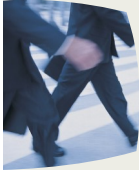




► WHAT ARE HEALTH SPENDING ACCOUNTS (HSAs) 1



► HOW HSAs SAVE MONEY FOR BUSINESSES AND EMPLOYEES 3



► SERVICES COVERED BY HEALTH SPENDING ACCOUNTS 4

Financial *focus*

ADDRESSING THE ONGOING PROBLEM OF THE SELF EMPLOYED, SMALL AND LARGE BUSINESSES IN PAYING ESCALATING HEALTH CARE COSTS.

Health Spending Accounts (HSAs) are the 25 year old product that may just be the solution for increasing health care costs for many individuals and businesses.

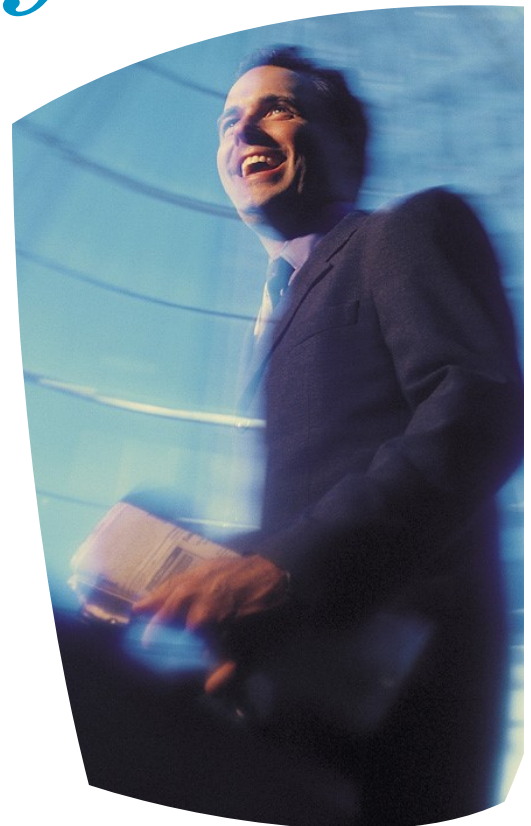
Health Spending Accounts

Interest in Health Spending Accounts is growing for some fundamental and basic reasons. Today's reality is that governments in Canada and elsewhere are working to balance their budgets by reducing expenses. Another reality is that health care expenditures take up a significant portion of government budgets and must be reduced if governments are to be successful in their efforts. While this funding for services is declining, demand for health care is not likely to subside. Who will pay for the services that are needed?

Employers do not want to be responsible for these higher costs and insurance

companies are unlikely to absorb the additional costs. Consumers will have to find a way pay the costs for the services they require to remain healthy. The bottom line is that individuals will have to become more directly responsible for more of their personal health care expenditures or risk suffering from reduced care.

Health Spending Accounts provide a solution to help pay these costs. We encourage you to read on and develop a better understanding of this solution which has existed for over 25 years.



WHAT IS A HEALTH SPENDING ACCOUNT (HSA)

Health Spending Accounts are the government's way of helping Canadians pay for their medical expenditures.

A Health Spending Account is a special bank account administered by a third party. This account can replace or complement other employee benefits. Employers deposit funds into the account on behalf of their employees. Employees have access to these funds for reimbursement of health care expenditures.

These accounts are available to businesses of all sizes including self-employed individuals where the employer and employee may be the same individual. **Health Spending Accounts are suitable for businesses of ALL sizes.**

These accounts must be used solely for reimbursement of medical expenses. Individual business owners channelling their medical expenses through a HSA can save thousands of dollars per year.



Who Is COVERED by a HSA

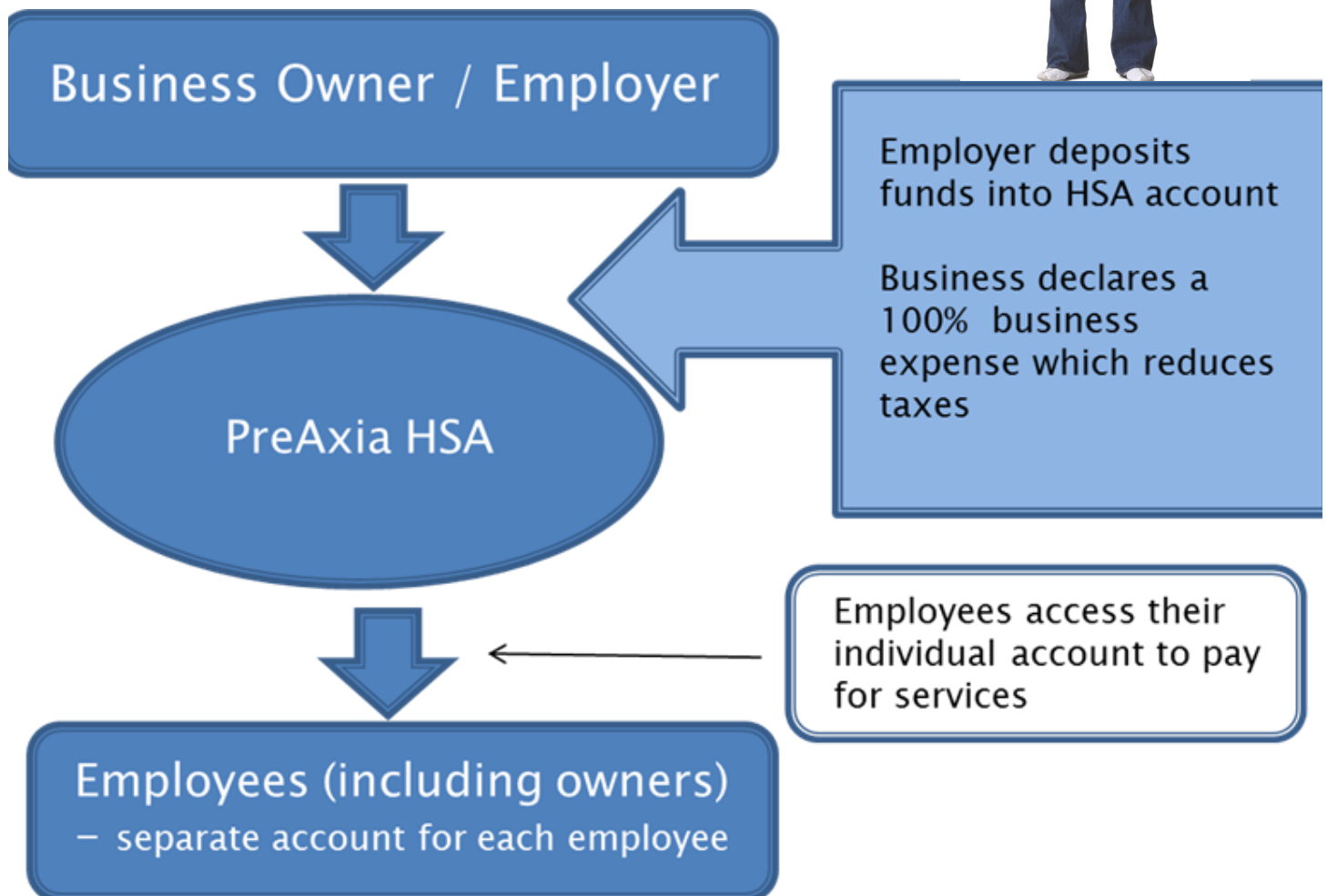
When a HSA is set up for an employee or self-employed individual, it can cover allowable medical expenses for the individual and, at the individual's discretion, their dependants. This includes a spouse or any member of a household related to the employee by blood relationship, marriage or adoption and who is financially dependent upon them within a given year. Dependants must also be a Canadian citizen residing within the country for a minimum of six months out of the year.

There are instances when a more comprehensive definition of dependant is required. For Health Spending Accounts, the complete definition of Dependant is provided in the Income Tax Act. This definition can be found at <http://www.cra-arc.gc.ca/E/pub/tp/it513r/it513r-e.txt>.

Dependants may include parents residing with children or in facilities such as a retirement home or nursing facility. The cost of these services can be reimbursed through a Health Spending Account.



How a HSA Works





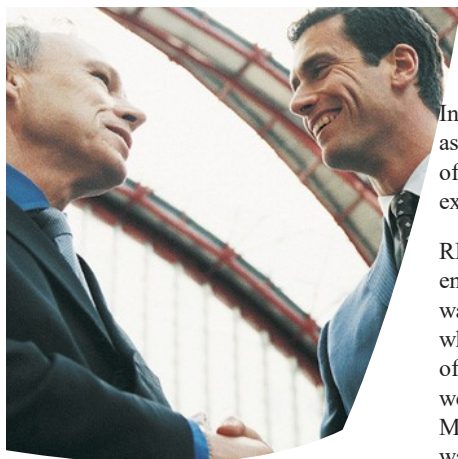
How HSAs Save Money

Canada Revenue Agency provides a tax benefit to employers and employees who utilize HSAs for reimbursement of medical expenses. This saving can be estimated with the HSA Calculator which is accessible from the PreAxia web site at <https://www.preaxia.com/health-care-savings-calculator/>

Actual savings depend on tax rate (income) and medical expenses in a given year. An owner of a business with no employees could save many thousands of dollars per year. Larger employers currently providing medical benefits to employees can save more with additional savings that include reduced internal administration costs (with PreAxia) and lower contributions. If a HSA replaces an insurance plan, annual premium increases no longer apply, which aid to make this expense more predictable.

Employers (business owners) benefit from receiving a tax deduction on their business income for the tax period in which contributions are made. They write off the cost of providing this benefit to employees as a business expense. Employees receive a non-taxable benefit. When the employer and employee are the same individual, as is often the case in a small business, both benefits can accrue to the same individual. This is particularly valuable since self-employed individuals do not typically receive a tax benefit for medical expenses.

HSAs Reduce Taxes



Comparing RRSPs with HSAs can be helpful to understanding the growing interest in HSAs.

Both are ways to reduce taxes. HSAs, unlike RRSPs, are designed to provide greater and more immediate benefits. HSAs result in immediate tax savings without the future tax burden associated with a RRSP.

In addition, HSAs do not require that funds be set aside for an indefinite period of time. The purpose of a HSA is to help pay for near term medical expenses.

RRSPs were introduced in 1957 as a way to encourage Canadians to save for retirement. It wasn't until 1991, more than thirty years later, when their use became more widespread as a result of legislative changes. Similarly, HSAs were created in 1986 when Finance Minister Paul Martin introduced a new way for businesses to offer health benefits to their employees. Only now, 25 years later, has technology simplified HSA education and administration so that HSAs are now a practical consideration for a wider group of businesses and individuals. It is this technology that PreAxia provides to employers, employees and PreAxia Agents.

Whereas RRSPs are a tax deferral strategy (that is, taxes are paid on funds at a much later date) HSAs are a tax free benefit or tax reduction strategy. When investing in a RRSP, one must have excess funds to set aside until retirement at which time the

funds are accessible and taxable. A HSA provides a current benefit with no future taxation. It requires a little advance planning to channel funds normally spent on medical expenses through a Health Spending Account. This reduces taxable income and taxes paid.

While a RRSP remains important for retirement planning purposes, a Health Spending Account warrants consideration by any self-employed individual in Canada. Furthermore, employers should consider HSAs as part of their employee benefits package. HSAs provide employees with a non-taxable benefit, discretion on use of funds and a way to eliminate payment for many medical expenses not included in an employee benefits package. The employer also benefits through a greater ability to control corporate expenditures for employee health benefits.

**HSAs
are similar to
RRSPs**

HSAs can replace Private Health Care Insurance

Insurance is typically a contingency to protect against unexpected loss or harm. In the case of health care, insurance has evolved into a means of paying for normal and expected medical expenses. This does not mean, however, that it is the best or least cost way to pay these expenditures. In Canada we have provincial health coverage, paid through our taxes, to protect us against most major and unexpected health care costs. That leaves minor expenditures – dental, eyeglasses, braces, prescriptions, etc. – to be paid for personally or through a private health insurance plan. Often, these plans still require that a portion of the covered medical expenses be paid by the user of the plan. Health Spending Accounts offer advantages over these private health insurance plans.





Medical Expenses Covered by a HSA

Medical expenses reimbursable through a HSA are determined by Canada Revenue Agency (CRA). Their rules, which have been developed over more than two decades, are clear and easy to understand. CRA recognizes that individuals are different in the types of care they require and have defined medical expenses more broadly than most private insurers.

MEDICAL PRACTITIONERS:

Services provided by a licensed medical practitioner can be reimbursed through a HSA. Medical practitioner encompasses a wide range of individuals that work in the medical profession including but not limited to;

- Doctor
- Dentist
- Optometrist
- Osteopath
- Chiropractor
- Naturopath
- Therapist (or therapist)
- Physiotherapist
- Chiropodist (or podiatrist)
- Christian Science practitioner
- Psychoanalyst
- Psychologist
- Speech-language pathologist or audiologist
- Occupational therapist
- Acupuncturist
- Dietician
- Dental hygienist

MEDICAL EXPENSES:

Medical expenses, as defined by Canada Revenue Agency, include a broader range of products and services than is typically covered through private insurers. In addition, there are no limits on how much can be spent on specific services. Following are just some of the products and services classified as medical expenses by Canada Revenue Agency;

- Medications prescribed by a licensed medical practitioner
- Payments to hospitals
- Payments to associations such as
 - The Arthritis Society,
 - The Canadian Red Cross, and
 - Victorian Order of Nurseswhich employ individuals that provide a variety of health services
- Out of country medical services
- Attendant Care
- Institution/education/training for individuals with physical or medical impairment
- Transportation and travel expenses for patient and accompanying individual
- Artificial limbs, aids and other devices
- Products required because of incontinence
- Eyeglasses
- Guide and hearing-ear dogs and other animals
- Bone marrow or organ transplants
- Renovations and alterations to a dwelling

There is more

This list of services includes items such as training or education for the disabled, making a home accessible to those with physical disabilities and special equipment for individuals with breathing disorders such as asthma.

A Health Spending Account can also be used to pay for many assistive aids such as a scooter or assistive devices for walking, standing, using a shower or toilet and more. As with all HSA reimbursements, proper documentation is required.

For more information on allowable medical expenses, please refer to CRA Publication Lines 300 and 331 - Eligible medical expenses you can claim on your tax return (<http://www.cra-arc.gc.ca/medical/>).





PreAxia—A Better Solution

PreAxia offers a better solution for learning about, establishing and managing Health Spending Accounts through Internet technology.

The technology has been developed to give employers and employees greater control over their funds and accounts. The technology has been designed to facilitate fast, secure, and reliable direct payment, account management, and claims processing to support Health Spending Accounts in Canada.

HSAs can now be managed through your personal computer with minimal effort or time commitment. Funds are deposited directly to your HSA via credit card or from a bank account. Claims are filed online with receipts submitted electronically. And there are a variety of reports providing access to claims and payments history, deposits, balances and more. The savings from this technology includes reduced costs for employers and employees, a dramatic reduction in administration, and higher commissions for agents.

Learn more about Health Spending Accounts

PREAXIA RESOURCES:

PreAxia provides access to published articles and interviews about Health Spending Accounts. These can be accessed in the HSA Education Centre that can be found on each PreAxia web site at <https://www.preaxia.com/hsa-education-centre/> which includes a Frequently Asked Questions (FAQs) section on Health Spending Accounts.

OTHER RESOURCES:

Wikipedia

Wikipedia provides an excellent explanation of Health Spending Accounts and CRA Guidelines.

http://en.wikipedia.org/wiki/Health_and_welfare_trust
http://en.wikipedia.org/wiki/Private_health_services_plan

Canada Revenue Agency (CRA)

Following are bulletins and other publications by CRA pertaining to Health Spending Accounts.

IT-85R2 - Health and Welfare Trusts
www.cra-arc.gc.ca/tx/tchncl/ncmtx/fls/s2/f1/s2-f1-c1-eng.html

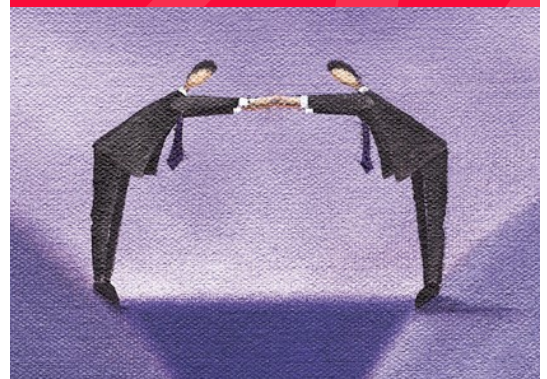
IT339R2 - Meaning of Private Health Services Plan
<http://www.cra-arc.gc.ca/E/pub/tp/it339r2/README.html>

IT529 Flexible Employee Benefit Programs
<http://www.cra-arc.gc.ca/E/pub/tp/it529/README.html>

Which medical expenses are eligible?
<http://www.cra-arc.gc.ca/medical/>

There are many medical expenses which qualify for a Health Spending Account not identified in this document.

FOR MORE INFORMATION:
On how PreAxia or its Agents can help...



On the Internet:
<http://preaxia.com>

By E-mail:
ContactUs@PreAxia.com

Insurance and financial advisors, including MGAs, interested in offering PreAxia HSAs should send an e-mail to ContactUs@preaxia.com.



PreAxia Health Care
Payment Systems Inc.