HEALTH & WELFARE TRUST

WHAT is a Health & Welfare Trust

Health benefits for employees are normally provided through an insurance company. However, a viable option may be a trust arrangement called a health and welfare trust. Under this arrangement, the trustees of the trust receive contributions from the employer, and in some cases from employees, to provide the health benefits for employees. The types of benefits managed through a health and welfare trust include group sickness or accident insurance plans, private health services plans, group term life insurance policies, or any combination of these.

- Almost any medical expense is eligible; the Income Tax Act is very broad in what it considers a medical expense and includes
  - sickness or accident insurance plans
  - private health services plans
  - group term life insurance policies
  - provincial health services plans
  - Income continuation plan regarding disability

Participants can choose to spend the money as soon as they receive it or save it for a larger elective expense; such as laser eye surgery, fertility treatments, or cosmetic dentistry.

WHY use a Health & Welfare Trust

Advantages of this type of arrangement include reduced administration fees and additional coverage for a select group of employees such as top executives. For example, group plans usually cover neither all medical services nor do they pay 100% of the costs incurred by the employee. Using a health and welfare trust can cover up to 100% of an expanded list of medical services for a select group of employees. Employer contributions to a health and welfare trust are deductible to the extent that they are reasonable and incurred to earn income. For employers using the accrual method of accounting, the payments are deductible in the year in which the legal obligation to make the contributions arose. For the employees, their taxable benefit will be determined in the same way they would if this trust arrangement were not used.

- **Advantages**
  - Reduced administration fees
  - Additional coverage for a select group of employees such as top executives
  - Allows small businesses to pay for medical expenses with before-tax dollars
  - Employer contributions to a health and welfare trust are deductible to the extent that they are reasonable and incurred to earn income

WHO can participate

A Health & Welfare Trust provides a mechanism for self-employed individuals or businesses to have these healthcare expenses paid more tax-efficiently without the company having to qualify or put in place a traditional employee benefit plan. Where a partnership seeks to provide health and welfare benefits for both the employees and the partners by means of a trust, two distinctly separate health and welfare trusts (one for the partners and one for the employees) must be set up to ensure that the funds of each are at all times identifiable and that cross-subsidization between the plans will not occur.

- Traditional health benefit plans define a dependent as a legal spouse or child over the age of 18. With an HWT, the dependent can be anyone financially dependent on the employee through blood or marriage, regardless of age. This means that the funds can be used to cover the costs associated with the special needs schooling or nursing care of an adult or child dependent as long as they rely on the employee for assistance

WHEN Is a Health & Welfare Trust a useful vehicle

- The HWT allows each employee to spend or save the money to use as they need it for medical expenses.
    - Younger employees generally prefer more holistic or preventative health care services like massage therapy, chiropractic, or acupuncture
    - Mature employees are interested in specialty drugs, elective surgery, or expensive dental treatments for their children
- Often employers will use the program as a means of complementing their existing plan (dental, health) that may be seeing heavy usage and rate pressure
- Can also be used to run through amounts that were not covered under another plan, such as the deductibles, coinsurance amounts, and amounts beyond the maximums

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