BENEFITS BY DESIGN

2026 | REPORT

The state of health care spending accounts

Health care spending accounts (HCSA)s have become a staple in discussions around sustainable benefits plans.

HCSAs allow employers to effectively budget for their benefits plan, and employees enjoy greater flexibility in how they use their benefits!

Contents

What is a health care spending account, and how does it work?

A health care spending account (HCSA) is an employee benefit that reimburses employees for a wide range of health and dental care expenses. HCSAs can serve as the only employee benefit to cover these types of costs, or they can be paired with fully insured plans, and/or pooled benefits.

Think of a HCSA like a bank account.

> **Employers allocate a set amount for each eligible employee for the year, allowing them to accurately predict the overall cost of providing the benefit.**

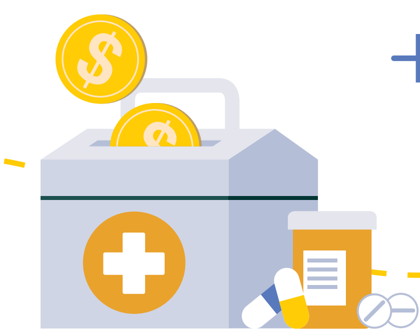
They can set up different amounts for Single, Couple, and Family coverage, and/or multiple employee classes with different amounts as well.

Employers also decide whether to allow employees access to the full annual amount at the beginning of the year or provide it in quarterly or semi-annual instalments. There are also options to rollover unused amounts or unpaid claims, and to pro-rate the allocation for new employees starting partway through the year.

Employees use these allocated dollars to get reimbursed for eligible expenses, allowing them to prioritize their needs. For example, a plan member who needs new glasses and an eye exam can use their HCSA for that service. Their coworker, who has 20/20 vision but suffers from chronic back pain, can instead use their allotment for massage or physiotherapy.

The Canada Revenue Agency (CRA) determines the eligible expenses under a HCSA, since HCSAs follow the rules set out in the Income Tax Act (Canada).

> **As with other employee benefit programs, used HCSA amounts, along with administration fees, are a tax-deductible business expense, and the reimbursements received by the employees are tax-free.**



Are more employers providing a health care spending account?

According to the 2025 Benefits Canada Health Care Survey (BCHS), 47% of plan sponsors offered a HCSA, up from 40% in 2024, and 38% in 2023.[1] We took a look at the Benefits by Design (BBD) block of business and found that **43% of employers are providing a HCSA**. This is regardless of whether they have other benefits or not.

As benefit plan costs rise, employers are looking for ways to control costs, and a HCSA does just that. Allocation amounts will only increase if the employer chooses to do so, rather than premium increases which are based on plan usage and trend factors that are beyond the control of the employer.

Why are health care spending accounts growing?

Sixty-eight per cent of Canadian employers understand that employees want flexibility and selection. Yet only 17% offer cafeteria-style flexible benefit plans, citing difficulty in implementation and costs.[2] Another reason is company size — insurers typically do not offer this type of coverage to smaller companies. It's worth noting that in Canada 98% of companies have fewer than 100 employees, which makes it difficult to provide cafeteria-style benefits.

> **With a HCSA, employers can provide employees with the flexibility and choice they want, all while maintaining a clear budget.**

Employer choice

HCSAs are incredibly versatile. Employers can set up the allocation to cover all health and dental care expenses or just a few specific ones.

For example, a company that does not have enough employees to maintain orthodontic coverage could add a specific HCSA that only covers orthodontic services. In this way, they maintain their coverage, and as an added feature, can better manage the costs of the orthodontic coverage.

Benefits prioritization

Employees get to choose how to spend their HCSA allocations (within the boundaries of what the employer has set), so they can use them for their own unique needs.

A plan member with high annual health care expenses might use their HCSA to cover out-of-pocket costs after reaching their annual maximums and/or frequency limits under the health care plan.

On the other hand, healthy employees who rarely use the health care benefit, but still have payroll deductions for the cost-sharing of premiums, can submit the premiums for reimbursement under the HCSA.

Providing flexibility and choice to plan members and empowering them to prioritize their coverage has never been more important. HCSAs have become one of the fastest-growing benefits capable of providing this crucial element of choice.

Rising health care spending in Canada

In 2025, total health care spending in Canada was around $399 billion, or $9,626 per Canadian.[3] When we wrote our 2023 Report, health care spending was approximately $208 billion, showing just how quickly Canada's national health expenditure continues to trend upwards.[4]

This is due in part to the rising cost of drugs. The average annual amount claimed per person for prescription drugs has increased by more than 60% since 2015. Back then, it was just $667.78 per year, while in 2025, that amount was $1,079.04.[5]

Another reason could be the long wait times for diagnostic scans and specialist treatments. Waiting for magnetic resonance imaging (MRI) could take over 4 months, while the time between a doctor's referral and treatment from a specialist is about 30 weeks (this varies by province and specialty).[6] **This means delayed treatment, worsening conditions, longer healing times, and therefore higher costs.**

- Canada is ranked among the highest health expenditures as a percentage of GDP, at 11.3% in 2024.[7] And that amount rose to 12.7% in 2025.[8]
- Plan members with household incomes of $150,000 and above spent an average of 82% of their HCSA.[9]
- Plan members with caregiving responsibilities, as well as those who worked remotely for the majority of the week were both heavy users of their spending accounts at 77%.[10]

Sources:

1, 9, 10 – Benefits Canada Health Care Survey (2025)
2 – Perkshift - HR News Canada
4 – 2023 Report | The state of health care spending accounts
3, 8 – Canadian Institute for Health Information (2025)
5 – The 2026 Drug Data Trends & National Benchmarks report
6 – 2024 Health Care Wait Times in Canada - Infographic
7 – Health expenditure in relation to GDP: Health at a Glance 2025 | OECD

How much are employers allocating to health care spending accounts?

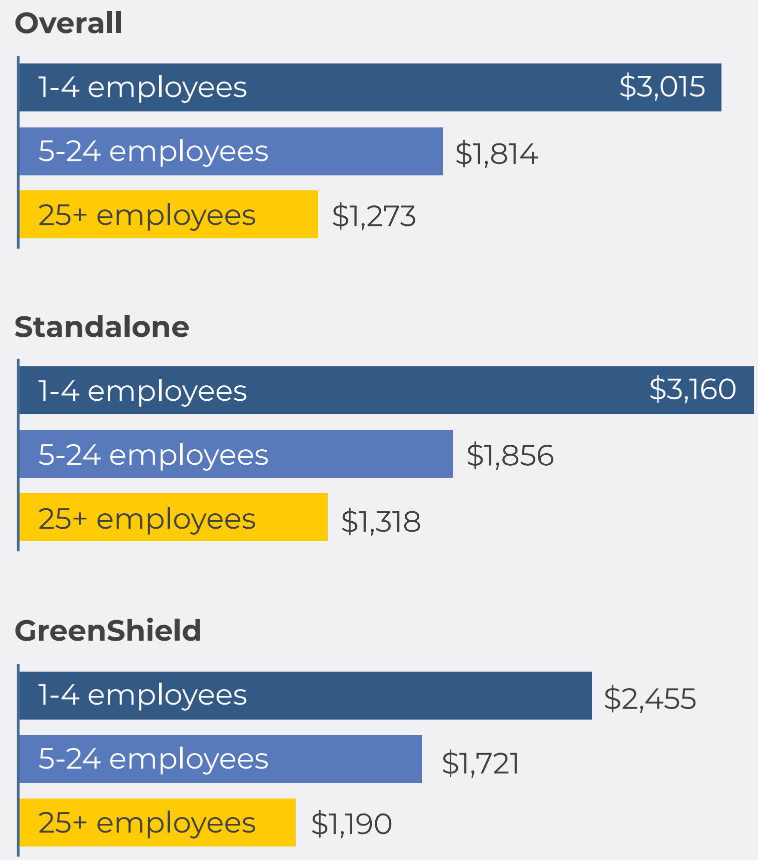
Employers decide how much they want to provide to their employees under the HCSA. BBD offers two HCSA options: one through GreenShield, plus our Standalone® product through myHSA.

> **First, we looked at all clients with HCSA allotments under $10,000*, regardless of whether they have other benefits or not. We combined both Standalone and GreenShield clients, and found that in 2026, employers provided an annual average of $1,661, up from $1,598 in 2025.**

We broke it down further by company size, and noticed that the smaller the company, the more they were allocating to the HCSA. When the company size is between 1-4 employees, the average allotment is $3,015. Companies with more than 25 employees have significantly smaller average amounts, at $1,273 per employee.

We also looked at the numbers separately by product type (GreenShield HCSA or Standalone HCSA), and found that they were comparable, with the exception of companies with 1-4 employees. Those that chose the Standalone product gave employees approximately $500 more on average.

Average allotment amount by company size and type of HCSA



*Groups with allotments over $10,000 are considered Cost-Plus plans and are not included.

How much are employers allocating to health care spending accounts? (continued)

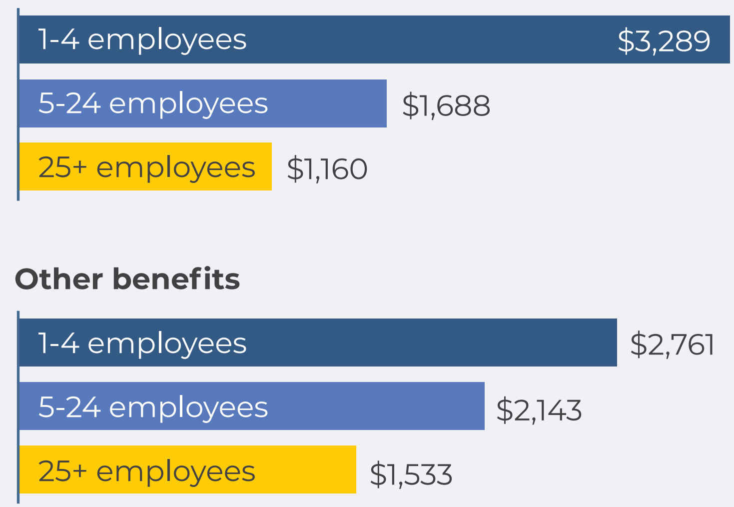
Next, we compared clients who had other benefits (i.e., insured benefits like health and dental care) with those who did not. Interestingly, companies with 5 or more employees who had other benefits had higher allotment sizes than their counterparts with no other benefits.

> **This points to an important opportunity for employers: HCSAs may deliver their greatest strategic value when they're designed not as a standalone solution, but as a flexible layer within a broader benefits plan.**

Average allotment amount by company size and other benefits

No other benefits

Other benefits



Some organizations are rethinking funding levels and eligible expenses to keep these accounts sustainable, and one way to manage this is by introducing tiers based on tenure."

— **Colleen Baker**, Benefits Consultant
People Corporation

Are health care spending accounts fully utilized?

As with any benefit, utilization is a key indicator as to whether the product is meeting plan member needs.

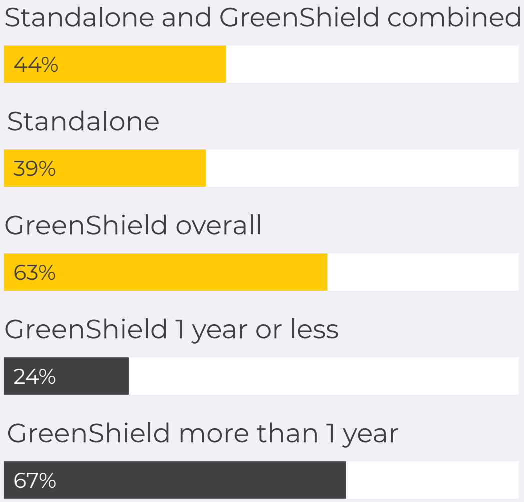
Looking at just the Standalone accounts, we found that 74% of employees used at least some of their HCSA, and they used 39% of their allotment on average.

On the other hand, our GreenShield HCSA client's average utilization was quite a bit higher, at 63%, with 93% using at least some portion of their allotment. This is likely due to the auto-coordination with their health and dental benefits, allowing them to automatically submit co-pays.

We were able to break it down a bit further and looked at groups who had implemented their GreenShield HCSA within 1 year, and those who had it in place for more than one year. **This notable difference suggests that HCSA utilization increases as employees gain a better understanding of how the accounts work and what expenses qualify for reimbursement.**

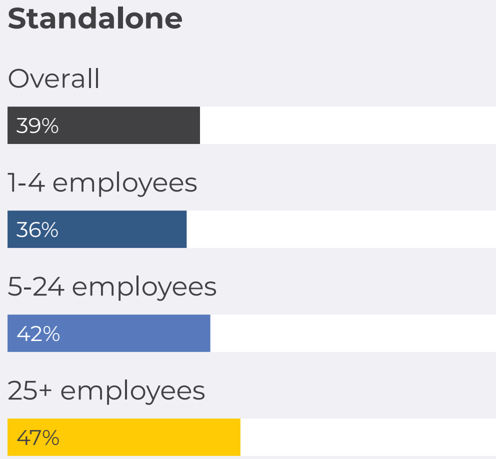
Average HCSA utilization

by product type and time since implementation



Average HCSA utilization

by company size



It's worth noting that while utilization is higher for companies with more employees, this is partially because their average allotment sizes are smaller.

For example, an employee who uses 36% of $3,015 (the average allotment for groups with 1-4 employees), would be reimbursed $1,085.40.

On the other hand, an employee who uses 47% of $1,273 (the average allotment for groups with 50+ employees), would be reimbursed $547.39.

Why are health care spending accounts not being fully utilized?

HCSAs are designed to give employees more flexibility in how they use their benefits, but the data shows many employees are still not using their full allotments. That means some plan members may be missing out on reimbursement dollars that are already available to them.

This underutilization matters because, even among employees who are using some portion of their HCSA, many are still leaving a significant portion of their available benefit unused.

> **Example: An employee using only 60% of a $2,500 allotment loses out on $1,000 in available tax-free money through their HCSA.**

While utilization varies by product type, company size, and how long the HCSA has been in place, the pattern points to a broader issue: employees may need more support understanding how their HCSA works, what expenses are eligible, and how to make the most of the dollars available to them.

Details such as rolling contributions, claims submission deadlines, and what category an expense falls under can further confuse employees trying to use the benefit, which is why it's so important to provide consistent communication and learning sessions.

Everything You Need to Know About Spending Accounts

The future of health care spending accounts

Overall health care spending in Canada continues to rise, making employer sponsored benefits even more valuable.

> **But when 59% of employees are reaching annual maximums for at least one aspect of their fully insured benefits[10], providing a HCSA can significantly increase the likelihood employees will be able to afford treatment.**

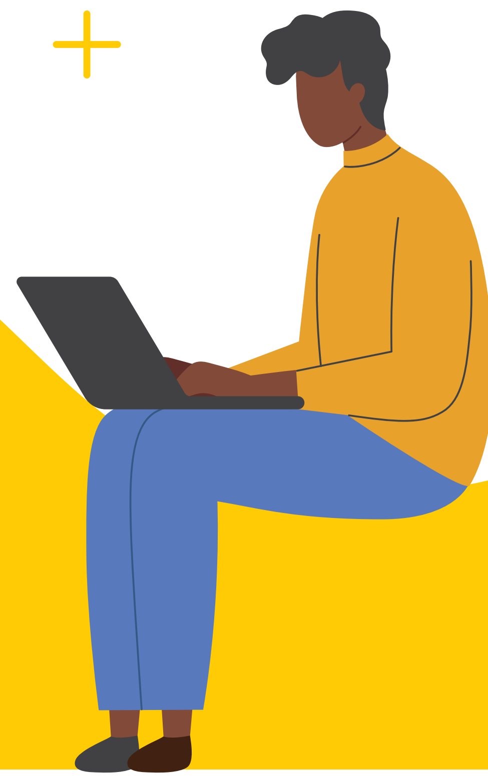
Additionally, 80% of Canadians are considering the employee benefits plan when job prospecting[11], and offering the flexibility of a HCSA can help attract and retain talent.

As employers look for sustainable ways to support employees while managing rising benefit costs, HCSAs offer a practical way to balance both needs. They give employers control over their benefits budget while giving employees more choice in how they use their coverage. But for HCSAs to deliver their full value, plan members need to understand how the account works, what expenses are eligible, and how to use the dollars available to them. With the right communication and education, HCSAs can help employers provide a more flexible, valuable, and sustainable benefits experience.

Sources:
10 – Benefits Canada Health Care Survey (2025)
11 – Survey Says: 80% Of Employees Consider The Health Benefits You Offer - OMHRA

Data analysis

Data for the GreenShield HCSA represents over 2,500 small- to medium-sized employers. Data for the Standalone HCSA represents over 1,400 small- to medium-sized employers. All of these are a portion of People Corporation's group benefits business. These small- to medium-sized employers reflect a cross-section of industries located across Canada, including construction, manufacturing, retail trade, finance, and more.



You have the data – now let us help you put it into action.

Contact your group benefits advisor for more information.