



2023 | REPORT

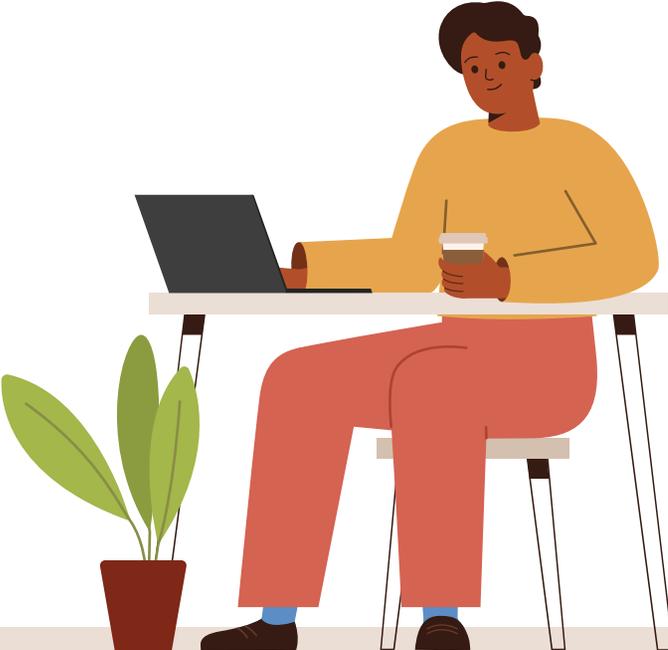
The state of health care spending accounts

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 care coverage based on their own needs.

What is in this report?

- What is a health care spending account? 3
- How does a health care spending account work? 4
- Why are health care spending accounts growing? 5
- What employers say about health care spending accounts 6
- How much are employers allocating to health care spending accounts? 7
- Are health care spending accounts fully utilized? 8
- Why are health care spending accounts not being fully utilized? 9
- Data analysis 11



What is a health care spending account?

A health care spending account (HCSA) is an employee benefit that offers reimbursement for a wide range of health and dental care expenses. These expenses are often in addition to coverage under a traditional, fully insured plan with health care coverage.

In our experience, the best way to think of a HCSA is like a bank account. Each employee has their HCSA, which they access and use for eligible health and dental care 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, HCSAs 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 a health care spending account 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 care 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 a 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?

In 2022, 48% of plan sponsors included a HCSA in their employee benefits plans. Compare that to 2017, where just 31% of plans included a HCSA, and we can clearly see that they are a popular benefit.¹ 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.²



Sources

¹ [Benefits Canada Healthcare Survey \(2022\)](#)

² Sanofi, The Sanofi Canada Health Care Survey (2020)

Why are health care spending accounts 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 care 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.



Sources

³ [Canadian Institute for Health Information \(2021\)](#)

⁴ [Canadian Institute for Health Information \(2021\)](#)

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

⁶ [Benefits Canada Healthcare Survey \(2022\)](#)

⁷ Sanofi, The Sanofi Canada Health Care Survey (2020)

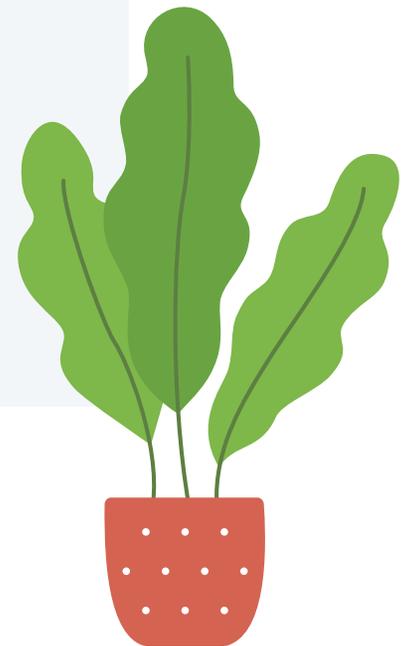
Rising health spending in Canada

If you're worried that HCSAs are just a fad, consider that in 2021, total health expenditure in Canada was around **\$208 billion**, which is roughly \$8,019 per person³. In fact, Canada's national health expenditure is trending upwards alongside the [rising cost of drugs](#)⁴, 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.⁵

94% — number of plan members who agree that the HCSAs are important parts of their health benefits plan.⁶

82% — number of plan members without a HCSA who would like to have one.⁷

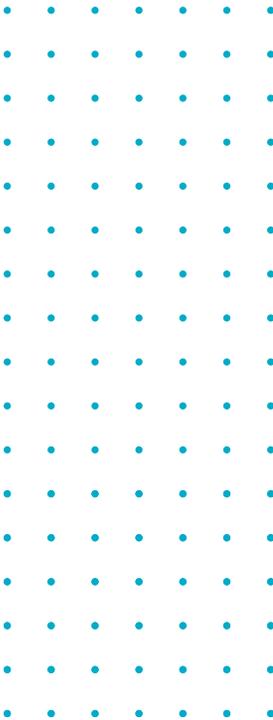


What employers say about health care spending accounts



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 health care spending accounts?

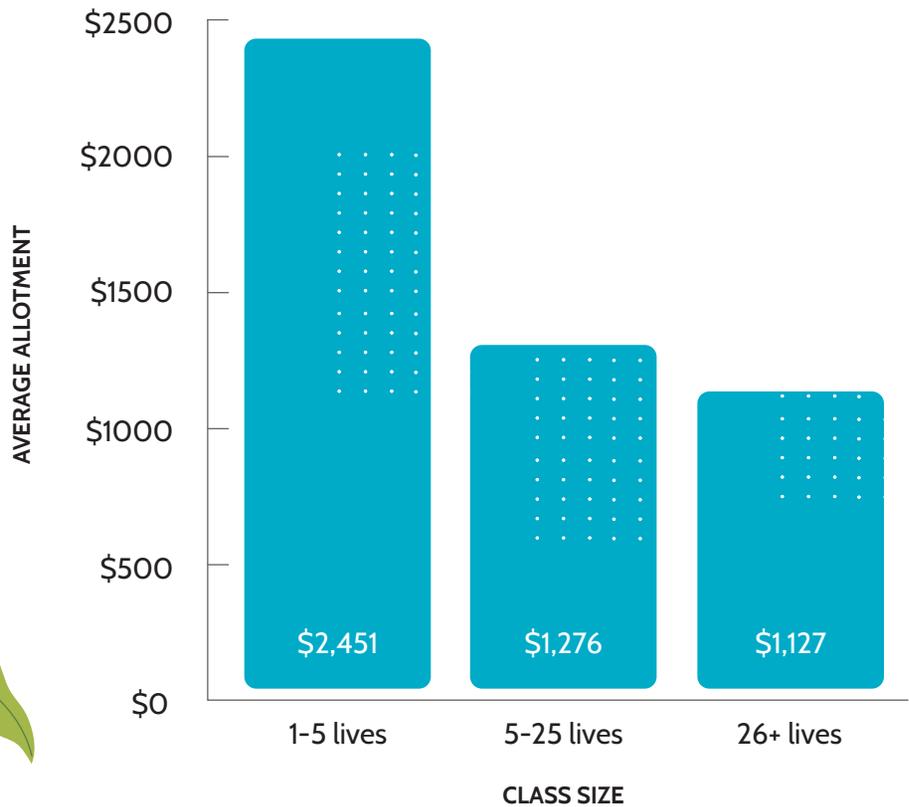
When it comes to HCSAs, employers are the ones who decide how much they want to offer to plan members.

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

Based on our findings, the average allotment was approximately **\$1,525** per plan member, per 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 a HCSA are certain out-of-pocket payroll costs, such as health, dental care, 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 a HCSA report using at least some of their benefits dollars in 2019⁸. However, those who used it reported spending an average of only 62% of the funds available⁹.

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 is about 10% less.



Sources

^{8,9} Sanofi, The Sanofi Canada Health Care Survey (2020)



30% - 60%

of the total allotted amount.



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. HCSAs, 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](#)

Why are health care spending accounts 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

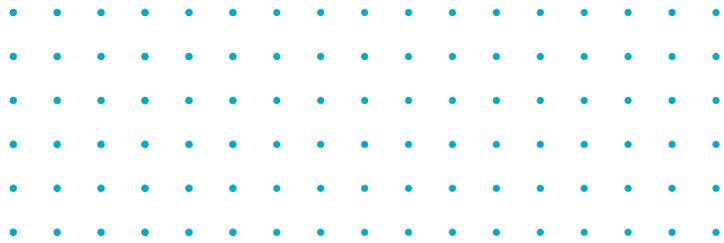
Auto coordination between a health care benefit and a HCSA makes using the HCSA easier by automatically covering eligible expenses not covered by a traditional plan (such as a [co-pay](#)).

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 health care 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 care 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 back burner status with employers and plan members both.



Why are health care spending accounts 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 a HCSA are out-of-pocket payroll premium deductions, so employees can use any extra HCSA dollars at the end of the year.

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 health care, dental care, or drug coverage, while HCSAs don't exactly make it to the forefront of the benefits communication plan.

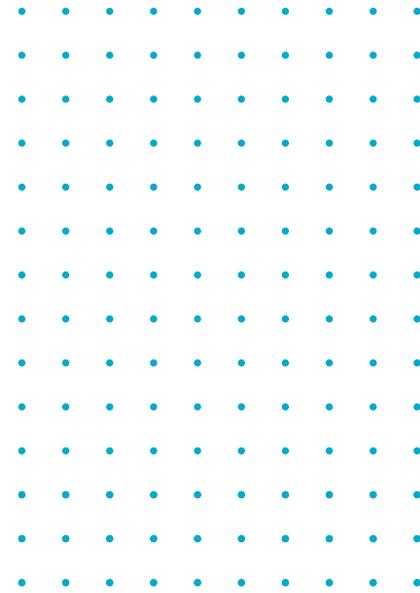
The future of health care spending accounts

Overall 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 a HCSA is a viable strategy to attract and retain top talent.



Data analysis

Data represents 3,000 small- to medium-sized employers and a portion of People Corporation'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.



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

Contact your group benefits advisor for more information.