



Questions and Answers

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Basic Reasons for CostPlus Programs

Without a CostPlus Program for Employees, there are **very significant Income Tax "penalties"** for Medical Expenses.

1. An Employee **earning from \$30,000 to \$60,000 per year**, is subject to a combined Federal and Provincial Marginal Tax Rate of about 33%.

This means the Employee must receive \$1,500 as taxable Payroll Expense to pay \$1,000 for Health or Dental Care - a tax "penalty" of \$500 or 50%.

If the Employer paid the Expense or reimbursed the Employee directly, the \$1,000 would be taxable as income - a tax "penalty" of \$333 or 33%.

Examples are approximate and apply to Federal and Ontario Income Tax.

2. An Employee **earning over \$60,000 per year**, is subject to a combined Federal and Provincial Marginal Tax Rate of about 40%.

This means the Employee must receive \$1,667 as taxable Payroll Expense to pay \$1,000 for Health or Dental Care - a tax "penalty" of \$667 or 67%.

If the Employer paid the Expense or reimbursed the Employee directly, the \$1,000 would be taxable as income - a tax "penalty" of \$400 or 40%.

Examples are approximate and apply to Federal and Ontario Income Tax.

With a CostPlus Program for Employees, the higher **Payroll Expenses** become lower **deductible Employee Benefit Expenses** for the Employer, and **are non-taxable for the eligible Employees and their Dependents.**

CostPlus Claims Process

1. The Employee either pays for or charges eligible products or services
2. The Employee and Employer complete the CostPlus Claims Authorization
3. The Employer sends CostPlus a Cheque for Claims plus Processing Fee and Tax
4. CostPlus either reimburses the Employee or makes payment for the services provided

With CostPlus Out-of-Pocket **Tax Expense** Becomes DEDUCTIBLE BUSINESS EXPENSE

Example of Out-of-Pocket Expense

Example of a \$1,000 Medical Expense for those with \$30,000 to \$60,000 Net Income

Employee must earn \$1,500 to pay \$1,000 Medical Expense

Your Money **Income Tax** **Out-of-Pocket Expense**
You Earn \$1,500 Salary ➔ \$500 at 33% Marginal Tax ➔ \$1000 left for Medical Expense

Example of a \$1,000 Medical Expense for those with over \$60,000 Net Income

Employee must earn \$1,667 to pay \$1,000 Medical Expense

Your Money **Income Tax** **Out-of-Pocket Expense**
You Earn \$1677 Salary ➔ \$667 at 40% Marginal Tax ➔ \$1000 left for Medical Expense

Example of Program

Example of a \$1,000 Medical Expense for
Employees with a CostPlus Program

| Medical Expense | Deductible Business Expense | Tax-Free Employee Benefit |
|--|--|---|
| Employee Incurs \$1000 Medical Expense ➔ | Employer Pays CostPlus Claim (Claim + 10% Processing + Tax) (2% Premium Tax & 8% PST) | ➔ CostPlus reimburses \$1000 To Employee, tax free. |

**Claim Becomes Tax Deductible
Business Expense for Employer**

Legislation and Regulations

Health and Dental Care Claims which conform to Revenue Canada Interpretation Bulletin IT339R2 (which describes Private Health Services Plans) and IT519R2 (describing eligible Medical Expenses), can be made for a 12 month period ending in the current taxation year.

Private Health Services Plans

Private Health Services Plans are available to incorporated businesses, without benefit limits. The 1998 Budget extended deductibility for premiums paid to Private Health Services Plans to include unincorporated self-employed individuals - subject to certain conditions, including:

1. Any Full-time arm's length Employee (after 3 consecutive months of service) must be eligible for benefits at least equivalent to the benefits for which the Owner is eligible.
2. The total of Full-time arm's length Employees (after 3 consecutive months of service) must constitute at least 50 percent of the persons eligible for benefits under the plan.
3. If Full-time arm's length Employees do not constitute at least 50 percent of those under the plan there will be limits on the deductible amount in respect of the Owner:
\$1,500 for each of the Owner and their Spouse, and
\$ 750 for each of the Dependent Children of the Owner.

It appears that any conditions for unincorporated self-employed individuals would not apply to the Spouse of the Owner who (if a bona fide Employee in the same business) could then submit Claims for the Owner-Spouse (the Owner-Spouse being covered as a Dependent).

Cost Plus Programs

Cost Plus Plans are a specific form of Private Health Services Plans and, under Technical Interpretation Document 9904155 (of April 28th, 1999) - Revenue Canada expresses the view that Cost Plus Plans are not applicable to unincorporated self-employed individuals.

Revenue Canada basis this on the view that there is no transfer of the assumption of risk. It appears that (while the unincorporated business Owner is not eligible under a Cost Plus Plan) the bona fide Employees of such unincorporated business Owner would be eligible.

Responsibility

It is the sole responsibility of Employers entering into a Private Health Services Plan to ensure that benefits authorized by the Employer for payment or reimbursement conforms with Federal and Provincial Legislation in regard to the taxation of the benefits thus authorized for payment.

Q 1. What is CostPlus

A 1. CostPlus is a trademark of the CostPlus Corporation, as Trustee for the Employers who provide Self-insured and Self-adjudicated Private Health Services Plans for the payment or reimbursement of eligible Employee Health and Dental Care expenses.

Private Health Services Plans include all forms of private Health and Dental Care:

| | |
|-------------------------------|--|
| Insured by the Insurer | Administered by an Insurer or Third Party Administrator, or Self-administered by Employer or Third Party Administrator |
|-------------------------------|--|

| | |
|--------------------------------|--|
| Insured by the Employer | ASO Plans through Insurer or Third Party Administrator, or Self-adjudicated Cost Plus plans through Insurer or Trustee |
|--------------------------------|--|

In Ontario, Self-insured Plans are known as Uninsured Benefit Arrangements.

Q 2. What are the benefits of CostPlus

A 2. CostPlus offers substantial tax savings by arranging Health and Dental Care expenses as tax deductible for the Employer and non-taxable for Employees, and can be implemented for all or for selected Classes of Employees to:

**enhance or replace pre-paid Health Care Plans, and/or
enhance or replace pre-paid Dental Care Plans, and/or
provide added non-taxable Executive Compensation**

Q 3. What makes CostPlus different from Prepaid Group Insurance

A 3. The main difference between Health and Dental coverage provided by Insured Plans compared to Health and Dental coverage through Cost Plus Programs, are:

| | |
|---------------------|--|
| Insured Plan | Premiums are estimated in case an event may occur , and calculated using Actuarial Assumptions of shared risk. There are no refunds, even if there are no Claims. |
|---------------------|--|

| | |
|----------------------|--|
| CostPlus Plan | Premiums are paid after the event has actually occurred , and include Claims plus Processing Fees and applicable Taxes. There are no Premiums, if there are no Claims. |
|----------------------|--|

Q 4. Can CostPlus replace Insured Dental Care

A 4. Since there is a relatively controllable level of financial risk for the Employer, CostPlus Programs can be implemented to replace prepaid insured Dental Care.

CostPlus can also be used to provide selected Classes of Employees with additional or enhanced Dental Care coverage, such as the Major Restorative and Orthodontic Services for Adults and/or Children, not provided in their insured Dental Services.

Q 5. Can CostPlus replace Insured Health Care

A 5. Since there is a controllable level of financial risk by implementing maximums, CostPlus Programs can be implemented to replace prepaid insured Health Care.

CostPlus can also be used to provide selected Classes of Employees with additional or enhanced Health Care and Vision Care and Counseling Services not otherwise available. CostPlus can also be used to enhance the benefits provided by OHIP

Q 6. What does CostPlus Cost

A 6. CostPlus expenses include:

| | | |
|-------------------------------|-------------------------|---------------------------------|
| Annual Program Fee | \$100.00 | plus PST |
| Claims Processing Fee | 10.00% of Claims | plus PST and Premium Tax |
| Ontario Premium Tax is | 2.00% | currently |
| Ontario Sales Tax is | 8.00% | currently |

Q 7. Does CostPlus provide significant Savings

A 7. Employer-Employee CostPlus Plans provide highly cost-effective benefits, and result in before-tax business expenses for the Employer instead of after-tax personal expenses for the Employee, with Employee Benefits being non-taxable.

Q 8. Does CostPlus provide Savings compared to Group Insurance

A 8. CostPlus Processing Fees result only in Claims plus 10.00 percent. Insured Plans will often result in Claims plus 20.00 to 40.00 percent. Specific examples can be calculated using actual Health and Dental Claims and actual Health and Dental Premiums from the Policyholder's Renewal Report. CostPlus will calculate example savings if provided with Claims and Premiums.

Q 9. Does CostPlus provide Employee Benefit Booklets

A 9. CostPlus provides Employee Benefit Booklets, showing the Employer's business Name the Class of Eligible Employees and the CostPlus benefits and limitations (if any) arranged by the Employer for that specific Class of eligible Employees.

Q10. Does the Employer have specific obligations

A10. It is the obligation of the Employer to ensure that Claims for eligible Employees and their eligible Dependents and the applicable Processing Fees and Provincial Taxes are submitted to CostPlus, and that the Enrollment of Employees conforms to the requirements of the Income Tax Act and Federal and Provincial Legislation.

Credibility and Risk Factors

It is recommended that CostPlus benefits be used to:

1. enhance or replace prepaid Health Care Benefits, and/or
2. enhance or replace prepaid Dental Care Benefits, and/or
3. provide additional non-taxable Executive Compensation

When CostPlus benefits are used to provide Health Care (as well as Dental Care), or to replace insured Health Care benefits, benefit maximums should be implemented. This should be evaluated by the Employer (see statistical Risk Factors noted below).

Shareholder-Employees

Shareholder-Employees without insured benefits available, must pay Health Care expenses on an “out of pocket” basis, and it makes financial sense to make the benefits tax deductible to the Corporation and non-taxable for the Shareholder who is also a bona fide Employee.

Health Care Risk Factors

There is a financial risk to providing Self-insured Health Care benefits. Risk can be limited by including Annual Maximums for Health Care benefits. Risk can be evaluated using the following examples of Credibility and Risk Factors.

| Current Employees | Credibility | Risk |
|--|-------------|------|
| Actual participation of approximately 5 Employees | 65% | 35% |
| Actual participation of approximately 10 Employees | 75% | 25% |
| Actual participation of approximately 15 Employees | 80% | 20% |
| Actual participation of approximately 25 Employees | 90% | 10% |
| Actual participation of approximately 50 Employees | 100% | 0% |

Credibility Chance that current year’s Claims will predict next year’s Claims.
Risk Factor Chance that current year’s Claims will not predict next year’s Claims.

Please Note Risk can be limited by including Annual Maximums for Health Care, or using combined Annual Maximums for Health and Dental Care.

Including an Annual Maximum of \$1,000 per Employee (for example) would make it a Health Care Spending Account or Flex Benefit Plan.