

# A way to bolster workplace health care



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WEALTH**

**By  
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**W**ould it surprise you to learn that Canadians consistently rank health care among the most important issues they face? This concern is even more acutely felt by business owners.

In addition to providing the means to pay for medical and dental care for themselves and their families, the competitive marketplace requires that their key employees be also adequately covered. In the cases of very large corporations, parallel health care systems have been created so that the quagmire of socialized public health care need not be visited on their employees.

For the vast majority of Canadian business owners the choice has been simple – to provide some form of coverage through a group medical and dental plan, or to go without. Too often the escalating cost of group plans has forced the latter course of action, with unfortunate consequences.

For business owners without coverage, the only recourse was to fund any medical or dental cost themselves, and then apply for a tax credit on their annual personal tax return. Unfortunately the income provisions and tax credit rate, which can only be described as inadequate, result in a wholly inadequate reimbursement. As a result, Canadian business owners and many of their employees have found access to dental and specialized medical

care beyond their reach.

This article is not intended to criticize the use of group plans; for indeed providers of these plans have sought to limit cost escalations, increase and enhance coverage, and provide some degree of flexibility. The point of this article is to illuminate a second course which provides coverage for those companies that, for a variety of reasons, have not embarked upon the creation of a formal group plan, including those companies whose special needs require a flexible plan to provide enhanced services while preventing escalating premium costs.

The use of a Health and Welfare Trust (HWT) is a novel means of accomplishing the task of providing coverage for medical and dental procedures regardless of the size of a company, with the ability to restrict or enhance coverage limits based upon the individual characteristics of an employee group.

The plan itself is straightforward. A formal trust is drawn up to provide for re-imbursement of the out-of-pocket costs born by the plan members for the medical and dental costs incurred by them or their families. The trust itself sets out coverage limits, roles of the trustees, requirements for membership, and satisfies the legal preconditions of a formal trust.

The business owner should not attempt to draw this trust up, but rather should engage a professional with real experience in the field. The costs of establishment are minimal, and usually covered by the first year's savings.

Consider an example of an employee of ABC Corp. The employee is informed that their 12-year-old daughter requires braces at a cost of \$6,000.

As is common, their group medical and dental plan doesn't provide meaningful coverage for

orthodonture, so the individual is faced with bearing the cost alone. Absent any coverage, they may claim the expense if it exceeds three per cent of income (or \$1,884), and then deduct it at the lowest marginal tax rate.

Even if the company had 'cost plus' provisions in their group benefits plan, by covering the orthodontics they would incur a hefty administration fee. If, however, a HWT is in place, the employee is reimbursed by the trust once a receipt for the procedure had been presented to the trust administrator.

The company would first transfer money to the trust's bank account, which would immediately reimburse the employee. The corporation deducts this expense from income and the employee is not required to report a taxable benefit. As a result, the employee's child now has the needed orthodontics and the company has received a complete tax deduction for their cost.

The company must be careful when establishing the plan to not create a shareholder benefit. This can be done by making sure that the membership of the plan includes non-connected – that is, non-shareholding – employees.

Where the company employs only shareholders, quite common with the advent of professional corporations, special care must be taken to avoid construction of a shareholder benefit. Professional advice based on sound experience when constructing the plan is essential to avoid this or any other problem, which may hamper the effectiveness or viability of the plan.

The plan is quite flexible in that it will cover any medical or dental procedure that is medically warranted. A whole host of scenarios can be imagined, from the simple case of braces for the kids, to obtaining an MRI in Detroit, Hull, or Buffalo in a reasonable

time, to providing for the special care needs of a developmentally challenged or autistic child. All of these issues, while critical to the individual or parent, have fallen through the cracks of a universal and socialized health care system and are often beyond the financial means of those who truly needed them. The HWT makes deducting these procedures and services reality.

Recent interpretation bulletins have expanded the use of these plans. The Canada Revenue Agency has held that a HWT may be used to pay for group accident and sickness plans and that in certain, and widely occurring circumstances, such plans may include provision of critical illness and long term care insurance.

A HWT may not pay for premiums for life insurance or disability policies. A critical illness policy pays out a lump sum if the insured contracts an illness, such as cancer, which is on a predetermined list.

The payout of the insurance proceeds has been traditionally tax free, but the premiums, often paid by the company for its owner-manager and key employees are not deductible.

The use of the HWT allows the portion of the premium that constitutes the cost of pure insurance

to be deductible by the company and the benefit payout to remain tax free. Special consideration must be given to return of premium and return of premium upon death riders, again underscoring the need to retain experienced professionals to navigate the company through any possible risks or pitfalls associated with implementation.

Companies should look to innovative solutions to augment existing group plans where necessary, and to provide meaningful coverage where none existed before in a flexible and cost effective manner. The HWT is one such means of accomplishing this goal.

*This article was co-written by Trevor Parry, M.A. LL.B. He is executive vice-president of Gordon B. Lang & Associates Inc.*

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## Tips for business survival

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support.

The major sources are listed below:

- Business Continuity Institute, BCI, ([www.thebci.org](http://www.thebci.org)) is the predominant organization certifying professional planners and establishing professional standards in the UK and Europe.
- Canadian Centre for Emergency Preparedness: [www.ccep.ca](http://www.ccep.ca)
- Continuity Insights (Journal): [www.continuityinsights.com](http://www.continuityinsights.com)
- Contingency Planning & Outsourcing - Industry Articles: [www.cpotracker.com/Articles.aspx](http://www.cpotracker.com/Articles.aspx)
- DRI International: [www.drii.org/DRII](http://www.drii.org/DRII)
- DRI Canada: [www.dri.ca/dric\\_links.html](http://www.dri.ca/dric_links.html)
- Disaster Recovery Journal:

[www.ibhs.org/business\\_protection](http://www.ibhs.org/business_protection)

• Global Continuity (Journal): [www.globalcontinuity.com](http://www.globalcontinuity.com)

• Global Partnership for Preparedness ([www.globalpreparedness.org](http://www.globalpreparedness.org)) is a non-profit group promoting BCP awareness

• Institute for Business and Home Safety: [www.ibhs.org/business\\_protection](http://www.ibhs.org/business_protection)

Many additional resources are available through links from these sites.


Will your business survive an unexpected interruption? You can improve the chances by developing, implementing, and maintaining a basic business continuity plan. It needn't be expensive or complicated, but it does require you to make a choice, a commitment, and take action.

Ensuring your business survives a disaster requires a practical, documented, practiced, and current business continuity plan. Receiving insurance settlements alone will not ensure a business' survival after a disaster.

*This column was written with assistance from David Shimberg, CBCP.*

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