BARGAINING BENEFITS

CUPE
RESEARCH

HEALTH SPENDING ACCOUNTS – Smoke and Mirrors?

Health Spending Accounts (HSAs) work like bank accounts, but without cash. The employer deposits a set amount as a "credit" in your account and you use that to pay for approved medical and dental expenses.

Right now, employers are promoting HSAs as a supplement to existing plans, to pay for costs currently not covered. However, this is a slippery slope. Where HSAs have been introduced, we see employers seeking to cut back on insured benefits and increase dependence on the HSAs. Employers like the predictable costs of HSAs, plus employer contributions are tax deductible.

Employers often try to sell HSAs to workers by claiming they are "tax free dollars". But let's look closer:

- With an insured plan (like most CUPE members have) you pay no taxes on the benefit costs you claim (except in Quebec).
- You don't get any real dollars with an HSA, what you get is a "credit" to spend on approved expenses.
- You don't pay income tax on funds employers deposit to your HSA, but your HSA account is not tax-free. Employer claims that HSAs are tax-free, are not accurate.

HSA providers charge a transaction fee in the range of 10%, usually with a minimum charge per claim. Providers also pass along the "Premium Tax" they are charged by the government to provide such services. Then you have to pay GST (6%) and retail sales tax (varies by province). So a claim would look like this:

Example for a claim of $600	$600.00
+ 10% transaction fee	= $ 60.00
+ GST (6% of transaction fee)	= $ 3.60
+ Provincial Retail Sales Tax (7% x $660)	= $ 46.20
+ Premium Tax (~ 2% X $660)	= $ 13.60
Total	= **$723.00**

For a claim worth $600, you are charged GST, sales tax, premium tax (in most provinces) and a transaction fee and end up paying $723 for a $600 claim. So, a $2,000 HSA will not buy $2,000 worth of services.

So, HSAs are NOT tax-free. What else should you know about HSAs?

1. HSAs can lead to the erosion of your benefits as employers seek cost savings and more predictable benefit costs.

2. Workers receive the same amount regardless of existing health conditions. Those who have pre-existing health conditions, or develop complicated health needs are treated the same as healthy workers. So healthy workers can spend the HSA for reducing costs such as deductibles, yet others may need the HSA to pay for needed health services over and above what the Plan provides.

3. HSAs promote privatization by creating a network of private service providers and a more individual approach to health care.

4. You can't claim the medical expenses income tax credit if you use an HSA.

5. Money left in the account after one year can be rolled over into the next year, but only once. If don't use the money it is forfeited to the employer. Employers who claim they will use the forfeited funds to improve benefits are not particularly unselfish – the laws say they must use the funds in a tax-deductible way, or be taxed on it!

6. Families get the same amount as singles, yet their costs are higher.

7. You get the same amount regardless of your income, despite the fact that lower paid members have less disposable income to spend.

HSAs are not insurance. With an insurance plan, those who are healthy help to support those who are temporarily unhealthy, so the benefits are there if and when you need them. Since an accident or disease can strike at any time, we are all really "temporarily-abled".

HSAs disadvantage workers by family status, by income, and by wellness. They are best suited to single, healthy, highly paid workers.