



March 2017

Benefits redefined

Rapid Response Survey

Survey date: February 2017

No. of participants: 214

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What if everything changed?

In late 2016, reports began to surface about a federal government tax fairness initiative that included the review of a lengthy list of existing tax rules. Among the items examined was the tax exempt status of Private Health Services Plans (PHSPs), with an end to making these benefits taxable for individual plan members. PHSPs typically include health and dental benefits and may also include a Health Spending Account (HSA). With the exception of Quebec, PHSPs are currently tax free federally and provincially.

The prospect of taxing employer-sponsored health and dental benefits was met with strong opposition from plan members and sponsors, insurance carriers, medical practitioners and other stakeholders. Statements by Prime Minister Justin Trudeau in February 2017 confirmed that a possible tax on health and dental benefits was no longer being considered.

This Aon survey asked Canadian businesses for their views on the impact a PHSP tax status change might have had on the benefit plans they sponsor. While the issue is apparently no longer an immediate agenda item, the responses gathered are instructive. When faced with the prospect of a game-changing tax modification, plan sponsors were motivated to look at their programs in a new light and forced to consider their options. What is essential? What can or cannot be removed or modified? If the ground rules change, where should we move? Where might there be an opening for innovation?

While employers showed a willingness to speculate on possible solutions, the actual impact of an altered PHSP tax structure would likely have been severe and negative. Nearly two thirds of those surveyed felt that PHSP taxation would lead to increased cost and administrative burden. Seventy per cent foresaw ballooning payroll pressure as employees may have requested additional compensation to offset an escalating individual tax burden. The survey results appear to indicate that if PHSP taxation was introduced, the downstream pressures placed on existing plans and plan members would almost surely threaten their long-term viability.

How interested are plan sponsors in the tax status of health and dental benefits?

Very interested. Seventy-five per cent of those surveyed were aware the federal government was examining the tax status of health and benefit plans and free form comments indicated a high level of engagement in the conversation. Once the facts were presented, 95% expressed their opposition.

Top reasons for opposition to the possible tax

- 1 Negative financial impact on employees
- 2 May lead to calls for increased cash compensation to offset taxable benefit
- 3 Increased administrative burden for employers

What changes would plans sponsors have considered had health and dental benefits become taxable?

Benefit plans are important to employers. Even when faced with the proposition that providing them would create new tax obligations for employees, only about 10% immediately considered eliminating benefits programs altogether. Most were willing to consider alternative design and financing options as a means of keeping programs in place.

Top possible health and dental changes considered for union and salaried groups

- 1 Add flexibility and choice so that employees can choose only the coverage they need
- 2 Increase employee contributions
- 3 Allow employees to opt out of coverage

Eliminating retiree coverage altogether was a serious consideration for those currently sponsoring retiree plans. Sixty-six per cent would have considered completely removing coverage for future retirees and, nearly 30% would have looked at whether options were available to eliminate coverage for current retirees. Changes to retiree benefits present unique challenges ranging from human rights and contract obligations to the fixed or reduced income considerations of retiree plan members. Though the immediate threat has passed, the top changes plan sponsors might have considered could be areas worth reviewing to ensure current plans adequately reflect market needs.

Top possible retiree health and dental plan changes considered

- 1 Allow coverage opt-out for current retirees
- 2 Eliminate coverage for future retirees
- 3 Add flexibility and choice so that retirees can choose only the coverage they need

What changes would plans sponsors have considered for health spending accounts (HSAs) had PHSPs become taxable?

The value of offering an HSA is directly related to its tax advantageous nature. If that advantage had been removed, their existence would have been called into question. About half of respondents either didn't know about or wouldn't consider making the change options presented. The neutrality of responses likely reflects the uncertainty sponsors may have felt when faced with a policy change that might have thrown the long-standing benefits strategy into flux.

Top possible HSA changes considered

- 1 Make no changes to current plans
- 2 Continue to offer the HSA, but with reduced coverage
- 3 Replace HSA with taxable cash

The prospect of this tax policy consideration reminds us that dramatic change can come quickly and without warning, and being both open to and prepared for such change can help to manage its impact. In the meantime, the heightened awareness arising from this potential government initiative provides employers with an enhanced opportunity to help employees understand the significant total rewards value that is delivered via tax-free employer contributions towards PHSPs. This is a feature of benefit plans that has not been well-communicated in the past. Now that it has come under scrutiny, it would behoove employers to ensure employees fully understand and appreciate that value.

Looking ahead, employers are wise to consider the prospect that health and dental benefit taxation may return as governments search for new sources of revenue. Canadian organizations know there is competitive advantage in finding ways to innovate, reduce costs, promote wellness and satisfy diverse employee needs through benefit programs. Employers who are attuned to generational needs and evolving employee expectations have embraced the shift toward flexible or defined contribution benefits and are increasingly moving in this direction. Survey findings reinforce this trend, as choice and flexibility recurred as preferred solutions to the PHSP challenge presented. Visit [Aon Choice](#) to learn more about how a flexible program could benefit your organization and keep it nimble in the face of change.