

Written By Kenneth Fry, MBA



## of Health Spending Accounts

The small business owner's ticket to affordable and intelligent healthcare



# 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.

## **Welcome to the Golden Book of 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 three 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 applicable, their spouse as the second employee.

Please download our guide for a business with multiple employees [here](#).

# 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.

# 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.

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.

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



\$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.



# 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.

# 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.

# 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 \$699. Your company saves over \$1,600 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. A complete list can be found [here](#).



# 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**.

# Do I qualify?

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

## Olympia HSA Plan Options

There are three different HSA Plan options.

# 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 2017 you had no HSA, \$3,000 in medical expenses, and an income of \$100,000. In 2018, 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!

A graphic of a membership card hanging from two clips. The card has a green header and footer. The main body is white with a grey diagonal band. The text 'OLYMPIA HSA DELUXE' is in the grey band. Below, 'ANNUAL MEMBERSHIP' is in blue, and '\$699 / YEAR' is in green. A list of benefits is in green text, and a seal on the right says '\$650 VALUE!'.

**OLYMPIA HSA DELUXE**

**ANNUAL MEMBERSHIP**  
**\$699 / YEAR**

NO ADMINISTRATION FEES  
NO SETUP FEES  
MEDICAL TRAVEL INSURANCE  
EMERGENCY MEDICAL  
CATASTROPHIC DRUG INSURANCE  
DIALOGUE™ VIRTUAL HEALTHCARE

**\$650  
VALUE!**

Olympia HSA Deluxe is an exclusive package for select Olympia clients that includes a Health Spending Account with no set up fees, no administration fees, a medical travel insurance plan, emergency medical insurance plan, a catastrophic drug insurance plan, and Dialogue Telemedicine. This plan provides the most value.

Dialogue is healthcare when you need it. Visit the virtual clinic anytime on your phone.

The Canadian healthcare system can be strained. That's why Olympia has partnered with Dialogue to provide you with a virtual healthcare service accessible at any time for you and your loved ones. It is designed to be patient-centric, which means time saved and greater accessibility for patients.

**Dialogue includes:**

Chat within minutes

Video-consultation with health care professional for diagnosis

Prescriptions and renewals

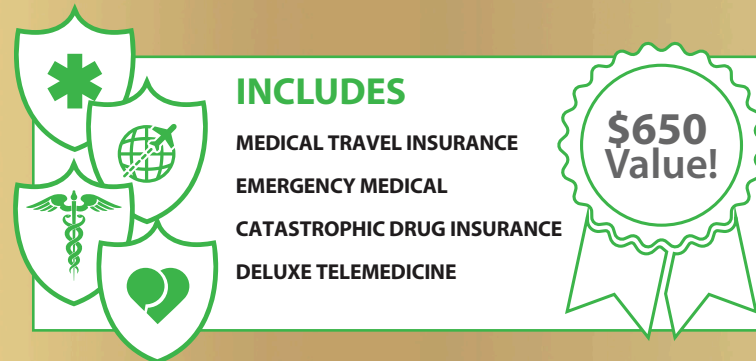
Referrals to specialists

Free delivery of medication

Continuity of care / follow ups with the same professional

Concierge services and follow ups

Proprietary full-stack technology





OLYMPIA **HSA PLUS**

**ANNUAL MEMBERSHIP**  
**\$499/YEAR**

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

**\$450  
Value!**

The graphic is a membership card with a white background and a grey and red header. The title 'OLYMPIA HSA PLUS' is in white and red. The price 'ANNUAL MEMBERSHIP \$499/YEAR' is in blue and red. A list of benefits is on the right, followed by a bracket and a seal that says '\$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.



### 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





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.

# What's next?

You can get started with your HSA by completing a 5 minute application online.

Please contact me directly at 403.261.6102 or [fryk@olympiabenefits.com](mailto:fryk@olympiabenefits.com) if you need more information for your research.

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.