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Health-care spending accounts offer flexibility for the self employed: experts

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TORONTO - Many Canadians are drawn to the freedom and flexibility offered by self-employment, but footing the bill for supplemental health care — such as prescriptions, eyeglasses and trips to the dentist — can get pricey when you don't have company benefits.

Several months after graduating from the University of Toronto, Matthew Filipowich got slammed with a \$1,500 bill for a root canal.

Filipowich, 23, was working as a freelance photographer at the time and had no supplemental health coverage.

"It was hard because here I am a student, graduating, starting my own business, and then all of a sudden I've got to drop almost \$2,000 on a root canal," he said.

"It was very overwhelming. I kept thinking, what if it was worse? What if there are complications and I have to go back? Then what, I'm stuck with a hole in my tooth?"

The number of self-employed Canadians has been steadily growing, rising to about 2.7 million in 2011, from 2.3 million a decade earlier, according to Statistics Canada.

That growth is even more dramatic during times of economic downturn. A Statistics Canada report says self employment grew by 3.9 per cent between October 2008 and October 2009, at the height of the recession.

Meanwhile, paid employment fell by 1.6 per cent in the public sector and 4.1 per cent in the private sector.

That means about 100,000 people began working for themselves during the period, while the number of paid workers dropped by nearly half a million.

Mark Halpern, a certified financial planner, said the trend towards smaller companies is contributing to the migration to self employment.

"As a result, you have a lot people who have probably taken for granted for many years that they had an umbrella that was above their heads in the form of a benefits package," said Halpern.

While Canadians have the benefit of government-funded health care, there are a number of items that aren't covered, including dental care, physiotherapy, prescription drugs and eyeglasses.

But some self-employed Canadians, including Jeff Chatterton, said supplemental health insurance plans — which start at around \$300 a month — are too expensive.

Chatterton, who owns a communications firm in Kitchener, Ont., said his family is generally healthy, so it isn't worthwhile for them to buy insurance to cover the occasional cavity or prescription.

"It would be nice to have health insurance, I'm not going to deny that," he said. "But let's just say, I make sure to floss."

Others, like Filipowich, have applied for insurance but have been rejected because of pre-existing medical conditions.

"It's discouraging, because you're trying to get help and they won't insure you unless you have a clean bill of health," said Filipowich.

Insurance advisor Barry Greenberg recommends getting a health-care spending account, because you can't get denied and you have more flexibility in spending the money.

Here's how it works: you pay a third party a lump sum of money upfront, and then you send in your health-care receipts and the company reimburses you, by taking the money out of your account.

It's kind of like a savings account, but it allows you to deduct the costs from your income taxes. Plus if you don't spend all of the money, it carries over to the next year.

"Group insurance or private insurance could tell you, we're only going to cover prescriptions for \$1,500 a year, or we're only going to cover dental for \$1,500 a year," said Greenberg.

"If you went to a health-care spending account, you don't have those limitations. If one year you need a lot of dental work you could use up your spending account just on the dental; it's your choice."

Halpern also recommends buying catastrophic insurance, for about \$10 to \$20 a month per person, to protect against emergencies.

"The cost to get sick in Canada is staggering," said Halpern.

"Some of the drugs that are out there now can cost \$60,000 a year. If a business owner doesn't have insurance to protect against that, it can bankrupt them."

Ultimately, Halpern suggests talking to an insurance specialist or a certified financial planner to determine what the best course of action is.

"Most business owners are so busy taking care of their staff and their shareholders and the bank and suppliers, and when it comes to themselves, unfortunately they don't have the time," said Halpern.

"That's why it's important that they meet with somebody who specializes in working with business owners to help look at their programs in a very holistic way."