



**SUBMISSION
TO EMPLOYMENT AND SOCIAL
DEVELOPMENT CANADA**
on the
*Reforming Canada's Employment
Insurance Program*

Canadian Life and Health Insurance Association
September 2021



Canadian Life & Health
Insurance Association

Association canadienne des
compagnies d'assurances
de personnes

OVERVIEW

The Canadian Life and Health Insurance Association (CLHIA) is pleased to provide its comments to Employment and Social Development (ESDC) Canada on the *Reforming Canada's Employment Insurance Program*.

The life and health insurance industry plays an important role in providing financial security to Canadians, protecting millions of Canadians through a wide variety of life, health and retirement income products. In 2019, Canadian life and health insurers provided 12 million Canadians with disability income protection.



Protecting 29 million Canadians

26 million with drug, dental and other health benefits

22 million with life insurance averaging \$222,000 per insured

12 million with disability income protection



\$103 billion in payments to Canadians

\$53 billion in annuities

\$38 billion in health and disability claims

\$12 billion in life insurance policies



\$8.3 billion in tax contributions

\$1.5 billion in corporate income tax

\$1.3 billion in payroll and other taxes

\$1.6 billion in premium tax

\$3.9 billion in retail sales and payroll taxes collected



Investing in Canada

\$950 billion in total invested assets

92% held in long-term investments

The industry is also a major contributor to the Canadian economy, by employing 157,000 Canadians and providing an important source of stable capital for the federal government through investments and tax contributions.

We appreciate the opportunity to provide comments Reforming Canada's Employment Insurance Program from the perspective of the provision of sickness benefits and the employer premium reduction program.

PRIVATE SECTOR ROLE IN DISABILITY INCOME SUPPORTS AND CASE MANAGEMENT

Canadian life and health insurers provide 12 million working Canadians with access to income supports and rehabilitation when they become disabled and unable to carry out the requirements of their employment. In total, the industry paid over \$8 billion in benefits in 2019.

Canadians highly value their current coverage. Through these plans, insurers offer unique tools and supports for plan members to help their health improve to the point where they can consider a return to work. In addition, the industry has invested in significant infrastructure and expertise to process disability applications and obtain medical information. These disability plans have been especially

important throughout the COVID-19 pandemic and the private payer system has proved its resilience throughout. Workplace plans have shown remarkable resilience, with industry-wide data collected by the CLHIA showing that 98.5 per cent of the 12 million Canadians who had disability plans at the beginning of March 2020 continued to have coverage throughout. The industry paid out 8 billion in income replacement benefits to disabled Canadians in 2019 and returned many of them to recovery and work.

SUMMARY OF SUBMISSION KEY POINTS

- **Income replacement landscape in Canada.** The income replacement landscape in Canada can be complicated. The EI Sickness Program should take into account that any individual may have multiple sources of income replacement at their disposal including Workers Compensation Boards, auto insurance programs, federal/provincial disability and sick day programs, provincial social development programs.
- **Introduce medical management to the expanded EI Sickness Program.** The program requires medical information only at start of claim. With increasing benefit to 26 weeks, EI must mitigate the possibility of inadvertently prolonging claims by requiring intermittent medical documentation and providing return to work supports.
- **Transform the Premium Reduction Program (PRP).** The number of employers applying for the PRP is declining, especially among small and medium employers. The program as it exists today is cumbersome, with a lengthy application program and assessment period by Service Canada, for little premium return. The program requires significant change in order to make it attractive to employers.
- **Short-term disability (STD) benefit programs provide much more than income replacement.** As identified further in sections to follow, insurers provide many services to both employers and employees throughout the disability period other than simply income replacement. These services are key to the employee's recovery and successful return to work.

EMPLOYERS STILL EXPERIENCING EFFECTS OF PANDEMIC

In March 2020, many employers were forced to shut down non-essential operations and lay-off workers. Income supports were available to many employers from the federal government, that helped them survive this period and emerge to re-establish their businesses as lockdowns were lifted.

As businesses have mostly opened, the September 2021 unemployment rate dropped to 5.7%, back to pre-pandemic rates (<https://www150.statcan.gc.ca/n1/daily-quotidien/211008/dq211008a-eng.htm>).

Prior to the pandemic, Canada was already grappling with a labour shortage. This has resulted in wage inflation as well as other costs to find labour such as hiring and staying bonuses.

As we look at the impact of the pandemic on EI rates, we see higher costs entering the picture. While rates were kept artificially stable for 2021, 2022 and 2023 due to 2016 legislation that kept rate increases to .05/\$100 of earned income, the EI program has a deficit of \$25 billion today, estimated to be \$41 billion by end of December (<https://www.canada.ca/en/employment-social-development/programs/ei/ei-list/reports/premium/rates2021.html>). Steep increases to the EI premium for both employers and employees will be required to eliminate this deficit.

The median salary based on 2021 data will experience at least a 6.6% increase to the Maximum Insurable Earnings (MIE) (<https://www.canada.ca/en/employment-social-development/programs/ei/ei-list/reports/premium/rates2021.html>) due to the fact that most jobs lost in the pandemic were lower wage. It should be noted that Canada Pension Plan (CPP) contribution will also go up as it is based on average wage, again showing a significant increase. Indeed, employers and employees are seeing the contribution rate for CPP increasing as a result of the 'enhanced benefits' which required phased-

in higher contributions for a period of seven (7) years in order for Canadians to enjoy better benefits when claiming Canada Pension Plan Disability (CPPD) or CPP.

Overview of Disability Programs

Insurers offer a variety of disability programs to employers, including the following:

- Short-term disability (STD): income support for a short period of time where the average claim resolves after eight (8) weeks. Duration of available benefits vary by contract but typically end at 6 months.
- Long-term disability (LTD): typically available after the STD benefits expire. May last till age 65 if the eligibility requirements continue to be met.
- Administrative Services Only (ASO) supports: ASO is an arrangement where the employer assumes all responsibility and risk for claims payment. In this case, the insurer may provide all other services including medical claim management.
- Workplace Absence Intervention Services: provided during the period when the employee is on sick leave, services may include all other services including medical claim management.

Description of Services Provided by Insurers to Employers/Employees on Disability

- Claim adjudication according to the eligibility requirements in the contract.
- Case management, including the following:
 - Ensuring access to early medical assessments and treatments
 - Providing other supports as needed, for instance, many claims have a component of mental health that require intervention and treatment
 - Assess the need for accommodations upon return to work and works with both employer and employee to have them in place. This assists the employer in their legal duty to accommodate.
 - Provide link between employee and their employer, keeping them attached to the workplace.
 - Return employee to work when appropriate for the employee, helping to keep productivity loss at the workplace to a minimum.
 - Coordinate disability claim management between multiple potential sources of income including multiple levels of government disability programs, provincial low-income support programs, workers' compensation boards for at-work incidents, and auto insurance plans. Insurers play a significant role in assisting Canadians to access programs that they are eligible for.

The multiple benefits employers typically provide in funding benefit packages are designed to keep employees healthy and connected to their workplace. Mental health supports are an important part of the benefits package and many employers have extended their benefits in this area recognizing its importance to keeping employees productive. Of note, in 2020, insurers paid out 24% more for the services of mental health providers than in 2019 (<http://clhia.uberflip.com/i/1409216-canadian-life-and-health-insurance-facts-2021/1?>).

CURRENT EI SICKNESS PROGRAM AND CONSIDERATIONS REGARDING PLANNED CHANGES

Today's EI Sickness Program

As the program exists today, eligible claimants can receive a maximum of 15 weeks of income replacement. The eligibility requirement is for a medical prescription or letter from the claimant's physician or nurse practitioner. There is no further medical requirement and no medical management throughout the period of claim. The EI program has no contact with the employer and therefore has no protocol around return to work, nor assistance to the employer to satisfy accommodation requirements. Without these additional programs, the employee on EI sickness benefits may lose their

connection to the workplace and could unintentionally remain on claim longer than on an equivalent private short-term disability plan with supports in place.

Higher Contributions to EI

The Parliamentary Budget Officer published their Legislative Costing Note in May 2021 indicating that the extension to 26 weeks will result in additional spending of \$622 million July 1 2022 – June 30 2023 and grow to \$1,033 million in 2025-26. It is acknowledged that administration expenses will necessarily increase as well. Ultimately, this will result in higher costs for both employers and employees as contributions will need to increase.

Need to Implement Medical Management Approach for EI Sickness Program

In order to successfully implement a 26-week EI Sickness program that meets the requirements of employers and employees, the program should consider implementation of all of the processes that private disability insurers provide in order to return the employee to recovery and the workplace, including:

- Case management approach
- Ensuring access to treatment and medical care
- Provide any other supports as needed including access to mental health care
- Liaise with employer to ensure accommodations are made

Private insurers have practices in place as identified above that reduce the numbers of STD cases that ultimately result in a LTD claim. Claimants are provided the supports, case management, access to treatment and care, that will result in a positive recovery and return to work. Introducing a 26-week EI sickness program without these supports could have the unintended consequence of lengthening STD claims into LTD, returning that claim to either a private insurer, Retraite Québec or to Canada Pension Plan in Disability (CPPD). Neither the employee nor the employer will be served by a program that results in lengthier absences from work.

TRANSFORMATION OF PREMIUM REDUCTION PROGRAM (PRP)

Overview of PRP and Role of Employers/Employees

All employers in Canada have access to this program as long as they provide a short-term disability program that mirrors or exceeds the benefits from the EI Sickness program. Employers and employees both pay EI premiums whether a comparable short-term disability program is offered, however, a portion of premiums are reduced for both employer and employee participants in PRP. The federal government put this program in place alongside of the EI Sickness program in order to incent employers to continue to offer short-term disability benefits and to reduce the potential monetary impact to EI sickness.

The assessment of whether a short-term disability program mirrors or exceeds the EI Sickness program is made by employees of Service Canada and is based on a review of the employer's contract with their insurer.

According to a report issued in 2020 based on 2019 data (<https://mssociety.ca/resources/news/article/report-employment-insurance-sickness-benefit-policy>), the number of employers participating in the PRP has decreased over time from 33,130 in 2006 to 29,400 in 2019. While the number of Canadians participating in the PRP has increased from 5.3 to 5.8 million between 1997 and 2006, the actual percentage of Canadians in the workforce participating has declined from 46.8% to 41.3%.

Impact of EI Sickness Changes on Employers/Employees Applying for PRP

The change from 15 to 26 weeks will have a significant impact on employers who will need to change contractual language, potentially contract structure, for all short-term disability plans where the employer wishes to apply for the PRP. Some contracts may renew annually whereas others exist for

multiple years without review and renewal. For a change such as this, the insurance industry will require a phase-in period to make these changes under the current requirements of the PRP. The last time that a significant program change was made, the insurance industry was provided with a significant phase-in period. If the PRP program introduces change to reduce burden on employers, the changes may be able to be made more quickly.

Remove Disincentives/Enhance Incentives for Employers to Participate in PRP

There are many good reasons for employers to continue to offer short-term disability programs regardless of participation in PRP, and these reasons have been noted in this submission. That said, there are a number of steps that the federal government could take regarding PRP in order to incent all employers to provide short-term disability programs and to apply for the PRP. Potential changes include:

- Increase the Premium Return rate.
- Reduce and/or eliminate the requirement for insurer contracts to be reviewed. Consider employer attestation or periodic verification.
- Simplify, reduce and/or eliminate most steps within the application process. Not only will this reduce the burden on employers but also on Service Canada.
- Educate employers and employees on benefits of newly transformed program.
- All short-term disability programs should be eligible regardless of length of benefit period, including those that lead to LTD within the 26 week period.
- Consider alternate benefits such as incentives to employers to enhance benefits, including mental health supports.

ESDC should consider all of these changes in order to have employers continue to provide short-term disability programs to 12 million Canadians, paying out 8 billion in income supports in 2019.

CONCLUSION

Thank you for the opportunity to provide the life and health insurance industry's thoughts. We strongly encourage the staff involved in developing and implementing the changes to the EI program and the PRP to continue to consult with the insurance industry and include our sector in any future roundtables.

It will be important that the EI sickness program changes be implemented in such a manner that supports employers continuing to provide disability benefit programs. The breadth of coverage, access to care, mental health supports, accommodations and other programs that employers and employees enjoy today are key considerations in the context of these changes.

Should you have any questions or wish to discuss further, please do not hesitate to contact Joan Weir, Director, Health and Disability Policy at jweir@clhia.ca or 416-294-9384.

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