plan)
- ✓ Cosmetic dentistry
- ✓ Premiums to a private health insurance plan (Blue Cross)

Examples of non-eligible expenses:

- ✗ Premiums paid to provincial medical or hospitalization plan
- ✗ Contribution to the group benefit plan
- ✗ Life or disability insurance premiums
- ✗ Medical costs for which one is reimbursed or eligible to be reimbursed.
- ✗ Air conditioners, humidifiers/dehumidifiers, heat pumps or heat/air exchangers.
- ✗ Jacuzzi/whirlpool bath
- ✗ Non-prescription birth control devices
- ✗ Antiseptic diaper service
- ✗ Blood cord storage
- ✗ Gym membership (*Even if suggested by a doctor or other health care practitioner*)