

Employee Benefits in Ontario: Data-Driven Insights for SMEs

Understanding the landscape of employee benefits through data-backed strategies is essential for Ontario SMEs. Thoughtful planning can support talent acquisition and business stability in the region.



Medical trend rates in most markets

Medical trend rates in most markets are above 10%, emphasizing the increasing costs and strategic importance of managing healthcare benefits.



Specialty Pharmacy Expenditure

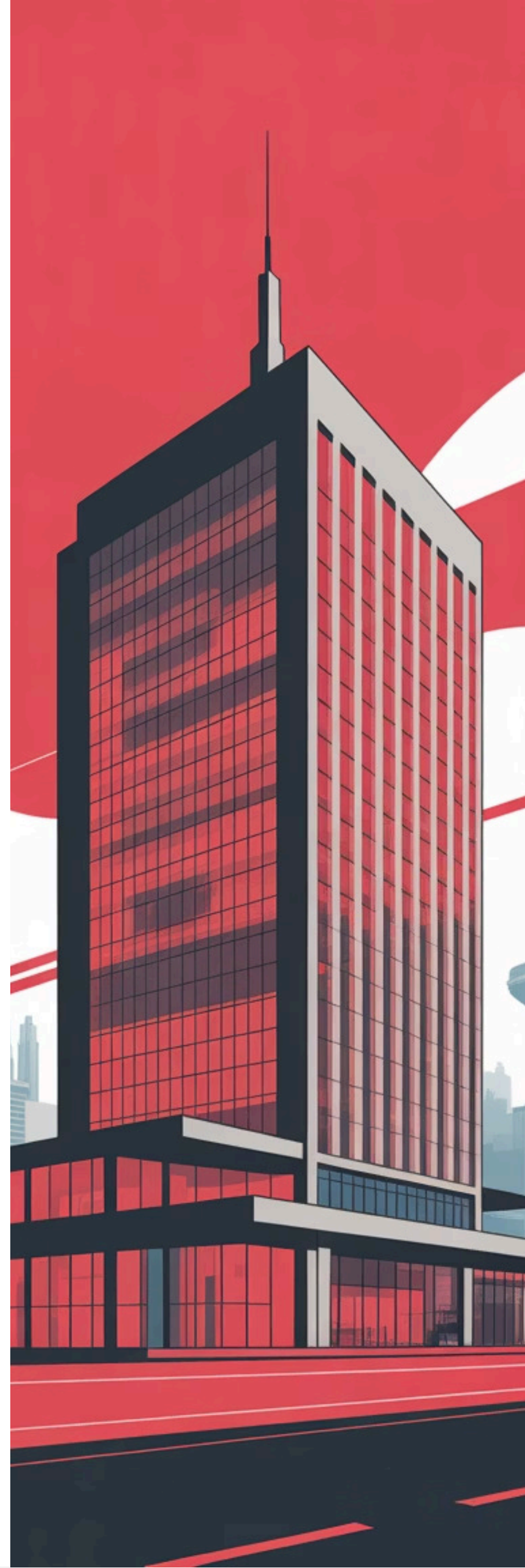
Costs for specialty pharmaceuticals are increasing by 14%, significantly contributing to overall benefit expenditures.

Source: Mercer Health Trends 2026 Report

Optimizing Benefits for Tax Efficiency



Understanding the tax implications of different benefit structures is crucial for maximizing the effectiveness of your employee compensation packages.



Understanding the Strategic Importance of Employee Benefits

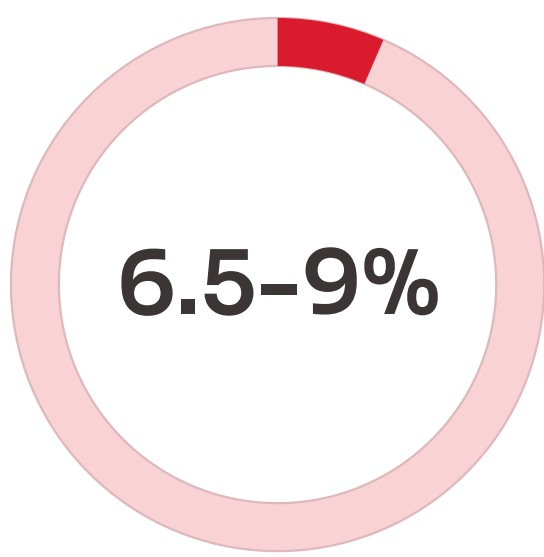
Escalating Costs
Healthcare, prescription drugs, and mental health support costs are increasing.

Talent Attraction & Retention
Effective benefits play a key role in attracting and retaining qualified talent.

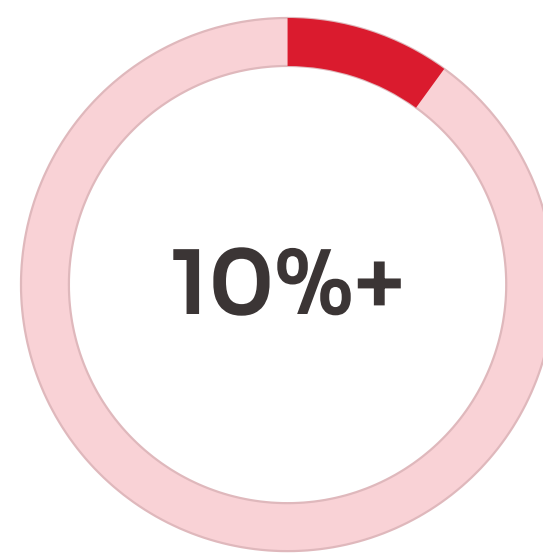
Tax Considerations
Strategic benefit design can offer tax efficiencies for organizations.

Organizational Competitiveness
Well-structured benefits contribute to an organization's competitive standing.

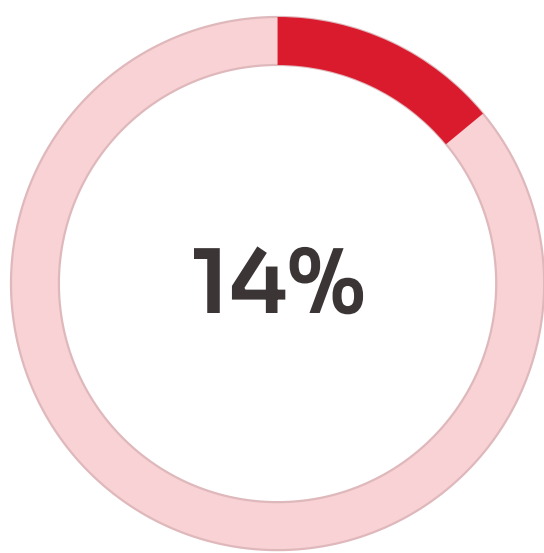
Data Source: Mercer's 2026 Health Trends Report



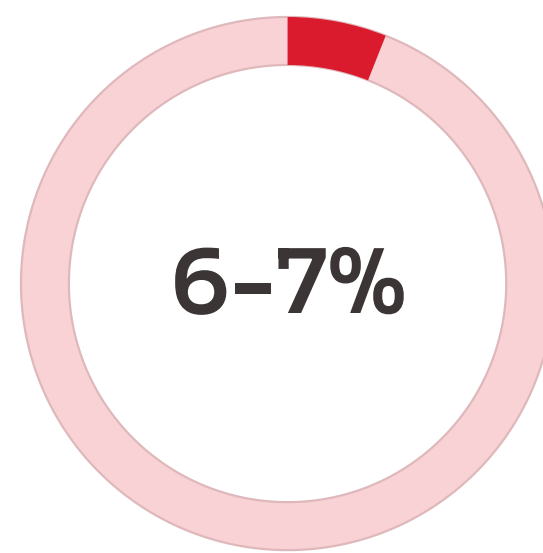
Projected healthcare cost increases for 2026



Markets experiencing medical trend rates above 10%



Rise in specialty pharmacy costs



Health benefits as percentage of total compensation in Ontario

Benefits as a Strategic Investment

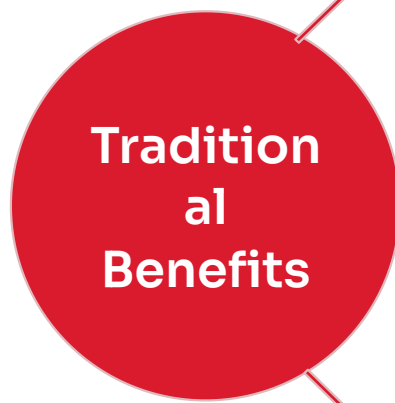
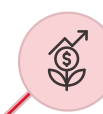
Potential for 25-45% employer cost offset



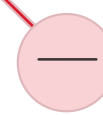
May result in higher taxable income for employees



Enhanced employer ROI potential



Limited business deduction opportunities



Our approach for Ontario SMEs involves a 4-phase benefit journey:



Understanding Tax Advantages in Employee Benefits for Ontario SMEs

Compliance with CRA guidelines is essential for designing effective benefit programs that optimize tax efficiency for businesses and provide value to employees. Specific tax treatments can influence overall compensation costs and the perceived value of benefits for staff.



Health & Dental Premiums

Employer: 100% Tax-Deductible

Employee: 100% Tax-Free Benefit



Group Life & AD&D

Employer: Fully Tax-Deductible

Employee: Taxable for coverage over \$25K



Group RRSPs & DPSPs

Employer: Fully Tax-Deductible (within limits)

Employee: Taxable (RRSP: offsetting deduction, DPSP: tax-deferred)



Health Spending Accounts (HSAs)

Employer: 100% Tax-Deductible

Employee: 100% Tax-Free Reimbursements

25-45%

Potential Net Cost Reduction

Achievable by structuring compensation through tax-advantaged benefit vehicles.

100%

Tax-Exempt Employee Value

For essential health benefits such as health, dental, and HSAs.

10%+

Medical Trend Rates

Markets experiencing medical trend rates above 10%.

Source: Mercer's 2026 Health Trends Report

Red Helm Canada provides guidance to Ontario businesses on structuring benefit offerings. This involves navigating favorable tax treatments to manage overall compensation costs and enhance employee value propositions through informed benefit design. Further information is available at redhelm.ca

Red Helm Canada: Strategic Employee Benefits - Taxable vs. Non-Taxable Breakdown

Understanding which benefits are taxable and which are not is key to optimizing value for Ontario SMEs.

Non-Taxable Benefits

These benefits offer financial advantages by not being included in an employee's taxable income, potentially increasing their take-home pay and overall financial well-being.

- **Extended Health & Dental:** Employer-paid premiums are non-taxable; reimbursements are tax-free.
- **Critical Illness Insurance:** Employer-paid premiums are typically non-taxable; lump-sum payout is tax-free.
- **Health Spending Accounts (HSAs):** Reimbursements for eligible medical expenses are tax-free.
- **Employee Assistance Programs (EAPs):** Access to confidential support services is non-taxable.
- **Group RRSP & DPSP Contributions:** Employer contributions are tax-neutral upfront (offsetting deduction) with tax-deferred growth.

Taxable Benefits

While these benefits are taxable, they can still provide value and may be a more tax-efficient option than direct salary increases, especially when considering long-term security and cost management.

- **Group Life Insurance:** Premiums for coverage exceeding \$25,000 are considered a taxable benefit.
- **Disability Insurance:** Employer-paid premiums are taxable, but any future disability payments received are **entirely tax-free**.
- **Executive Health & Perquisites:** Enhanced coverage or personal perks (e.g., company car) may be taxable benefits.

❏ **Disability Benefit Structure** Employer-paid disability premiums, while taxable, result in future disability payments being tax-free, which can offer long-term financial security.

Red Helm Canada: Key Health Cost Trends

Drawing on insights from the Mercer Health Trends 2026 report, Red Helm Canada provides information on critical trends influencing healthcare benefit costs and employer strategies.



6.5-9%

Projected Healthcare Cost Increase (2026)

Anticipated rise in employer-sponsored healthcare costs.



10%+

Medical trend rates in most markets

Markets experiencing medical trend rates above 10%.



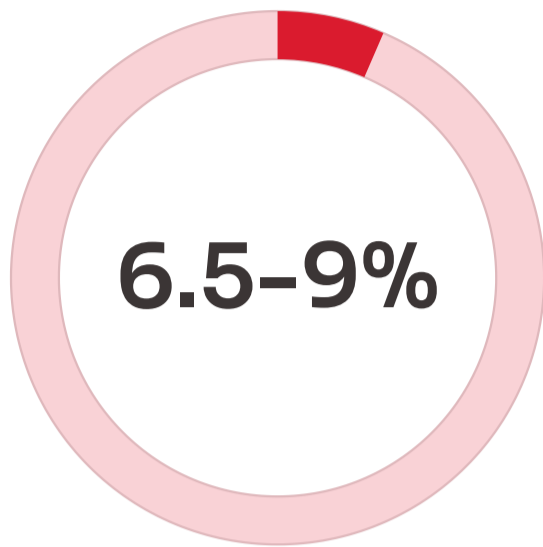
14%

Specialty Pharmacy Cost Increase

Significant annual rise in specialty pharmacy expenses.

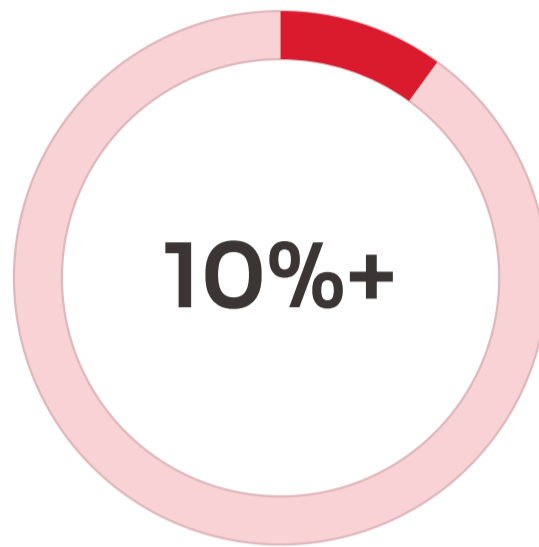
Red Helm Canada: The Benefits Journey - A Phased Approach

Red Helm Canada outlines a phased approach to employee benefits, aligning strategies with an organization's evolving needs. This progression offers structured steps for benefit implementation and management.



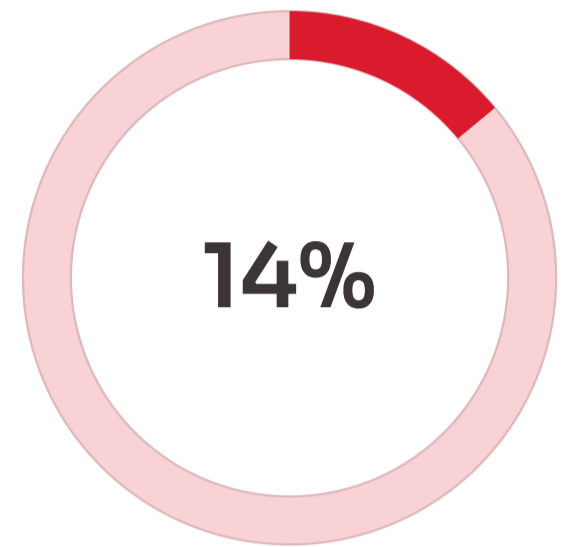
Projected Healthcare Cost Increase (2026)

Anticipated rise in employer-sponsored healthcare costs.



Medical trend rates in most markets

Many markets are experiencing medical trend rates above 10%.



Specialty Pharmacy Cost Increase

Significant annual rise in specialty pharmacy expenses.

Data Source: Mercer Health Trends 2026 Report



Phase 1: Health Spending Accounts (HSAs)

- Suitable for 1-2 employees
- Offers flexibility with simple administration
- Involves predictable, capped expenses
- Employer contributions are 100% tax-deductible
- Employee reimbursements are tax-free
- \$0 monthly fees, 10% administration fee per claim
- Catastrophic health coverage available (high deductible/low cost)



Phase 3: Experience-Rated Plans

- Applicable for 10-250 employees
- Premiums are adjusted based on claims history
- Includes detailed claims reporting
- Compile and analyze of your teams benefits plan carry costs
- Third Part Payor Model Recommended
- Traditional Direct to Carrier Model Available
- Plan and prepare areas of coverage reduction and opportunities to self insure



Phase 2: Fully Pooled Plans

- Designed for 2-10 (up to 25) employees
- Provides comprehensive, traditional coverage
- Risk is distributed across a larger group
- No medical questionnaires or waiting periods
- Cover pre-existing conditions
- Quick and simple implementation
- Can be shielded from poor claims experience
- Offers stable steadily increasing premiums
- Claims administration handled by insurer



Phase 4: Administrative Services Only (ASO) with Stop-Loss

- For organizations with 20+ employees with existing claims history data.
- Enables self-insurance for most claims
- Reduces reliance on insurer profit margins
- Potential administrative fee reduction of 10-30%
- Stop-loss insurance mitigates financial risk
- Allows for extensive customization and potential cost efficiencies
- Most efficient way to operate a comprehensive plan

Further information available at redhelm.ca

Red Helm Canada: Maximizing Tax Efficiency with HSAs

Health Spending Accounts (HSAs) are a cornerstone of modern benefit strategies for Canadian businesses. Red Helm Canada utilizes HSAs to provide tax-efficient benefits and personalized employee care, offering flexibility with streamlined administration.



Tax-Efficient Solution

Fully tax-deductible for employers, tax-free for employees, providing significant financial advantage.



Flexible Spending

Employees use funds for a wide range of CRA-eligible medical expenses.



Predictable Costs

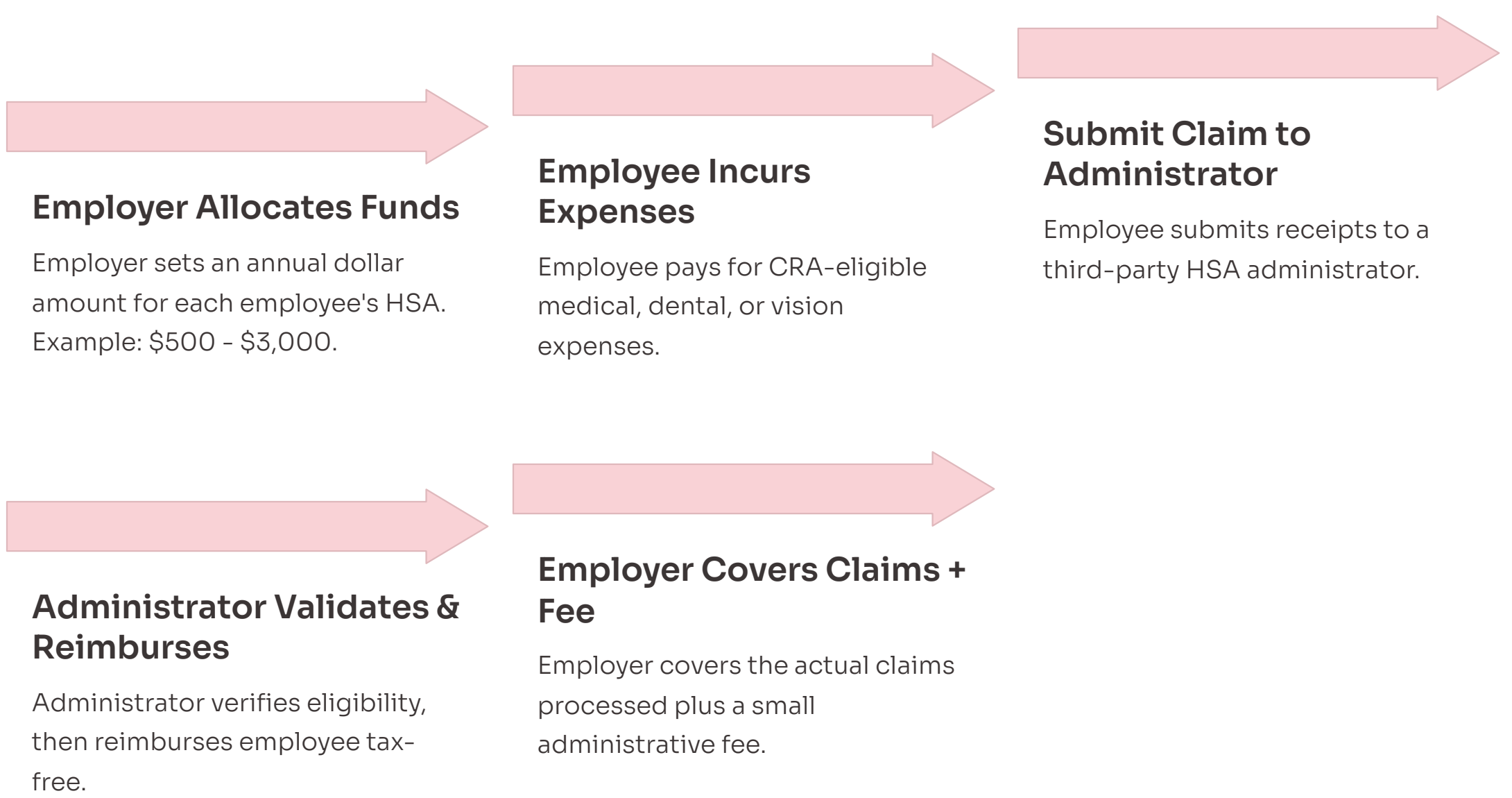
Employers allocate fixed amounts, capping liability and ensuring budget control.



Streamlined Administration

Simplified setup with minimal underwriting and no medical questionnaires.

HSA Fundamentals: How it Works with Red Helm Canada



Understanding Significant Tax Advantages for Your Organization

HSAs can provide a favorable financial incentive compared to traditional salary increases, benefiting both employers and employees.

100%

Employer Deductibility

All HSA allocations are fully tax-deductible business expenses.

0%

Employee Tax

Reimbursements are completely tax-free; not considered income or taxable benefit.

40%

Equivalent Value Boost

A \$1,000 HSA can provide an equivalent value of \$1,400-\$1,600 in gross salary due to tax avoidance.

Broad Range of Eligible Expenses with HSAs

The Canada Revenue Agency (CRA) defines a remarkably extensive list of eligible medical expenses, making HSAs highly adaptable to diverse employee needs.

- Prescription Drugs
- Dental Services (including orthodontics)
- Vision Care (glasses, contacts, laser surgery)
- Physiotherapy & Chiropractic
- Registered Massage Therapy
- Psychologist & Naturopath Services
- Orthotics & Hearing Aids
- Medical Devices (e.g., glucose monitors)
- Diagnostic Tests
- Over-the-Counter medications (with doctor's note)



HSA Application & Implementation Guidance from Red Helm Canada

HSAs are versatile: ideal as standalone benefits for small businesses (1-5 employees) or as a valuable supplement for larger organizations to address gaps in traditional plans. Red Helm Canada simplifies implementation, often utilizing user-friendly online portals from third-party administrators, which can reduce HR burden and enhance employee satisfaction.

Red Helm Canada: Strategic ASO Plans for Ontario SMEs

Administrative Services Only (ASO) arrangements, facilitated by Red Helm Canada, offer established Ontario SMEs a sophisticated and cost-effective approach to employee benefits. By self-insuring with third-party administration and robust stop-loss protection, organizations can achieve cost management and financial predictability, which is valuable in today's dynamic healthcare landscape.



High Medical Trend Rates

Medical trend rates in most markets are increasing by **10%+** annually, according to Mercer Health Trends 2026 meaning people use more healthcare than ever before.



Specialty Pharmacy Trends

Specialty pharmacy costs are rising by **14%** annually. People are using more and varied drugs.

Key Advantages of ASO Plans with Red Helm

1

Reduced Insurer Profit Margins

ASO plans allow businesses to bypass the 8-15% profit margins typically built into traditional fully-insured plans, paying only for actual claims plus transparent administrative fees (8-12%) and stop-loss premiums.

2

Retention of Surplus Funds

Any surplus from favorable claims years can be retained by the employer. This can improve cash flow and reduce long-term benefit costs, differing from traditional models where unused funds are typically forfeited.

3

Enhanced Transparency & Control

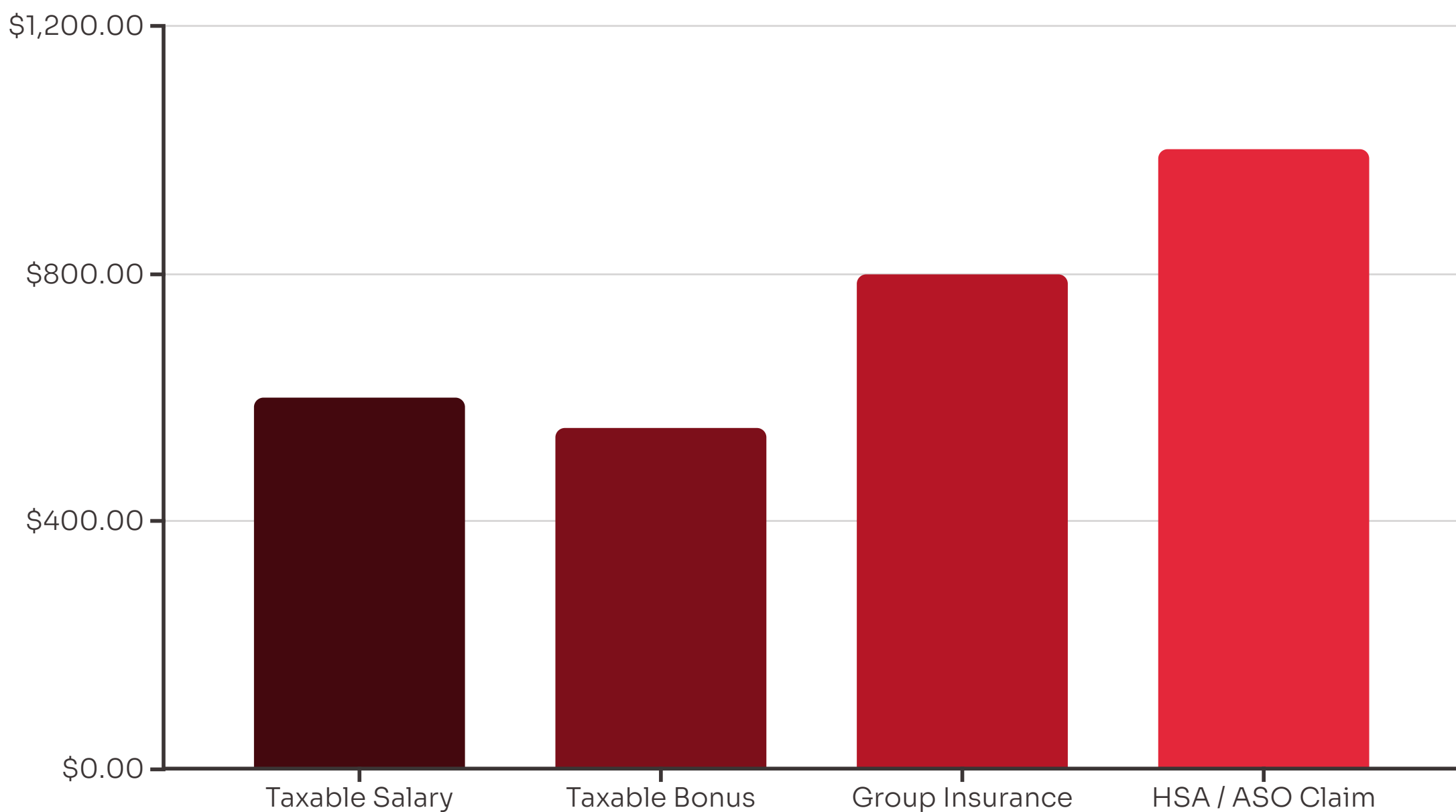
Access to detailed, real-time claims data allows organizations to understand spending patterns, identify trends, and optimize plan design. This also enables customization of coverage and provider networks.

4

Robust Risk Management: Stop-Loss Insurance

Stop-loss insurance mitigates the risk of catastrophic claims. Specific stop-loss (per individual) and Aggregate stop-loss (total claims) provide protection against unpredictable high costs, contributing to financial security.

Tax Efficiency: Comparing Benefit Impact



ASO-reimbursed claims, similar to HSAs, offer 100% tax-free value to employees, typically providing a higher net value compared to taxable compensation or partially taxable group benefits. This can be a notable financial advantage for employees.

Red Helm Canada: Your ASO Implementation Partner

Red Helm Canada assists in designing and implementing ASO plans to align with organizational goals:

- **Comprehensive Network Partnerships:** In collaboration with leading adjudication platforms, third party payors and third party administrators, we are able to offer any existing or unique plan setup
- **Robust Stop-Loss Protection:** Direct partnerships with stop-loss insurance providers to protect your organization from catastrophic claims
- **Flexible Provider Networks:** Access to multiple network options or the ability to create custom provider arrangements tailored to your workforce
- **Advanced Technology Integration:** Claims administration and reporting systems with real-time analytics and dashboard capabilities
- **Expert Risk Management:** Risk assessment and financial modeling for self-insurance to help predict and manage plan costs
- **Tailored Solutions:** Customized plan design and implementation support that reflects your company's unique culture and benefits philosophy
- **Employee Support Services:** Dedicated member services and advocacy to help employees navigate their benefits and resolve issues
- **Regulatory Compliance Expertise:** Ongoing support to ensure your plan remains compliant with federal and provincial regulations
- **Cost Transparency:** Clear, detailed reporting on all plan costs with no hidden fees or markups
- **Wellness and Prevention Programs:** Integration of proactive health management initiatives to improve outcomes and reduce long-term costs
- **Scalable Infrastructure:** Solutions that grow with your business, from small employers to large multi-location organizations
- **Local Canadian Expertise:** Deep understanding of the Canadian benefits landscape and regional considerations

15-25%

Potential Cost Reduction

Typical first-year savings in total benefit costs compared to fully-insured plans.

700

Increased Plan Control

Greater predictability for an organization's financial future through direct oversight.

5-10%

Reduced Administrative Fees

Lower overhead costs compared to traditional insurer margins.

95%

Claims Processing Efficiency

Most claims processed within 2-3 business days, improving employee experience.

80%+

Risk Mitigation

Stop-loss insurance covers catastrophic claims beyond a set threshold.

✓

Regulatory Compliance

Ongoing support ensures adherence to all federal and provincial regulations.




Explore how Red Helm Canada can help optimize your organization's benefits plan.

For more information, visit:

redhelm.ca

Red Helm Canada: Optimizing Employee Benefits with ASO & Tax Efficiency

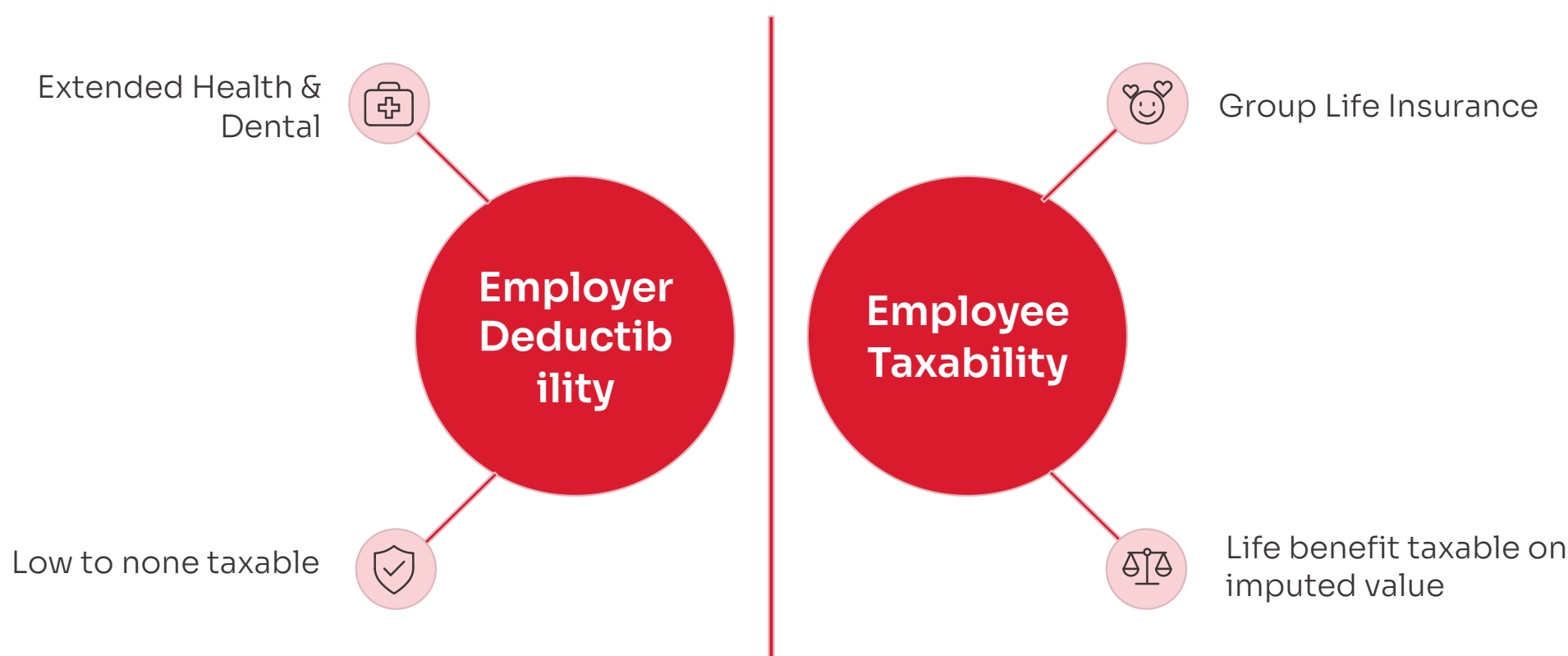
Understanding critical industry trends and tax implications is vital for designing effective and compliant employee benefit programs in Ontario. These insights are key to maximizing value and controlling costs.

 <h3>Healthcare Cost Trend</h3> <p>Projected 6.5-9% increases for 2026. ASO can be a strategy to address these increases.</p>	 <h3>Medical Trend Rates</h3> <p>Medical trend rates in most markets are above 10%+.</p>
 <h3>Specialty Pharmacy</h3> <p>Costs rising 14%, posing a significant budget pressure.</p>	

Source: Mercer Health Trends 2026 Report

Understanding Tax Efficiency in Benefits Design

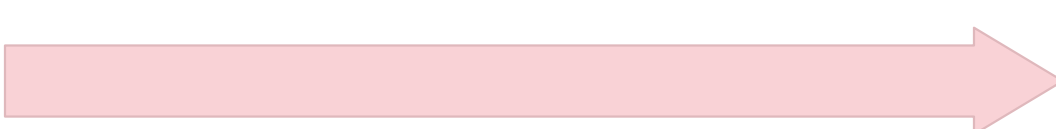
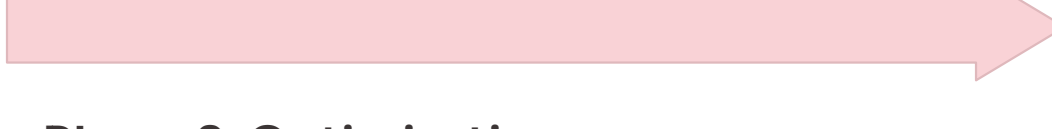


Strategic benefit design considers both employer deductibility and employee tax treatment to optimize value.



Strategic Benefit Considerations for Value and ROI

<h3>Extended Health & Dental</h3> <ul style="list-style-type: none">• Highest tax efficiency• 100% employer deductible• Non-taxable for employees• Crucial for attraction & retention	<h3>Disability Insurance</h3> <ul style="list-style-type: none">• High tax efficiency (if employer-paid, benefits are tax-free)• 100% employer deductible• Essential income replacement
<h3>Health Spending Accounts (HSAs)</h3> <ul style="list-style-type: none">• Maximum tax efficiency• 100% employer deductible• 100% non-taxable for employees• Unparalleled flexibility & cost predictability	<h3>Employee Assistance Programs (EAP)</h3> <ul style="list-style-type: none">• High tax efficiency & ROI• 100% employer deductible• Non-taxable for employees• Low cost, high impact on well-being

Red Helm Canada: Your Benefits Journey - A Phased Approach

 <h3>Phase 1: Foundation</h3> <p>Establish core benefits (Health, Dental, Life) with focus on compliance and basic coverage.</p>	 <h3>Phase 2: Optimization</h3> <p>Introduce ASO for cost control, data transparency, and customized plan design.</p>
 <h3>Phase 3: Enhancement</h3> <p>Add strategic benefits (HSA, EAP, Disability) to boost employee value and retention.</p>	 <h3>Phase 4: Advanced Stewardship</h3> <p>Continuous monitoring, plan adjustments, and wellness integration for long-term ROI.</p>

For more information on optimizing employee benefits, visit redhelm.ca.