

## Private Health Services Plan

### *a) What is a Private Health Services Plan*

A Private Health Services Plan (PHSP) is an extended health and dental plan and is distinct from Government plans. The Canadian health care system is a tax funded universal health care system in place for all Canadians. The system allows Canadians to receive hospital and medical care at no apparent cost. However, a great number of medical procedures and care are not covered.

The purpose of a PHSP is to reimburse employees for health care costs not ordinarily covered by the Canadian system. Most traditional group insurance plans reimburse the employee for a percentage of the covered expense and typically do not cover the full range of health care expenses that would otherwise qualify as a medical expense under the income tax act. For example, major dental work or laser eye surgery may not be covered by an insurance plan. Also, traditional plans place annual limits on the total reimbursement for a given year. Normally, the owner/manager of an incorporated business cannot implement an insured plan at a reasonable cost. When properly placed, a Private Health Services Plan enables business owners to have their businesses pay for qualifying medical expenses on a pre-tax basis. Employers choose what nominal health benefit level is required. The benefits are tax-free and contributions from the business are deductible as a cost for that business.

### *b) Who is eligible?*

Eligibility includes incorporated business owners, employees, spouses (or partners), and members of the employee's household with whom the employees are connected by blood relationship, marriage or adoption. Children over 18 who are still attending school are considered dependents. The owner is considered an employee of an incorporated business. There is no medical underwriting necessary. Therefore, no age restriction, no concern for pre-existing conditions and no premiums.

### *c) Procedures for establishing a PHSP*

An arms-length administrator is used to set up the plan and ensure that there is compliance with CRA regulations. A detailed application is submitted to the administrator along with a one-time deductible set up fee. Unlike traditional premium plans, you only have to pay for what you use; there are no premiums. To make a claim, original medical receipts are submitted to the administrator along with a corporate cheque for the total of the claim plus a deductible administration fee. A cheque is sent back by the administrator – usually within 48 hours - made payable to the applicant personally and is a tax-free benefit.

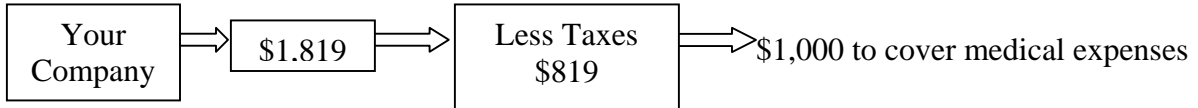




*d) How does a PHSP save money?*

Assume medical bills of \$1,000 and a Personal Marginal Tax Rate of 45%.

*Without a PHSP*



*With a PHSP*

