



DUPUIS LANGEN
FINANCIAL MANAGEMENT

The benefit brief

The employee solutions newsletter for the clients and friends of Dupuis Langen

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GROUP BENEFITS VS SALARY INCREASES TO ATTRACT & RETAIN EMPLOYEES



210 – 13900 Maycrest Way
Richmond, BC V6V 3E2
Phone: (604) 270-1142
Fax: (604) 270-3662

Web: www.dupuislangen.com
Email: info@dupuislangen.com

We have updated our website.
Please come take a look!

Thank you for your referrals

Business is great but new clients are always welcome!

If you know of others who may like to receive our newsletter or who would appreciate an audit of their group benefits plan, please let us know!

Words of Wisdom

"Obstacles are those frightful things you see when you take your eyes off your goal."

~Henry Ford

There is increasing concern from business owners about attracting the talent they need to succeed. Experienced people are hard to find and it is difficult to entice the talent away from bigger companies. Offering the same perks can be a stretch for many small business owners who grapple with tight budget constraints.

RETAINING EXISTING EMPLOYEES

As well as attracting new employees, it is also imperative to keep your existing employees happy. Many employers use salary increases to compensate employees for a job well done but they should also look to their group benefits plan.

ADVANTAGES OF A GROUP BENEFIT PLAN

Tax-effective Compensation for Employees!

For the employee, a salary increase is impacted up-front by a variety of payroll taxes and employee income taxes. However, with a group benefit plan, employees in all provinces except Quebec receive health and dental benefits on a tax-free basis. Employer contributions are deductible as a business expense.

A Look At The Hidden Cost of Pay Increases.

To give an employee \$1,000 more in salary, the employer must also factor in payroll taxes such as:

- Canada Pension Plan/Quebec Pension Plan (CPP/QPP)
- Employment Insurance (EI)
- Worker's Compensation
- Employer Health Tax

Employees must also contribute their portion of some of the additional payroll taxes such as CPP/QPP and EI.

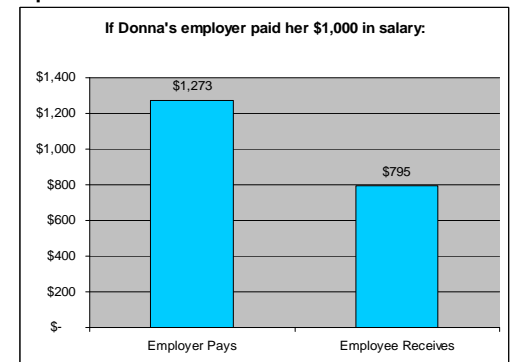
Get more out of each compensation dollar

As an alternative to an increase in salary, the employer could put that \$1,000 towards the premium for a health and dental plan and all of the \$1,000 goes to the benefit of the employee and his/her eligible dependents. Provincial sales tax is charged on the plan's premium but this tax burden is still less than the payroll taxes charged on salary.

EXAMPLE

Donna earns \$38,000 per year. Her employer has the choice of paying her an additional \$1,000 in salary, or putting the \$1,000 towards a group health and dental plan. Consider the two options below.

Option 1:

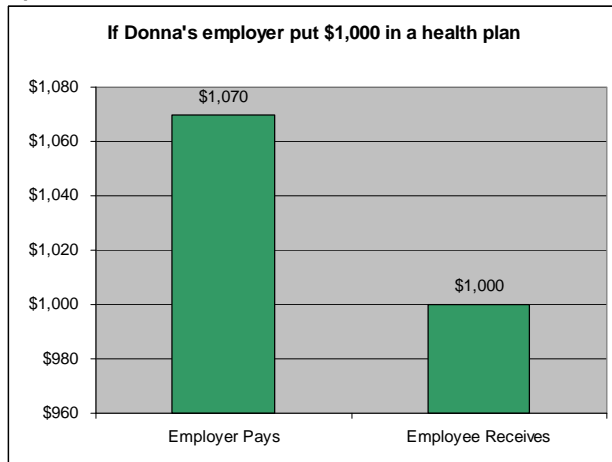


Employer pays the \$1,000 salary plus \$273 for CPP and EI.

Donna gets \$1,000 less deductions for CPP, EI, Federal and provincial tax (based on 2008 rates)

Group life and health plans * Registered pension plans * Group RSPs * Critical illness plans
Long term disability plans * Integrated benefit solutions * Private Health Services Plans (PHSPs)

Option 2:



Employer pays the \$1,000 premium for health coverage plus 7% BC sales tax.

Donna gets \$1,000 in health insurance, tax-free.

POINTS TO CONSIDER

- The example above is for a health and dental plan. Employer contributions to employee & dependent life insurance premiums are a taxable benefit to the employee, and benefits from a Long Term Disability plan are only tax-free if fully funded by the employee.
- Individual tax rates vary by income and province.
- Applicable payroll taxes vary by province, and some such as CPP and EI have maximum contribution levels.
- Depending on the situation, you should consult your tax advisor for additional information.

COST PLUS PLAN

WHAT IS IT?

Cost Plus is an arrangement offered by most group insurance carriers that allows an employer to provide employees with additional coverage for health and dental expenses not covered under your existing group benefits plan, either in whole or in part. For example, if the group plan covers 50% orthodontia, the unpaid balance could be submitted to the insurance company for payment under a Cost Plus account. It is a tax-free perk!

WHAT IS THE BENEFIT OF COST PLUS?

Provided the Cost Plus plan meets the definition of a Private Health Services Plan (PHSP) from the Income Tax Act, it is a tax-effective way of offering enhanced coverage without impacting the claims experience of your plan. You can differentiate benefits for a specific class of employees without the extra cost of upgrading the insured plan for everyone. For example, you could provide orthodontic coverage for the executives of a company through a Cost Plus arrangement, or you could "top up" the regular plan where reimbursement levels, maximums and deductibles reduce claim payments.

TYPES OF COST PLUS

"Unique" Cost Plus: There is no formal contract. You, as the employer, determine which expenses are to be paid. Each claim is processed on a case by case basis and submitted with a Cost Plus reimbursement form along with a corporate cheque for the amount of the expense plus 10% (administration fee) and applicable taxes. The insurer processes the Cost Plus claim and reimburses the employee the amount of the submitted expense, usually on a tax-free basis. The employer can deduct this payment as a business expense. The only limitation is that the expense must be considered an eligible medical expense as defined under subsection 118.2(2) of the Income Tax Act.

Cost Plus Contract: A formal application for Cost Plus is set up and eligible employees are clearly defined. Typically, they must be a distinct class of employees such as EXECUTIVES or MANAGEMENT or EMPLOYEES WITH 5+ YEARS OF SERVICE. The claiming process is the same as for "Unique" Cost Plus.

WHICH TYPE IS FOR YOU?

In order to be considered a PHSP and maintain tax deductibility, a Cost Plus plan must be part of the insurance contract. Claims paid under a "Unique" Cost Plus plan may not be considered a PHSP if claims are paid extra-contractually. There may be some cause for concern when Cost Plus claims are paid only to businessowners or shareholders as there's a possibility they could be deemed ineligible as a PHSP. If audited, CRA could disallow the deductions as a business expense and levy a tax.

The preferred approach would be option 2, the Cost Plus Contract, which formally includes Cost Plus as a benefit under your existing group insurance contract. It brings clarity as to who is eligible and what is covered. It minimizes the likelihood of a CRA ruling of ineligibility. It ensures fair treatment of all participating employees. Having said that, however, issues surrounding the eligibility of business owners and shareholders are still a concern regardless of the option you choose. As with any benefit decision with tax implications, we urge you to discuss your options with your tax advisor who should be familiar with your specific tax and/or legal situation and is in a better position to advise you on the most appropriate approach.

ADMINISTRATOR'S CORNER

Effective **January 1, 2008**, British Columbia will no longer make retroactive reimbursements if a family has not registered with BC's Fair PharmaCare program. Please encourage all your employees who are residents of BC and their families to register if they have not done so already.

Reminder: Insurance companies will pay claims up to an established threshold limit. Once this threshold is reached, subsequent claims will be rejected until proof of enrollment in the provincial drug program has been submitted. To register, or to check the status of their registration, visit www.healthservices.gov.bc.ca/pharme/ or call toll-free at 1-800-663-7100.