

2019

Provincial Budget Submission

Presented to
The Honourable Tom Osborne
Minister of Finance
Government of Newfoundland
and Labrador

Canadian Life and Health Insurance Association
February 2019



Executive Summary

The Canadian Life and Health Insurance Association (CLHIA) is supportive of the province's approach to move toward reducing red tape and saving taxpayers' dollars.

Canada's life and health insurers play a strong role in supporting the province's economy. The industry is a major investor in the province and contributes significant income through provincial taxes to the government.



\$58 million in tax contributions

\$ 8.0 million - Corporate income tax
\$ 4.0 million - Payroll and other taxes
\$46.0 million - Premium tax



Investing in Newfoundland and Labrador

\$15 billion - Total invested assets
98% - Held in long-term investments

The industry also plays a key role in providing a social safety net to the people of Newfoundland and Labrador.



Protecting 430,000 Newfoundlanders and Labradorians

400 thousand - With supplementary health benefits
310 thousand - With life insurance averaging \$181,000 per insured
120 thousand - With disability income protection



\$1.1 billion in payments to Newfoundlanders and Labradorians

\$427 million - Annuities
\$476 million - Health and disability claims
\$152 million - Life insurance policies

In this submission, we recommend the following initiatives:

- **Ensure the people of Newfoundland and Labrador have access to affordable prescription drugs by supporting workplace drug plans that currently provide Newfoundlanders and Labradorians with comprehensive access to essential medicines and by working with our industry to coordinate efforts to bring down costs through bulk-buying and enhancing access to high cost medicines when needed;**
- **Leverage our industry's investment capacity in order to expand and accelerate long-term infrastructure projects, allowing Newfoundland and Labrador to modernize its infrastructure and make the economy more productive and competitive;**
- **Enact measures to facilitate the provision of Pooled Registered Pension Plans (PRPPs) which are prudent, efficiently-managed, portable private pension plans, that would be available to Newfoundland and Labrador workers, particularly within smaller businesses, and the self-employed, thus vastly improving access to a pension plan;**
- **Reduce and ultimately eliminate consumer-borne taxes on life, health and disability insurance premiums as fiscal circumstances permit; and**
- **Support investment in mitigating climate change and working with the life and health insurance industry on this issue.**

The adoption of these recommendations will help achieve the province's policy goals of reducing the deficit while continuing to work towards a stronger economy.

2019 Newfoundland and Labrador Budget

1. SUPPORTING ACCESS TO AFFORDABLE PRESCRIPTION DRUGS

All Canadians should have access to affordable prescription medicines regardless of where they live. Canada's life and health insurers play an important role in providing prescription drug coverage to Canadians. Life and health insurers provide more than 25 million Canadians with access to a wide range of prescription drugs and other health supports through extended health care plans.

However, the industry recognizes that real problems exist in our prescription drug system today and that the time has come to take meaningful steps to make improvements for the benefit of all Canadians.

Improving the system requires more than simply "filling the gaps". Rather, improvements must address access issues as well as the cost and financial sustainability of the system. In order to achieve this, it is important that federal, provincial, and territorial governments work collaboratively and with private insurers to meet the objectives of ensuring everyone has access to their needed medications and to address the relatively high costs faced by Canadians.

The industry believes that there are three key elements that any reform of the prescription drug system must embody. These include:

Protecting and enhancing existing benefit plans

Today, life and health insurers work together with employers to offer access to a wide variety of prescription drugs through employer sponsored benefit plans. Newfoundlanders and Labradorians value their benefit plans that provide them with access to a wide variety of health services, including prescription medicines, vision care, dental care, and mental health supports. These services both help prevent illness and contribute to the recovery of patients in Newfoundland and Labrador.

Providing drug coverage for everyone

Governments should ensure that all Canadians can access and afford the medicines they need so that no one is excluded from coverage and all are able to take their needed medications as prescribed. To achieve this, governments should establish a shared list of the medicines that everyone should be covered for through workplace plans for those who have one, individual plans for those who choose them, and by government for those who don't. This list of drugs would be based on scientific evidence and include expensive drugs when needed and drugs for rare disorders. Current government "formularies" differ between jurisdictions, and exclude many medically appropriate drugs.

Ensuring affordability for consumers and taxpayers

Meaningful reductions in prescription drug prices and improving access for all Newfoundlanders and Labradorians can be achieved today by working within our current system. For instance, negotiations through the pan-Canadian Pharmaceutical Alliance (pCPA) have helped to bring down costs for public plans. However, the current approach only leverages half the buying power of the Canadian market in any negotiation and leaves those Canadians with private insurance, or paying out of pocket, to fend for themselves. We therefore recommend that private plans be included in the pCPA. This would allow governments and insurers to negotiate the best prices possible using the entire Canadian market volume while ensuring that all Canadians are treated fairly and pay the same price for the same drug.

We recommend that the government ensure the residents of Newfoundland and Labrador have access to affordable prescription drugs by supporting workplace and individual drug plans that currently provide Newfoundlanders and Labradorians with comprehensive access to essential medicines and by working with our industry to coordinate efforts to bring down costs through bulk-buying and enhanced access to high cost medicines when needed.

2. INFRASTRUCTURE INVESTMENT

The CLHIA is pleased that the government recognizes the need to make long-term investments in infrastructure for the province. World-class infrastructure is vitally important to maximizing economic growth as Newfoundland and Labrador and Canada compete to grow in an increasingly global economy.

Canadian life insurers are a leading source of long-term financing for infrastructure (re)development. The nature of Canadian life insurance products – routinely lasting more than 50 years – results in predictable long-term liabilities. Life insurers can commit to long-term financing throughout the "design, build, operate and maintain" stages of infrastructure projects. This inherent structural advantage makes the industry an important and stable investor in long-term assets.

Canadian life insurers have participated in projects ranging from roadways and public transit to public buildings and wastewater systems. These investments efficiently match insurers' long-term liabilities for life coverage, retirement savings and pension plans upon which Newfoundlanders and Labradorians depend, and thereby increase the cost effectiveness of insurance for consumers. The industry has a strong desire to invest further in infrastructure projects.

Given that the bulk of Canada's \$400 billion infrastructure deficit is at the smaller municipal government level, a more nuanced approach is needed to address this specific segment of the country's infrastructure deficit. Active collaboration between all levels of government and the private sector to develop a comprehensive long-term plan to fund and facilitate identified needs at the local level will help speed projects to market and reduce the infrastructure deficit.

We recommend the government leverage our industry's investment capacity in order to expand and accelerate long-term infrastructure projects, allowing Newfoundland and Labrador to modernize its infrastructure and make the economy more productive and competitive.

3. PENSION INNOVATION

The federal government's *Pooled Registered Pension Plans (PRPP) Act* provides a template for accessible, simple, consistent and cost-effective pensions throughout Canada. Alberta, British Columbia, Saskatchewan, Ontario, Quebec, and Nova Scotia have enacted similar legislation.

While recent enhancements to the Canada Pension Plan will help, it is estimated that 30% of middle-income Canadians are not saving enough for their retirement¹. Statistics Canada data indicates that only 20% of workers in workplaces with fewer than 50 employees have access to a workplace retirement plan. PRPPs will make a difference for them, ensuring greater fairness in terms of access and affordable workplace retirement pension plans.

¹ Federal-Provincial-Territorial Finance Ministers' Research Working Group on Retirement Income Adequacy, 2009.

As service providers to about two-thirds of Canada's pension plans, CLHIA members strongly support implementing PRPPs in Newfoundland and Labrador as a meaningful contribution to closing this pension gap. Allowing regulated financial institutions to provide professionally managed, universally-available, PRPPs to Newfoundlanders and Labradorians complements the balanced, internationally-respected, public-private basis of Canada's "multi-pillar" retirement income system.

PRPPs build on existing expertise and capacity. Built-in features, such as automatic enrolment of employees (with an opt-out feature preserving individuals' right to defer saving for retirement) and automatic escalation of contribution rates over time, counter consumer inaction. These features have been extremely effective in increasing pension participation and adequacy internationally. We believe that PRPPs can significantly improve the future retirement savings of Newfoundlanders and Labradorians and urge the province to act quickly to facilitate PRPPs.

To maximize participation and best meet the public policy objectives of ensuring access to low cost saving for retirement, ***we recommend that Newfoundland and Labrador adopt the recent Quebec approach, requiring all employers above a certain size (5 employees, in the case of Quebec) to offer some form of workplace retirement plan. We applaud this approach, and estimate that over 85% of Newfoundland and Labrador workers would have access to a workplace retirement plan, ensuring a profoundly positive impact on their future retirement savings, at essentially no cost to their employers.***

4. TAX DISINCENTIVES ON INSURANCE

Newfoundland and Labrador imposes a 5% tax on life, health and disability insurance premiums. This is the highest rate in Canada. Life insurers – and consequently insured Newfoundlanders and Labradorians – paid \$46 million in premium taxes in 2017. The premium tax is outdated – it predates corporate income taxes, and imposes a supplemental tax burden over five times the \$8 million in corporate income taxes levied on life and health insurance companies in Newfoundland and Labrador in 2017. This is compounded by the imposition on July 1, 2016 of a 15% retail sales tax on group life and health insurance premiums, effectively layering one tax on top of another.

Canada's life and health insurance companies oppose any form of consumption tax on insurance premiums that increases the cost of insurance for consumers and business and consequently makes it more difficult for Newfoundlanders and Labradorians to adequately protect themselves, their families, and their employees. Such taxes discourage individuals and businesses from purchasing life, disability, and supplementary health and dental insurance and increase Newfoundlanders and Labradorians' reliance on publicly-funded social services in the event of illness, injury and death.

Moreover, because many individual life insurance policies provide long-term, guaranteed prices, any increase in premium tax rate cannot be flowed through to holders of such policies. Increased tax costs fall disproportionately, and unfairly, on new consumers of insurance. We realize that eliminating the taxes on life, health and disability insurance premiums may be difficult at this time, given the current fiscal situation in Newfoundland and Labrador. But these taxes are counterproductive to ensuring Newfoundlanders and Labradorians have affordable insurance coverage. We are concerned that these taxes encourage individual Newfoundlanders and Labradorians and their employers to reduce or forego essential insurance coverage, placing families at financial risk, and increasing costs to the public health and welfare system.

Consequently, ***we strongly urge the government to reduce and ultimately eliminate the premium and sales tax rates on life and health insurance premiums, thereby ensuring Newfoundlanders and Labradorians have the fullest possible access to affordable life and health protection, and avoiding unnecessary demands on public health and welfare services.***

5. SUPPORT ACTIONS TO MITIGATE CLIMATE CHANGE

Canadian life and health insurers are supportive of government actions on climate change, and managing risks associated with it. The industry encourages the government to make investments to reduce emissions, reduce air pollution, and protect land and water.

While the immediate impact of anthropogenic climate change – increased frequency and severity of violent storms, flooding, drought, forest fires, etc. - may be more obvious, climate change presents a unique risk to public health, and consequently to life and health insurers. Increasing planetary temperature, driven by air pollution and emissions of greenhouse gases, leads to negative health outcomes, including respiratory illness, cardiovascular disease and death. Climate change also increases the risks of the spread of vector-borne diseases as normal ranges for insects and their hosts shift northward. While managing climate change is of interest to many, it is of particular concern to the life and health insurance industry.

We support investment in mitigating climate change and look forward to working with the government on this issue.



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