

# 2022

## Provincial Budget Submission

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Presented to  
The Honourable Siobhan Coady  
Deputy Premier and Minister of Finance

Canadian Life and Health Insurance Association  
February 18, 2022



Canadian Life & Health  
Insurance Association  
Association canadienne des  
compagnies d'assurances  
de personnes

# 2022-23 Newfoundland and Labrador Budget

The Canadian Life and Health Insurance Association (CLHIA) is pleased to provide its comments to Newfoundland and Labrador Minister of Finance Siobhan Coady in advance of the 2022 budget.



## Protecting 410,000 Newfoundlanders and Labradorians

380,000 with drug, dental and other health benefits

300,000 with life insurance averaging \$192,000 per insured

110,000 with disability income protection



## \$1 billion in payments to Newfoundlanders and Labradorians

\$0.3 billion in annuities

\$0.5 billion in health and disability claims

\$0.2 billion in life insurance policies

Canada's life and health insurers play a key role in providing financial security to Newfoundlanders and Labradorians. Additionally, the industry makes a significant contribution to the province's economy. Nearly 800 Newfoundland and Labrador residents work within the sector in high value, professional jobs (as employees or independent agents). The industry is also a major investor in the province and contributes significant revenue through provincial taxes to the government.



## \$59 million in provincial tax contributions

\$6 million in corporate income tax

\$5 million in payroll and other taxes

\$48 million in premium tax



## Investing in Newfoundlanders and Labradorians

\$18 billion in total invested assets

98% held in long-term investments

Canada's life and health insurers have been proud to work with all levels of government throughout the COVID-19 pandemic to protect and support Canadians through health benefit plans, travel insurance and other financial security products.

The life and health insurance industry showed remarkable resilience during the COVID-19 pandemic, stepping up to help employers maintain, and in some cases augment, their health benefit programs through premium reductions and deferrals. Working together with all levels of government we will continue to help maintain benefits for workers in Newfoundland and Labrador and across the country. Workplace plans have shown remarkable resilience—over 26 million Canadians ended 2020 with supplementary health insurance that provided access to medications and other health care services, which is approximately the same number of Canadians who had coverage at the start of the year. The industry also paid out an additional \$150 million in disability claims above what was projected for 2020 to support workers while they recovered.

In 2020 the industry added 1,300 jobs across the country. These jobs were a result of our members' needs to add staff as we shifted to working remotely and Canadians made increased use of their health benefits, including increased virtual care options.

The industry remains financially stable, with capital reserves well above regulators' expectations and our industry will continue to work closely with all levels of government as we move towards recovery from the economic impacts of the COVID-19 pandemic.

## 1. SUPPORTING WORKPLACE HEALTH BENEFITS PLANS

Life and health insurers work together with employers to offer access to a wide variety of health services through employer sponsored benefit plans. In 2020, about 380,000 Newfoundlanders and Labradorians had supplementary health insurance and \$390 million in health insurance benefits were paid.

Newfoundlanders and Labradorians value their benefit plans that provide them with access to prescription medicines, vision care, dental care, and mental health supports. For example, in 2020 the industry paid out \$12 billion in prescription medication claims to Canadians—representing 35 per cent of national drug spending.

### Support for mental health

We believe that all levels of government and the private sector have a role to play in helping curb Canada's mental health crisis, which has been further challenged by the pandemic. We will continue to monitor health and disability claims across employers, but it may be several years before we understand the real impacts of the pandemic.

Supporting employees' physical and mental well-being makes good economic sense. Half a million Canadians miss work each week due to mental health reasons, and absenteeism and presenteeism results in nearly \$6 billion in lost productivity costs ([Centre for Addiction and Mental Health, 2020](#)). Group benefit plans provide much needed coverage that enables Canadians to access mental health services on both a short and long-term basis, helping them to remain healthy and productive.

In 2020, our industry paid out \$420 million in psychology-related claims to support mental health—representing a nearly 25 per cent increase from 2019. We have been working to improve access for Canadians who have been negatively impacted by the pandemic by supporting alternative options for care, including virtual care. We recommend continued collaboration between public and private payers to help ensure mental health care is accessible, high quality and patient focused.

As we move forward with economic recovery it will be crucial for public and private sectors to work together to create psychologically safe and healthy workplaces. For example, small and medium-sized businesses have been disproportionately impacted by COVID-19 and would benefit from support that enables them to further invest in a comprehensive workplace mental health strategy.

In addition, each jurisdiction in Canada has its own occupational health and safety (OH&S) legislation, which outlines the general rights and responsibilities of the employer, the supervisor and the worker through an Act or statute and related regulations. The federal government has a mandate to amend the Canada Labour Code to include mental health as a specific element of OH&S and to require

federally regulated employers to take preventative steps to address workplace stress and injury. We encourage all governments to explore similar initiatives in this area.

#### Participation in the development of a federal rare disease strategy and pan-Canadian formulary

Canadians pay some of the highest prescription drug costs in the world—our drug prices are third highest among the Organization for Economic Co-operation and development (OECD) countries. In 2020 insurers paid out \$16.1 million in coverage for rare disease drugs to 325 claimants in Newfoundland and Labrador. From 2012 to 2019, expenditures on rare disease drugs grew by 32 per cent—more than six times the rate for all prescription medicines.

Federal, provincial, and territorial governments need to work together, along with private insurers, to find the best way to increase access to high-cost medications in a fiscally sustainable way. For example, federal, provincial and territorial governments and private insurers should work together to develop a standard formulary of medicines that all Canadians can access regardless of where they live or whether they have workplace benefits. Private insurers want to work with governments to ensure access across the country not only to this standard formulary of medicines but also to high-cost medicines used to treat chronic and rare diseases.

The life and health insurance industry is actively participating in the federal government's consultations on a Rare Disease strategy and the development of a pan-Canadian formulary. The federal government is developing the national strategy by collaborating with provinces, territories and other stakeholder groups. We look forward to working with the Government of Newfoundland and Labrador as it considers the strategy from its own perspective.

#### Support for affordable prescription medicines

The Canadian life and health insurance industry strongly supports the federal Patented Medicine Prices Review Board (PMPRB) reforms which have been delayed until July 2022. It is crucial that the federal government move ahead with these reforms to achieve affordability for consumers and we would encourage the Government of Newfoundland and Labrador to advocate with the federal government to move ahead with these reforms, which would save taxpayer dollars.

***We recommend that the government ensure that Newfoundlanders and Labradorians continue to have access to affordable prescription drugs and mental health supports. This can be achieved by supporting workplace and individual health benefits plans that currently provide hundreds of thousands of residents with comprehensive access to a wide range of health services. Working with our industry to bring down costs and enhance access to high-cost and rare disease medicines is also imperative.***

## **2. PENSION INNOVATION**

#### Enhancing accumulations

Universal access to workplace pension and savings plans can help Newfoundlanders and Labradorians achieve greater financial security in retirement. There is a significant savings shortfall and declining pension coverage for individuals at all age cohorts in Newfoundland and Labrador due to multiple factors, including employees who have difficulty deciding whether to participate in their workplace pension plan. Even when employees do opt to join their workplace plans, many struggle with selecting the appropriate contribution level and investments for their needs. However, about 40 per cent of employees across Canada do not take full advantage of them, leaving as much as \$3 billion on the table annually in free company matching money.

Automatic features – which include automatic enrolment and contributions at a pre-set (or starter) rate, and automatic annual contribution escalation – have proven to be highly effective in increasing participation and savings rates. Increasingly, employees are working longer because they believe they cannot afford to retire. Helping employees retire on time, with the help of automatic features to increase accumulations, has positive economic and health outcomes for businesses, employees, and government. This is due to expected reductions in disability claims (higher risk of on-the-job injuries for older employees) and decreased financial stress or anxiety and other cost savings. The turnover through timely retirements better enables employers to plan for younger talent to train and succeed retiring employees.

***We recommend that Newfoundland and Labrador amend the Pension Benefits Act and the Labour Standards Act to enable automatic plan enrollment and annual contribution escalation and automatic contributions, respectively. These reforms will make it easier for Newfoundlanders and Labradorians to achieve lifetime financial security through higher retirement income. They will also improve Newfoundland and Labrador’s productivity, competitiveness and health outcomes. As COVID-19 continues to impact Newfoundland and Labrador, this change would support employees in their retirement planning and enable employers to help their employees save for a secure retirement.***

#### Enhancing Decumulation Solutions

We also support enhanced retirement income security for all Newfoundland and Labradorians, including access to widely available, effective and innovative retirement income solutions. Individuals saving for retirement seldom know either the amount of retirement income they can draw from those savings or how long those savings must last.

To help address this, the federal government enacted in 2021 – Variable Payment Life Annuities (VPLAs) and Advanced Life Deferred Annuities (ALDAs), two decumulation solutions intended to help Canadian retirees.

The CLHIA continues to believe the VPLA legislation, as enacted, would only enable a select minority of Canadians participating in Defined Contribution Registered Pension Plans (DC plans) or Pooled Registered Pension Plans (PRPPs), as we estimate it requires at least 10,000 plus active members to provide the scale for a stable VPLA solution. The current measures do not take into consideration many other retirees who are members of smaller DC or PRPP plans that lack scale for a standalone VPLA solution. The CLHIA believes in standalone VPLAs that can pool funds from across DC plans, PRPPs, as well as Group RRSPs to maximize participation and provide a potentially stable income for the many hundreds of thousands of Canadians expected to retire each year.

***In order to provide sustainable, affordable retirement income arrangements for older Newfoundland and Labrador residents, we encourage the government to monitor and parallel federal measures to introduce ALDAs and VPLAs as new retirement income options and encourage the federal government to permit standalone VPLAs.***

### **3. CLARIFYING AMENDMENTS TO THE INSURANCE ACT**

Recently, other provinces have introduced legislation to amend their *Insurance Act* to add clarity to the meaning of the word premium in the context of a life insurance contract and thereby reinforce that amounts paid to the insurer must relate to the insurance coverage. These changes help prevent “exploitative” transactions that involve investors depositing large sums of money unrelated to the insurance coverage into side accounts of universal life insurance policies. Changes have removed any uncertainty and reinforced the separation of insurance from banking or securities business.

***We strongly recommend that Newfoundland and Labrador introduce legislation to provide clarity that the Insurance Act should be applied to all life insurance contracts and to reinforce that insurance premiums must relate to insurance coverage.***

#### **4. SUPPORT PRIVATE SECTOR INVESTMENT IN SUSTAINABLE INFRASTRUCTURE PROJECTS**

We support the Government of Newfoundland and Labrador taking action to reduce, mitigate and adapt to the risks of climate change. While the immediate impact of climate change—more frequent and severe storms, flooding, drought and forest fires—is obvious to property and casualty insurers, climate change also presents a complex and long-term risk to public health, and consequently to life and health insurers. As such, while managing climate change is of interest to many it is an area of significant and growing concern to the life and health insurance industry and we see it as our responsibility to support a transition to a resilient, lower carbon future.

Infrastructure investment is a vitally important aspect of reducing, mitigating and adapting to the risks of climate change and it is also crucial to maximizing economic development and prosperity throughout Newfoundland and Labrador and Canada as we compete to grow in a challenging economy and recover from the economic impacts of COVID-19.

The nature of Canadian life and health insurance products – routinely lasting more than 50 years – results in predictable, long-term, liabilities. As such, life insurers are ideal financial partners for long-term infrastructure projects, including public-private partnerships (P3), as they can commit to long-term financing. This inherent structural advantage makes the industry an important and stable investor in long-term assets.

As a substantial investor in the Canadian economy, the life and health insurance industry is well positioned to support the transition to a resilient, lower carbon economy through investment in sustainable financial products and assets, including infrastructure. Canadian life and health insurers already have \$55 billion invested in domestic infrastructure and more than \$75 billion invested in products or assets that integrate ESG or sustainability factors.

However, the industry is able and wants to do more. Our industry recognizes that sustainable infrastructure is crucial for adapting to and mitigating the risks of climate change but insurers' capacity to invest more is not matched by available sustainable assets.

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

***The industry is seeking opportunities to collaborate with the government on the issue of lack of supply of sustainable assets for investment, such as low-carbon electricity generation and climate transition and resilience-enhancing infrastructure projects.***

#### **5. SUPPORTING A DYNAMIC AND INNOVATIVE BUSINESS CLIMATE**

Newfoundland and Labrador imposes a five per cent tax on life, health and disability insurance premiums, the highest across all provinces and territories. Life insurers--and consequently insured Newfoundland and Labradorians—paid nearly \$50 million in premium taxes in 2020. The premium tax is outdated – it predates corporate income taxes and imposes a supplemental tax burden eight times the \$6 million in corporate income taxes levied on life and health insurance companies in



Newfoundland and Labrador in 2020.

These taxes directly increase the cost of purchasing insurance for individual policyholders and employers offering group benefits plans, making it more difficult for Newfoundlanders and Labradorians to adequately protect themselves, their families and employees. This is problematic given that an aging population and escalating health care costs are increasing Newfoundland and Labrador residents' need for income security and supplementary health care. We believe that discouraging individual responsibility for these benefits by taxing the purchase of insurance coverage is not sound public policy.

***We recommend that Newfoundland and Labrador develop a tangible plan to reduce and align tax on life and health insurance premiums with other provinces and territories to support consumers need for insurance.***

## **CONCLUSION**

The industry greatly appreciates the opportunity to provide comments on Newfoundland and Labrador's 2022 Budget. Should you have any questions, you may contact Susan Murray, Vice President, Government Relations and Policy at [smurray@clhia.ca](mailto:smurray@clhia.ca).



79 Wellington St. West, Suite 2300  
P.O. Box 99, TD South Tower  
Toronto, Ontario M5K 1G8  
416.777.2221  
info@clhia.ca