

FlexSave™

Overview for Advisors



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Overview

Using guidelines outlined by CRA (Canada Revenue Agency), FlexSave™ is a plan that facilitates incorporated businesses and unincorporated businesses with arm's length employees in paying their **health** and **dental** expenses in a tax-effective and cost-efficient manner.¹ It is designed to provide employees with a tax-free benefit for qualifying medical expenses they incur. The employer pays the expenses, plus an administrative fee and taxes and may be permitted to deduct the full amount as an operating expense.¹

FlexSave™ works very differently than traditional group or individual health and dental insurance programs in that there are no ongoing premium payments required.

An employer enters into a trust agreement with HUB Financial Inc. to provide for the reimbursement of an employee's health and dental benefits. The employer agrees to provide funding for these expense amounts plus applicable fees and taxes up to the limit set in advance by the employer.

FlexSave™ was developed using the guidelines set forth in Canada Revenue Agency (CRA) Income Tax Bulletins - IT-85 R2, Tax Folio S1-F1-C1: Medical Expense Tax Credit, IT-529, IT-339 R2

Rationale

There are numerous reasons why a business may consider a program like FlexSave™ in lieu of, or in addition to traditional health and dental alternatives.

1. No benefit plan - personally paying health and dental expenses

Many businesses do not currently have a program in place for employee health and dental expenses. FlexSave™ can provide a mechanism to have these health care expenses paid from a far more tax-efficient place without the company having to qualify or put in place a traditional employee benefit plan.

2. No benefit plan – have considered insurance but concerned about expensive premiums

Many small businesses have not implemented insurance for the following reasons:

- Company was too small to have real “purchasing power” with the insurance companies
- Company was too new or in an industry where insurers are not interested in providing benefits
- The majority of their workforce had coverage through spousal plans
- Their workforce wanted control over where they could use funds without being restricted by co-insurance or low maximums in each category (i.e. vision care, chiropractic etc.)

The FlexSave™ program can address many of these issues as it follows CRA guidelines rather than insurance guidelines, making it less restrictive than traditional benefit plans.

¹, Every tax situation is unique and can be quite complex. Clients should always seek independent tax advice before putting a FlexSave™ plan in place or deducting expenses related to FlexSave™

3. Want to reduce or eliminate potential increases in health and dental insurance premiums.

Since FlexSave™ is not a traditional plan of insurance; some employers are drawn to the concept of reducing their health and dental funding. Employers under a FlexSave™ program know that they will not receive rate reviews and increases annually based on their employee usage.

These employers may use the FlexSave™ Program on its own or perhaps as a complementing component of their existing traditional plan that could be seeing heavy usage and rate pressure. The FlexSave™ program may also be used to complement existing traditional coverage by providing reimbursement amounts that were not covered under another plan, such as the deductibles, co-insurance amounts and amounts beyond their current maximums.²

How does it work?

Eligibility

If your client operates a business, is self employed or an independent contractor with arms-length employees, they may be eligible. The business must be their main source of revenue and an individual is not able to create a company for the sole purpose of a Health and Welfare Trust or a Personal Health Spending Account (PHSP).

There are no minimum or maximum size requirements.

Fees

- One time set-up fee of **\$250** payable to HUB Financial Inc.
- An administration fee of **10%** of the eligible claim amount plus applicable taxes depending on province of residence (please refer to chart below)
- There are **NO** additional charges at set up, membership fees or cheque fees

Taxes*

Ontario

- HST of 13% required on 10% administration fee
- PST of 8% required on claim
- Premium tax of 2% on claim and administration fee

British Columbia, Alberta, Manitoba, Saskatchewan

- GST of 5% required on 10% administration fee

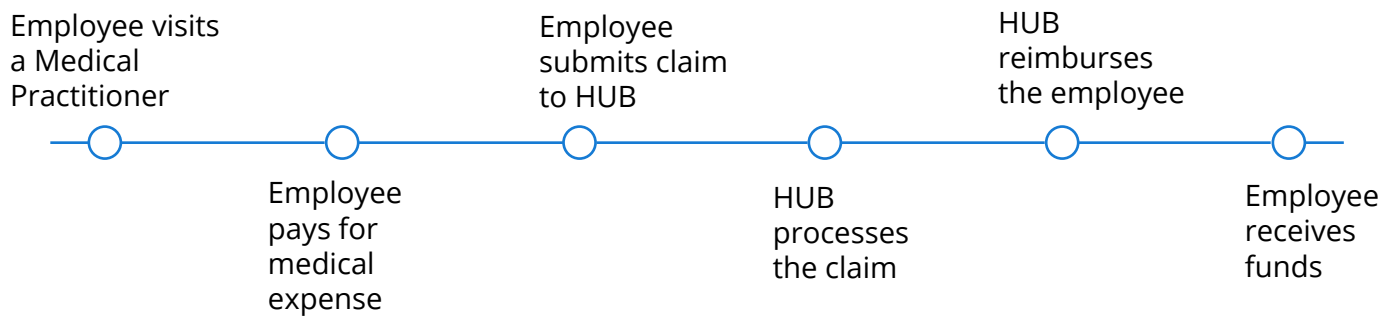
Atlantic Provinces

- HST of 15% required on 10% administration fee

², For more information please refer to Tax Folio S1-F1-C1: Medical Expense Tax Credit available at CRA website www.cra.arc.gc.ca

*Subject to change

Sample Claim Flow



1. The employee incurs an eligible medical or dental expense and pays the practitioner (pharmacy, dentist etc.).
2. The employee completes the online claim submission on the employee online portal, attaches a copy of the receipt and electronically submits the claim to HUB Financial.
3. HUB will verify if funds are available for reimbursement under the Employers account. If there are not any funds available, HUB will send an invoice on amount owing to settle the claim.
3. Upon receipt and verification of an eligible claim and funding, HUB Financial will reimburse the employee directly.
4. The company receives a statement for all the paid claims, including all administration fees and applicable taxes, for income tax deduction purposes.

Benefit Options

For Incorporated Businesses

Upon set up, the employer must decide on the maximum benefit amount they wish to give each employee. The maximum must be consistent amongst employee class and cannot be discriminating by individual person (e.g. All office workers will receive \$2,000 annually). Separation of classes is **only** available to incorporated companies.

For Unincorporated Business with Arms Length* Employee(s)

If the unincorporated business has eligible Arms Length employees, the CRA sets the owner maximum in a differing manner. The owner's maximum eligible amount in this case would be the lowest cost-equivalent coverage provided to their least-favored Arms Length employee. For example, if the owner provides only \$500 to an employee, then their personal deduction ability will also be limited to \$500 per annum.

** Arms Length employee is one that is unrelated to the sole proprietor.*

Setting Maximum Benefits/Classifications

Structure and Classes should be clearly defined before the plan is put in place and should be available in writing for employee review. There must be justifiable rationale as to why each class of employees is receiving differing benefits than another (as would be the case with traditional benefits). Benefits must be equal amongst classes and fair between classes. For example, by setting up one class with a benefit maximum of \$1,000, the next class should not exceed 2-4 times that benefit amount.

When attempting to determine a maximum for any employee, another rule of thumb to follow is to insure that the benefit amount does not exceed 10% - 15% of a person's annual income. In the benefits industry, it is rare to find individuals receiving more than that on a premium or reimbursement level.

Maintaining an Employee Benefit and Not a Shareholder Benefit

Programs like [FlexSave™](#) are designed to provide benefits for **employees** (see reference: IT bulletins IT85R2 and IT339R2). Thus, the plan should be extended beyond the ownership group to the employees. Failure to do so could result in CRA ruling the contributions as a shareholder benefit not an employee benefit. This could lead to the contributions not being deductible to the business and the benefit being taxable to the shareholder, certainly not a favorable outcome.

The appeal courts in Canada followed the above logic in the case of **Docket 2003-2910 (IT)** between **Spicy Sports Inc. and Her Majesty the Queen**. CALU commented on this case by stating: "this case highlights the risks associated with establishing private health services plans only for shareholders and their families. Where there are other employees, the failure to include them in the plan will be an indication that the benefit is being provided by virtue of the shareholdings."

A corporation controlled by a sole shareholder/employee may create a PHSP and receive benefits tax-free, provided they receive those benefits as an employee. While a sole shareholder with no employees could have trouble proving that the PHSP benefits were tax-free employee benefits, and not taxable shareholder benefits, the option still exists. Generally, where a sole shareholder is also the sole employee, CRA would consider the sole shareholder-employee to receive the benefits in his or her capacity as a shareholder unless he or she can demonstrate that employees, who are not shareholders, with similar duties and responsibilities to another corporation of a similar size receive similar benefits under a similar Plan.

Primary Income Source

Self-employment/earned income must be the primary source of income in the year (over 50%). This is designed to prevent someone from setting up a business for the sole purpose of obtaining a more tax-efficient way of paying medical expenses. This also eliminates the use of investment/holding companies as they do not have “earned income” by definition of the CRA.

Benefit Period

A FlexSave™ plan can be established using either the corporation’s fiscal year or on a calendar year basis. When specifying the effective date of the trust, the date upon which claims can be accepted, the effective date must be within the benefit period established.

Unused Benefit Options

When applying for a FlexSave™ plan, an employer may choose one of 3 options for Unused Benefits at the end of the Benefit Period:

1. Forfeit: Any remaining and unused benefit is forfeited and a new full benefit amount is allotted for the new benefit year.
2. Carry Forward Maximum: Any remaining and unused benefit is carried forward and added to the new benefit amount in the new benefit year. This will be carried forward for one year at which time it will forfeit.
3. Carry Forward Receipts: Any remaining balance is forfeited, but employees are permitted to claim receipts from the previous benefit period which have not been claimed.

Funding Options

An employer may choose one of the following structures at setup of a new FlexSave™ Account and may change it at any time. We recommend pre-funding your account as that will ensure that claims are reimbursed in a timely fashion to your employees.

Pre-funded Account

An employer may choose to deposit a lump sum amount into their HUB FlexSave™ account at the beginning of each year or set up a pre-authorized monthly withdrawal/deposit into the account. Amounts for pre-funding should be based on the predetermined maximum being provided to employees. Pre-funding the FlexSave™ account allows HUB to withdraw funds for each claim submitted plus the 10% administration cost and any applicable taxes.

To establish a pre-authorized deposit for payment of claims, the Monthly Trust Deposit Form must be completed. Lump sums may be also deposited by internet banking or cheque.

The money your client contributes goes in a trust account and is withdrawn tax-free provided it is used for eligible healthcare or dental expenses. In accordance to CRA section 6 of IT85 R2, funds of the trust cannot revert to the employer or be used for any other purpose than providing health and welfare benefits for which the contributions are made.

Pay As You Go

With each claim submitted by an employee, HUB will invoice the employer for adequate funds to reimburse the employee and cover our administration fee (10%) plus applicable taxes. Once payment is received from the employer, HUB will reimburse the employee claimed medical expense. The employer may pay HUB Financial by cheque or internet banking for this option.

When an Account Needs Funding

HUB Financial will inform the employer when funds are needed to pay a pending claim. Any outstanding claim amount may be paid by cheque or internet banking.

How to Deposit Funds into a FlexSave™ Account

There are several methods of depositing funds in to the FlexSave™ Account for payment of current or future claims. Claims can be funded by:

1. Regularly scheduled monthly contribution – pre-authorized deposits may be established using the Monthly Trust Deposit Form to automatically deposit funds into the account.
2. Periodic deposit through internet banking – employers have the ability to transfer funds into their FlexSave™ plan when banking online through their financial institution. We are set up with all major Canadian banks and most credit unions. Simply add HUB FINANCIAL Inc. as a payee on the account and deposit funds directly into the plan when needed.
3. Mailing a cheque to HUB Financial.

| Funding Options | Regular Monthly | Internet Banking | Cheque |
|--------------------------|-----------------|------------------|--------|
| Pre-funded Account | X | X | X |
| Pay As You Go | | X | X |
| Funds Required for Claim | | X | X |

What's Covered

The general guiding principal for expense eligibility is that the treatment must be conducted for medical reasons. Procedures covered under traditional employee benefit plans would be covered by the FlexSave™ plan as well as other less conventional expenses.

For a partial listing of medical and dental expenses which may typically be covered, please visit our website at www.hubfinancial.ca and click on “What’s Covered”.

Eligible expenses can differ by province and may change from time to time. For complete and up to date detail on expenses which CRA deems acceptable, please go to www.cra-arc.gc.ca and search for “S1-F1-C1”

FlexSave™ Online Access

Employer Online Access

Employers have online access to their trust account, where they can perform the tasks necessary to maintain the plan including:

- Add and remove employees
- Change contact information
- Run statements showing claims activity and available balances,
- Access any additional forms needed and
- Contact Hub about their plan.

Internet Banking

Employers have the ability to transfer funds into their FlexSave™ plan when banking online through their financial institution. We are set up with all major Canadian banks and most Credit Unions. By adding HUB Financial Inc. as a payee, funds can be deposited directly in to the FlexSave™ plan as needed.

Electronic Invoicing

When a claim is entered and funds are required in order to reimburse the employee, HUB Financial will send an e-mail to the plan administrator advising them to log onto the client website and make a deposit to their FlexSave™ plan. Once logged in, the employer can view the amount required to satisfy the claims that are pending. Clients can also view all activity for their account by generating a statement.

Electronic Funds Transfer

As always, we continue to encourage employees to sign up for EFT deposit into their bank account for claims reimbursement.

Employee Online Access

By utilizing the electronic claim option, employees are able to submit claims via fax or email for processing. This avoids the delays associated with submitting claims through regular mail and combined with other offerings above can mean your employees are reimbursed in a few short days.

Once online, employees can:

- Submit claims electronically
- Check the status of their existing claims including more details on payment particulars
- Update their dependents
- See the unused benefit still available to them and
- Contact Hub to get more information.

Additional Coverage

In conjunction with SSQ Insurance, HUB Financial offers optional supplementary coverage to all FlexSave™ applicants. For a minimal cost, this coverage provides your clients with protection should a catastrophic medical event occur either in province or while traveling. Available exclusively to FlexSave™ clients, this plan offers 2 areas of protection in one plan.

1. Travel Medical³

If your clients and/or their covered dependents require medical or surgical treatment outside of their own province of residence, this policy will pay certain covered expenses to a **maximum of \$2,000,000**.

There is no deductible associated with this component; however, coverage is limited to a maximum trip length of 60 days.

2. In-Province Catastrophic³

If your clients and/or their covered dependents require medical or surgical treatment due to injury, sickness or disease in their province of residence, this plan will pay for the following covered expenses after the deductible of \$1,500 per person per category is satisfied.

The plan will then cover up to \$25,000 per category expense up to a combined maximum of \$125,000 annually subject to a total lifetime maximum of \$250,000. The expense categories are:

- | | |
|---|--|
| a) Semi private hospital room and board | e) Services of specific licensed practitioners |
| b) Private nursing (ordered or prescribed by a Physician) | f) Rental of durable medical equipment |
| c) Prescription drugs, sera and vaccines | g) Accidental Dental coverage |
| d) Ambulance (including air) | |

| Available Plan Versions | Pre-Existing Condition Clause | |
|--|-------------------------------|-------------------------------------|
| Coverage to age 70 | Travel Coverage: No | Catastrophic Coverage: 6 months* |
| Coverage to age 70-75: available for new sale or upon existing insured reaching age 70. | Travel Coverage: 6 months | Catastrophic Coverage: 6 months |

Stop Loss to Age 70 Rates⁴

| Plan Type | Monthly |
|-----------|---------|
| Single | \$11.45 |
| Couple | \$21.90 |
| Family | \$27.90 |

Stop Loss Age 70-75 Product Rates⁴

| Plan Type | Monthly |
|-----------|---------|
| Single | \$22.00 |
| Couple | \$41.35 |
| Family | \$47.25 |

Wellness Plan

A Wellness Plan is a separate benefit category within a FlexSave™ trust and has its own limit/amount of benefit. The Wellness Plan shares the same benefit period, unused benefit option and co pay structure as the main FlexSave™ plan. Adding a Wellness Account to FlexSave™ provides plan flexibility allowing employees to:

- Enhance and maintain personal health and wellness
- Pay for expenses not on eligible expense list, or those removed from list by CRA
- Pay for expenses above main plan limits

Wellness Account Categories

Adding a Wellness Plan expands the expense categories in the plan to include things like:

- Health and well being - ie. naturopath, smoking cessation
- Fitness activities - ie. gym memberships
- Fitness equipment
- Family care / child care
- Professional services - ie. health assessments / health care

Taxation of Wellness Benefits:

Wellness reimbursements to an employee are considered a taxable benefit to that employee. As such employers must provide totals on the employee T4.

Wellness Account Reporting

In order to provide employers with the information necessary to report a taxable benefit on their employee T4, HUB Financial will provide an annual report of all Wellness claims paid for employees. This report will be automatically generated at the end of each calendar year.

3. Please refer to the policy contract for full details on benefits and restrictions. 4. Rates are subject to change with notice

* The 6 month pre-existing condition clause does not apply to the Coverage to Age 70 plan when there are 10 or more employees enrolled in the plan.

Applying for Coverage

Forms and Paperwork

All forms are available on our website at www.hubfinancial.ca

FlexSave™ Set Up Requirements

1. Trust Application

- One copy must be completed and signed by the employer

2. Employee Enrollment Form

- Each employee including the business owner must complete

Set up fee payment of \$250

- Required in order to set up trust documents
- Can be paid by cheque or credit card

Additional Coverage Requirements

1. **Stop Loss / Travel Medical enrollment** (strongly recommended) – employer and each covered employee must complete.
2. **Pre-authorized Debit for Stop Loss / Travel Medical** - for companies that wish to pay stop/loss insurance on a monthly basis

Optional Documents

1. **Pre-authorized Debit** - for companies that wish to pre-fund their FlexSave™ plan on a monthly basis
2. **Request for Direct Deposit (EFT)** – for direct deposit of claims reimbursement in to employee bank account.

Contact Us

For any of the following administration and post-sale inquiries regarding FlexSave™, please have your clients contact our administrative hotline:

- Claims follow up
- New case submission follow up
- Employee enrollment follow up
- Change in employee dependent status
- Change in Company name
- Balance inquiries
- And any other administrative related issue.

Email: flexsave@hubfinancial.com

Phone: (800) 561-2405 (Ext. 2)

Mailing Address:

FlexSave™ Division
HUB Financial Inc.
3700 Steeles Avenue West
10th Floor
Woodbridge, Ontario
L4L 8M9