



2020 | REPORT

# The State of Health Care Spending Accounts

BENEFITS BY DESIGN (BBD) INC.

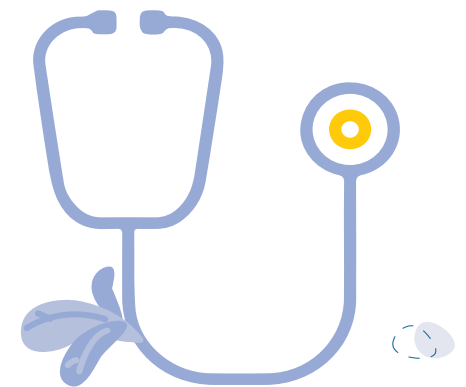
# Health Care Spending Accounts (HCSA)s

are experiencing a meteoric rise in popularity.

HCSAs allow plan members to choose where and when to spend their benefit dollars and prioritize their health and dental coverage based on their own needs.

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# What is a Health Care Spending Account (HCSA)?

A Health Care Spending Account (HCSA) is an employee benefit that offers reimbursement for a wide range of health and dental expenses. These expenses are often in addition to coverage under a traditional, fully insured plan with Extended Health Care (EHC) coverage.

In our experience, the best way to think of an HCSA is like a **bank account**. Each employee has their HCSA, which they access and use for eligible health and dental expenses. **Employers allocate a set amount for each employee for the year,** allowing employers to accurately predict their overall cost of providing benefits, rather than traditional, fully-insured plans with varying cost or large annual increases.

The **eligible expenses under a HCSA** are determined by the Canada Revenue Agency (CRA), as HCSAs are administered in accordance with the Income Tax Act (Canada). As with other employee benefit programs, HCSA's are a **tax-deductible benefit**, and the benefits are received tax-free.

“ **Setting up a Health Care Spending Account is a no-brainer for any Canadian small business owner. It allows them to turn their family’s health, dental and vision expenses into a tax deduction, potentially saving them thousands of dollars.** ”

**Brad Beeler**

[Cornerstone Benefits Consulting](#)

# How does an HCSA work?

Employers allocate a set dollar amount per plan member for spending on eligible expenses. Employees then use these dollars for eligible expenses, allowing them to prioritize coverage. For example, a plan member who needs new glasses and an eye exam can use their HCSA for that, but their coworker with 20/20 vision can instead use their dollars for dental work.

Since employers set the HCSA limit, they can easily calculate their maximum benefits spend, providing valuable cost-containment for employers. It's important to note that an HCSA is a pay-as-you-claim model, so employers will only pay for what plan members actually use.

## Are more employee benefit plans adding a Health Care Spending Account?

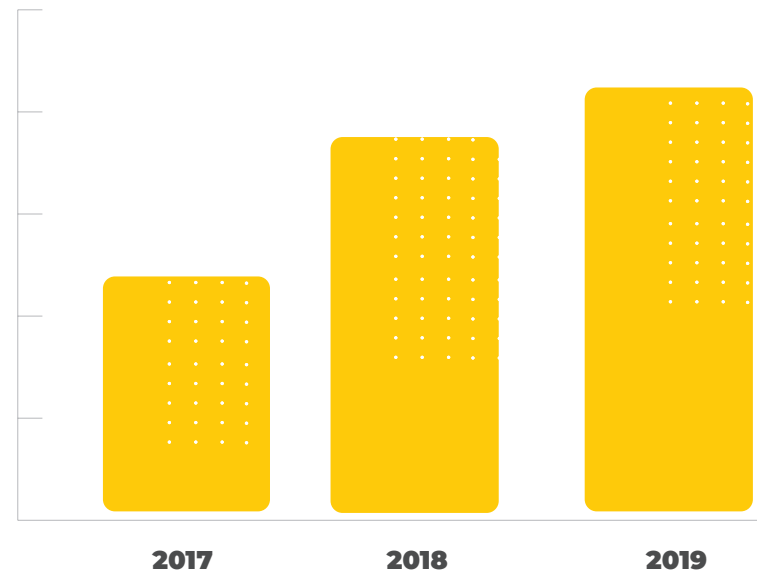
57% of plan sponsors offer Health Care Spending Accounts (HCSAs), which is a drastic increase from 33% in 2018 and 31% in 2017.<sup>1</sup> Although large

employers with 500 or more plan members are increasingly likely to offer HCSAs than small employers (73% vs. 42%), growth remains strong in all company sizes.<sup>2</sup>

At Benefits by Design (BBD) Inc., we see sustained growth in the demand for HCSA.

*We can attribute a portion of this growth to the introduction of our **Standalone spending account product** in 2017, which was created as a response to the increased demand in the market for HCSAs and other defined contribution solutions.*

## Sales Growth of HCSAs at BBD



<sup>1</sup> [Sanofi, The Sanofi Canada Health Care Survey \(2020\)](#)

<sup>2</sup> [Sanofi, The Sanofi Canada Health Care Survey \(2020\)](#)

# Why are HCSAs growing?

Today's [multi-generational workforce](#) is more diverse than ever before, with five different generations working together — all with different wants, needs, and values when it comes to their benefits plan.

HCSAs are [incredibly versatile](#). The allocation can be set up to cover all health and dental expenses or just a few. For example, an employer could use their HCSA to cover only vision expenses.

Providing flexibility and choice to plan members and empowering them to prioritize their coverage has never been more important. HCSAs are quickly becoming one of the fastest-growing benefits capable of providing this crucial element of choice.

## Rising health spending in Canada

If you're worried that HCSAs are just a fad, consider that in 2019, total health expenditure in Canada was expected to reach **\$264 billion**, which is roughly \$7,068 per person<sup>3</sup>. In fact, Canada's national health expenditure is trending upwards alongside the [rising cost of drugs](#)<sup>4</sup>, putting more cost on Canadians than ever before.

**From 1997 to 2009, spending on health care rose significantly for all Canadian households. However, the most significant increase — 63.2% — was for households in the lowest income bracket.<sup>5</sup>**

**[93% — number of plan members with an HCSA who like having one.<sup>6</sup>](#)**

**[82% — number of plan members without an HCSA who would like to have one.<sup>7</sup>](#)**

<sup>3</sup> [Canadian Institute for Health Information \(2020\)](#)

<sup>4</sup> [Canadian Institute for Health Information \(2020\)](#)

<sup>5</sup> [Statistics Canada, Trends in Out-of-Pocket Health Care Expenditures in Canada, by Household Income, 1997 to 2009](#)

<sup>6</sup> [Sanofi, The Sanofi Canada Health Care Survey \(2020\)](#)

<sup>7</sup> [Sanofi, The Sanofi Canada Health Care Survey \(2020\)](#)



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## What Employers say About HCSAs?

“ As an employee-centric company, we value benefits that allow our team members the flexibility to choose the benefits that best suit them and their lifestyle. This is why we chose to provide a Health Care Spending Account as our primary benefit package for team members. From vision and dental, to holistic medicines and practitioners, we have been so happy to be able to meet the unique needs of all of our team members! If you are looking to remain competitive with your benefits in the market, we would definitely recommend considering a Health Care Spending Account as part of your benefit offering. ”

**Lindsay Downing - Director of Human Resources**

*[Nature's Fare Markets](#)*

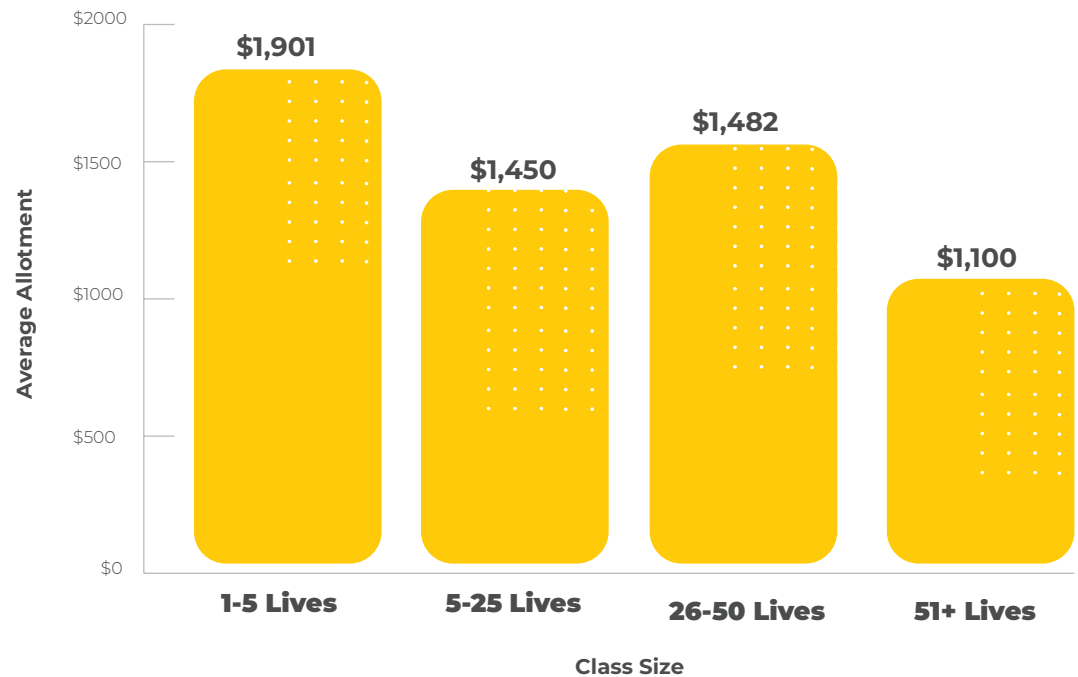
# How much are employers allocating to HCSAs?

When it comes to HCSAs, employers are the ones who decide how much they want to offer to plan members.

For this exercise, we took a look at BBD clients who had other benefits (i.e., clients with an insured benefit like Extended Health Care). We omitted clients who only offered a spending account (and no additional benefits with BBD) because the allotments for those without other benefits were significantly higher.

We determined that approximately **\$1,755** was the average allotment offered to plan members each year.

**Average Allotment vs. Class Size**



# Are Health Care Spending Accounts Fully Utilized?

As with any benefits plan, utilization is a key indicator in whether the product is meeting plan member needs.

It's worth noting that one of the eligible expenses under an HCSA are certain out-of-pocket payroll costs, such as health, dental, or vision payroll costs. Employees can use their extra HCSA dollars at the end of the year to save money.

## **We have good news on that front!**

94% of plan members with an HCSA report using at least some of their benefits dollars in 2019<sup>8</sup>. However, those who used it reported spending an average of only 62% of the funds available<sup>9</sup>.

We've found that **utilization is typically between 30% - 60%** of the total allotted amount. The exception to this rule appears to be in the first year of implementation, where utilization increases by about 10%.

“ **One size no longer fits all in today's benefits world. Many employers, however, are unable to offer flexible programs due to their size and/or cost constraints. HCSA's, whether used as a standalone program or in combination with a traditional benefits program, is the best way an employer can add flexibility while containing costs now and into the future.** ”

**Michael Ramage**

*[Ramage Benefits](#)*

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<sup>8</sup> [Sanofi, The Sanofi Canada Health Care Survey \(2020\)](#)

<sup>9</sup> [Sanofi, The Sanofi Canada Health Care Survey \(2020\)](#)



# Why are HCSAs not being fully utilized?

Plan members are utilizing 30% - 60% of their total HCSA allotments: they are quite literally leaving 40% of their money on the table.

## But why?

### Auto coordination

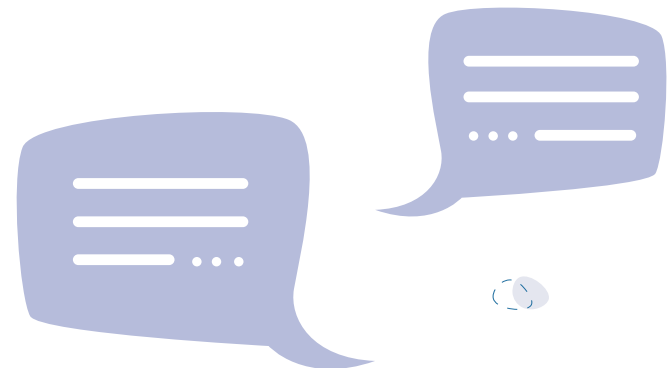
Auto coordination between an Extended Health Care (EHC) benefit and an HCSA makes using the HCSA easier by automatically covering eligible expenses not covered by a traditional plan (such as a co-pay).

However, that automatic process takes place behind the scenes, putting additional separation between the plan members and their HCSA. That makes it challenging for plan members to know how much they have left or to forget about their HCSA entirely. Furthermore, it means that HCSAs are more likely to be accessed only when someone uses their EHC benefit.

### "Top-up" stigma

HCSAs have long been considered a "top-up" benefit — something supplemental to a traditionally insured plan. While this has historically been how many employers set up the benefit, today, employers are replacing traditional health and dental insurance with only HCSAs.

The idea that HCSAs are an added "nice-to-have" benefit or a top-up to existing plans has proven hard to shake. That stigma can give HCSAs an automatic backburner status with employers and plan members both.



# Why are HCSAs not being fully utilized?

## Knowledge of eligible expenses

Another thing hurting HCSA utilization is a relatively simple one: plan members don't know what's eligible. The list of [eligible expenses](#) is extensive, which is good (because it offers lots of coverage) but can be overwhelming (because there are so many options) that employees aren't sure if their expense is covered.

It's worth noting that one of the eligible expenses under an HCSA are out-of-pocket payroll costs, so employees can use their extra HCSA dollars at the end of the year to save money.

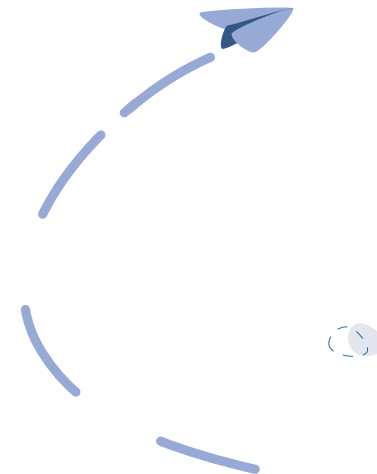
## Benefits communication (or a lack thereof)

Benefits communication — what is covered, how to access it, and where to get more information — is another key factor in utilization. When it comes to HCSAs, for all of the reasons listed above, they're sometimes easy to miss when employers talk about their benefits plan.

Focus is more often put onto other benefits, such as EHC, Dental, or drug coverage, while HCSAs don't exactly make it to the forefront of the benefits communication plan.

## The Future of Health Care Spending Accounts

Health care spending in Canada is steadily rising as well, and working Canadians will continue to seek out options that provide flexible coverage for these health costs. Likewise, Canadians are continuing to consider an employer's benefits plans when looking for work, so providing this coverage through an HCSA is a viable strategy to attract and retain top talent.



## Data Analysis

Data represents over 1,000 small- to medium-sized employers and a portion of Benefits by Design (BBD) Inc.'s group benefits business. These small- to medium-sized employers reflect a cross-section of industries located across Canada, including construction, manufacturing, retail trade, finance, and more.

## About Benefits by Design (BBD) Inc.

Benefits by Design (BBD) Inc. is a proud Canadian success story. Established in 1996, we are on a mission to help working Canadians promote and protect their health, wealth, and happiness by **delivering employee benefits by design.**

**You have the data - now  
let us help you put it into action.**

**Contact us** to learn more about  
our Health Care Spending Accounts. [standalone@bbd.ca](mailto:standalone@bbd.ca)



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