BARGAINING BENEFITS

CUPE
RESEARCH

HEALTH SPENDING ACCOUNTS (HSAs)

Health Spending Accounts (HSAs) are being promoted by employers as a way to save costs. While common in the U.S, HSAs are just starting to appear in Canada. Canadian consulting and insurance companies (often subsidiaries of U.S. companies) are increasingly marketing administrative services for HSAs to employers as a way to save benefit costs.

Employers argue that HSAs provide employees with greater discretion on how their benefit dollars are spent. In fact, HSAs severely restrict employees' choices and may require employees to pay for large and/or unanticipated expenses out of their own pockets.

How do HSAs work?

- Employers set up a "spending account" for each employee using either a flat dollar amount, or percent of salary. The employee can use that money to purchase any service that falls within the definition of "medical expense" under the Income Tax Act (e.g. prescribed drugs, dental, vision, and massage therapy and other paramedical services).
- HSAs are usually proposed as supplementary to a very basic core benefits package. Employees who require benefits beyond the core package must use the HSA to pay for <u>anything other</u> than core services. Once the money in the HSA runs out, that's it.
- Money deposited in HSAs is not considered income for tax purposes (except for Quebec provincial tax). However, in order for that status to be maintained, any remaining annual balance in an employee's HSA can only be carried over for a year; at the end of the second year it is **forfeited to the employer**. Employees may want to keep money in the account to pay for unanticipated needs, but unless they manage the account carefully, the employer will end up with the benefit. A clear case of use it or lose it!

Why do employers like HSAs?

- HSAs are attractive to employers because their contributions are predetermined and fixed, and responsibility for increased costs is with the employees.
- Small employers are likely to be amongst the strongest supporters of HSAs, because they pay proportionately more than larger employers for benefits and they find a capped payment an attractive feature.
- Administrative costs are significantly less than those for flex benefit plans.
- Any money in HSA accounts at the end of the second year becomes the property of the employer.

What are the Arguments Against HSAs?

- **Employees bear the costs:**
  - Like flex plans, employees bear the costs of rising health care expenses. It is unlikely that employers would be willing to negotiate increases to HSAs that would cover increases in expenses, given the rate at which health care expenses are increasing.
  - HSAs disadvantage lower wage members who have less disposable income to spend purchasing uninsured benefits. Lower paid workers don't receive as much as higher paid employees when calculations are based on percentage of salary.
  - Like flex plans, employees may be tempted by economic pressures to "cash out" their HSA instead of purchasing required medical benefits or maintaining money in their account for future need.
- **HSAs restrict access to a wide range of benefits:**
  - In a group plan, a better array of quality benefits is available to the membership as the 'healthy' pay for services for the 'less healthy' and everyone has access to the same benefits. With Health Spending Accounts, money not spent by members is returned to the employer at the end of two years, which means that funds that could have been used to improve benefits for all, are no longer available for any.
- **HSAs force employees to make tough choices:**
  - HSAs mean employees may have to decide which family member(s) are most in need of benefits. Most HSA plans assign a "single" or "family" dollar amount to an employee's account. This means that employees with two dependents receive the same amount of money as employees with ten dependents. Under a group plan, however, all dependents have full and equal availability to benefits.
  - With an HSA, persons with complex and/or chronic medical conditions must choose which aspects of their medical condition they can pay for. Even if, however unlikely, they are able to cover the costs related to their condition through their HSA, there will almost certainly be no money left over to pay for other more routine medical or dental requirements.
  - HSAs may have an impact upon preventive care. People faced with a fixed amount for health expenditures may try to save for a rainy day. Forgoing early treatments, or more minor treatments, may mean more significant health care needs in the longer term at greater cost, either for the plan or for the public health care system.

- HSAs treat employees as individual consumers of health care. They force them to seek the "best deal" to meet their needs, and make choices about what care they can afford. The primary factor in making the choice will be monetary rather than the determination of health care required for good health. Group plans on the other hand, make benefits available without incurring financial or emotional costs.

- **Employees must spend time and energy keeping track of their expenses:**

  - HSAs force employees to take more responsibility for their health care expenditures. Employees must monitor their health expenses and decide whether to purchase a service now or save the money for something unexpected in the future. If the HSA doesn't cover the cost, they either have to pay for those services out-of-pocket, purchase other insurance, or go without.

- **HSAs promote privatization**

  - The perception among individuals that they are responsible for their own health care diminishes their interest, trust and involvement in the public health care system. HSAs promote this individual approach and feeds the agenda of profit oriented insurance companies and multinational drug companies.

Remember that benefit costs have been rising every year and they will continue to do so. This will occur whether or not there is a "flexible benefits" plan or "health spending accounts". It is important to resist initiatives that pass on more health costs to employees, and to continue to press the employer to look for economies that still maintain comprehensive benefits for all plan members.

CUPE's bargaining Benefits series also includes:
- An Overview of the Issues
- Analyze your Benefit Plans
- Checklist for Benefit Plans
- Collective Agreement Language
- Drugs! Can we negotiate cost savings?
- Flexible Benefits
- Health Spending Accounts – Smoke and Mirrors
- What to Watch For
- Why are Drug Costs Escalating?

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