the benefits trust

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At The Benefits Trust, we are seeing a surging interest in Healthcare Spending Accounts (HCSA). Instead of choosing a standardized benefits program for the entire company, businesses of all sizes are taking a closer look at HCSAs to provide flexibility for employees while at the same time providing cost control and a strategic compensation tool for employers.

As more and more employers consider HCSAs, we commonly hear questions like, “What’s the average HCSA amount?” and “How much should go in to an HCSA for my company?”

We believe that there are three key considerations for determining the right amount for your HCSA.

Step 1

Determine Your Total Benefits Spending Budget

If you currently include employee benefits coverage in your total compensation package for employees, and you have a comfortable budget number, then start there for now. If you need to reduce that number, then determine what you’re comfortable spending as you develop your budgets.

Another way to approach this is to determine what you need to offer in benefits to remain competitive as an employer—particularly if you compete for in-demand skills.

But we first need to understand the next two steps to make a decision on total benefits spending because, as you’ll see, there’s more to it than just numbers.

Step 2

Decide How Big of a Role the HCSA will Play in Your Plan

Your next big decision is determining how big of a role the HCSA will play in your overall group benefits plan. In other words, how much flexibility do you want to give plan members?

In the extreme case, you can make your HCSA amount 100% of your benefits program. This allows your employees maximum flexibility and provides a pool of money to choose for themselves which specific healthcare services—orthodontia, physiotherapy, vision care, and so forth—they will spend their HCSA dollars on.

This may be popular in a workforce of vastly differing demographics. After all, the empty-nest VP of Marketing is no longer concerned about an extensive orthodontia provision. But she may appreciate an additional physiotherapy amount for her torn rotator-cuff. Whereas, the HR Manager may need both eyeglasses and contact lenses for herself, her husband, and two teenagers.

However, the more comprehensive approach—rather than simply choosing between a conventional benefits plan and an HCSA—is to provide a basic core benefits plan complemented by an HCSA.

Many employers are including Health Care Spending Accounts strategically in their benefits plans, in different combinations, to achieve specific compensation goals. In this scenario, all employees receive more limited conventional benefits elements (typically prescription drugs and basic dental, out-of-country coverage, and etcetera), and the HCSA is used to expand on those categories to cover additional CRA-approved healthcare expenses, such as laser eye-surgery, orthodontics, dental implants, and even veterinary bills for service animals. (For a complete listing of CRA-approved healthcare expenses, please visit the **CRA Website**).

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Ultimately, it's your decision. Some employers provide a more comprehensive core benefits plan and a small HCSA amount of a few hundred dollars while others reduce core benefits and provide a more generous HCSA balance to allow for more flexibility.

Step 3

Make it Meaningful

One way to establish an appropriate HCSA amount is to tie it to something meaningful for your organization. How do you measure success in your organization and how do you reward it?

HCSA amounts can be used to actively reward staff loyalty and recognize company and individual achievement. There are many ways to determine particular amounts. Your HCSA amount could be a percentage of a staff member's earnings; or perhaps it could be a percentage of new sales revenue for your sales teams; or you could designate an amount for every year of service to reward particularly loyal and high-achieving employees—and to retain them, too.
Ultimately, you are free to designate a small amount—say, $300—for new employees, or you can establish a much more significant amount for proven and valued team members. Benefit classes can be designed to accomplish many different results, based on legitimate distinctions within your company. It's up to you. Understanding the "groups within your group" is also key. Owners, management, and entry-level employees, for example, are compensated differently. Why should their benefits be identical? You can customize your HCSA for each group to reflect these differences and make benefits a more meaningful and tax effective part of overall compensation. Remember an increase of $10,000 in gross pay for a highly compensated employee is worth only $5,000 with a 50% marginal tax rate. However, $10,000 in an HCSA is worth every penny.

Now that's a meaningful choice.

The Final Calculation

We've considered how an HCSA can fit in a meaningful way in your benefits plan, so let's return to step 1, Determining your total benefits-spending budget. As you've seen, cost is not the only issue, but, rather, the impact that benefits can have as an integral part of your compensation, as well as recruiting and retention philosophy needs to be considered.

- *Do I view employee benefits as an important compensation tool or a competitive necessity?*
- *How much flexibility do I want to provide employees and will this be valued based on my employee demographics?*
- *Can I make benefits meaningful to my organization to reward positive behaviour in line with my company's objectives?*

Within this framework, calculating the right amount for your Healthcare Spending Account becomes possible when you view it as an enabling and effective tool in your compensation tool-box.

>> **Contact us** today to discuss the right amount for your Healthcare Spending Account.