# Health Care Spending Accounts

A Health Care Spending Account (HCSA), also known as a Health Spending Account (HSA), is an individual employee account that provides reimbursement for eligible health care expenses or other benefits that are not covered under provincial health insurance plans or other benefit plans sponsored by the employer. A Health Spending Account can be implemented on a stand-alone basis within a traditional benefit plan or part of a flexible benefits plan.

Spending accounts can sometimes be the answer to situations where an employer wants to give employees increased involvement and more choice in their benefits while also limiting its financial responsibility. A health care spending account is a simple, tax-effective way to provide health and dental benefits flexibly. Through a Health Care Spending Account, employees can use pre-tax dollars to pay for expenses that would normally represent an out-of-pocket expense (except Quebec as contributions to all benefits are included in the employee's income for tax purposes).

A HCSA can offer more flexibility than traditional plans as its scope of coverage is far broader than a typical benefit plan. In addition to expenses usually reimbursed, a HCSA can, for example, provide reimbursement for:

- Cosmetic surgery;
- Prescribed over-the-counter medications;
- Home renovations when medically required;
- Home care.

A HCSA can be used to pay deductibles, coinsurance, amounts in excess of benefit maximums and to broaden the scope of coverage of an existing plan. For example, a HCSA could cover:

- Professional services (e.g. chiropractor, physiotherapy) above the annual maximum;
- Medications not included in a plans drug formulary;
- Eye glasses and contact lenses if not covered by the existing plan or amounts in excess of the maximum if covered;
- Dental services that may not be part of the existing dental plan (e.g. caps, crowns, bridges, orthodontics);
- Dental expenses above the plans annual maximum.

## The Mechanics of Health Care Spending Accounts

Health Care Spending Accounts that are provided on a stand-alone basis are funded entirely by the employer. Each member of a class receives an equal allocation of funds from the employer.

Health Care Spending Accounts which form part of a flexible benefits plan can be funded by both employer and employee contributions. Employee contributions are funded by "flex credits" rather than direct deposits. In the later case, employee contributions would have to be deducted from payroll on an after-tax basis, thus eliminating any tax advantage of having a HCSA.

The employee and their covered dependents use the HCSA to reimburse eligible medical expenses not covered by the employee or the spouse's plan.

The HCSA balance is reduced by the amount of each reimbursement. Payments continue to be made until the account balance is zero.

At the end of the year, any unused balance in the account can be carried over for one year, but unused funds in the account for more than two years are forfeited to the employer. Alternatively, unclaimed expenses for a given year can be carried forward for a year. However, a plan can not include both a carry-over of the account balance and unclaimed expenses.