

2021

Provincial Budget Submission

Presented to
The Select Standing Committee on
Finance and Government Services

Canadian Life and Health Insurance Association
June 2020



Executive Summary

The Canadian Life and Health Insurance Association (CLHIA) supports of the province's plan to build a strong and sustainable future for the province. Canada is in the midst of an unprecedented and challenging time as it continues to battle the COVID-19 pandemic and its associated economic impacts. Throughout the pandemic, the Canadian life and health insurance industry is proud to have worked collaboratively with all levels of government to take action to support the health and financial well-being of Canadians.

Canada's life and health insurers play a strong role in supporting the province's economy. Nearly 17,000 British Columbians work within the sector (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.



\$241 million in provincial tax contributions

\$80 million in corporate income tax

\$38 million in payroll and other taxes

\$123 million in premium tax



Investing in British Columbia

\$80 billion in total invested assets

97% held in long-term investments

The industry also plays a key role in providing a social safety net to British Columbians.



Protecting 3.5 million British Columbians

3.3 million with drug, dental and other health benefits

2.3 million with life insurance averaging \$268,000 per insured

1.3 million with disability income protection



\$11.2 billion in payments to British Columbians

\$5 billion in annuities

\$4.7 billion in health and disability claims

\$1.5 billion in life insurance policies

In this submission, we recommend the following initiatives:

- **Ensure British Columbians continue to have access to affordable prescription drugs by supporting workplace and individual drug plans that currently provide millions of British Columbians with comprehensive access to medicine and by working with our industry to bring down costs through bulk-buying and enhanced access to high cost medicines;**
- **Leverage our industry's investment capacity in order to expand and accelerate long-term infrastructure projects, allowing British Columbia to modernize its infrastructure and make the economy more productive and competitive;**
- **Create more opportunities for insurers to invest in assets and projects that meet sustainability goals; and**
- **Reduce and eventually eliminate the premium tax on life and health insurance premiums.**

Our recommendations are sustainable and will help drive prosperity for all British Columbians.

2020 British Columbia Budget

Canadians are experiencing unusual and difficult times as a result of the COVID-19 pandemic, from both a health and economic perspective. The Canadian life and health insurance industry would like to congratulate the Government of British Columbia on the work it has done within the province and in collaboration with other provinces and levels of government to put measures in place to protect and support Canadians during COVID-19.

We are fully aware of and appreciate the fiscal pressures provincial governments are currently facing in order to provide assistance to Canadians. Throughout the pandemic, our industry has continued to provide crucial supports to Canadians and we remain focused on ensuring Canadians continue to receive the benefits they need during this health crisis.

Canada's life and health insurers have been proud to work with all levels of government to help protect Canadians through health benefit plans, travel insurance and other financial security products during the COVID-19 pandemic. Some of the actions taken by industry to support Canadians during this unprecedented time include:

- Proactively providing employers with premium refunds and other forms of premium deferrals to reduce costs and help them and their employees get through the lockdowns and associated economic crisis;
- Waiving the standard waiting period to qualify for short-term disability benefits so that COVID-19 patients could access needed income supports from day one;
- Introduced new measures so commercial truck drivers could count on continued medical coverage in the United States; and
- Worked with pharmacists and governments to help manage the drug supply and prevent shortages.

We continue to be available to work closely with government officials to offer assistance to the people of British Columbia.

In this budget submission we make the following sustainable recommendations:

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 nearly 26 million Canadians with access to a wide range of prescription drugs and other health supports through extended health care plans, including 3.3 million British Columbians.

While the people who live in British Columbia have universal access to medications, the industry does recognize that the system across the country could be improved. We believe that by working collaboratively with federal, provincial and territorial governments we can help improve that system from coast to coast to coast.

All Canadians should have affordable access to their needed medications, and we must address the high cost of prescription drugs in Canada. The Canadian life and health insurance industry strongly supports the Patented Medicine Prices Review Board (PMPRB) reforms which were to be implemented on July 1, 2020 but which have been delayed until January 2021 due to COVID-19. It is crucial that the federal government move ahead with these reforms to achieve affordability for consumers.

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. British Columbians 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 treat illness and contribute to overall wellness for the residents of British Columbia.

With COVID-19, employers have faced increasing pressure and life and health insurers have stepped up to help them maintain, and in some cases augment, their health benefit programs through premium rebates and deferrals. Working together with all levels of government we will help maintain benefits for workers in BC and across the country.

Drug coverage for everyone

Federal, provincial and territorial governments and private insurers should work together to develop a standard list 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 list of medicines but also to high cost medicines used to treat chronic and rare diseases.

Governments should work together to make sure anyone who needs coverage can get it while ensuring that out-of-pocket costs are not a barrier. Canadians need to be better able to navigate existing public plans so that they can access the coverage they are entitled to. One approach might be to ensure all Canadians are covered through a plan offered either by an employer or the government.

Ensuring affordability for consumers and taxpayers

We know Canadians pay some of the highest prescription drug costs in the world. We believe that meaningful reductions in prescription drug prices and improving access for all British Columbians can be achieved today by working within our current system. For instance, specialty drugs, including those used to treat chronic and rare diseases, accounted for just two per cent of total prescription claims in 2018 but made up 33 per cent of the costs. High-cost drugs are a challenging and evolving class of prescription drugs. Their unique characteristics and high costs may require a separate strategy around coverage in order to ensure that Canadians have access – for example, by harmonizing catastrophic drug coverage across the country.

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.

We recommend that the government ensure the residents of British Columbia continue to have access to affordable prescription drugs by supporting workplace and individual drug plans that currently provide millions of British Columbians with comprehensive access to medicine and by working with our industry to bring down costs through bulk-buying and enhanced access to high cost medicines.

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 throughout British Columbia and Canada as we compete to grow in a struggling global economy. Infrastructure investment is of particular importance as Canada seeks projects which will contribute to the economic recovery from COVID-19 lockdowns

Canadian life insurers are a leading source of long-term financing for infrastructure (re)development. The nature of Canadian life and health insurance products – routinely lasting more than 50 years – results in predictable long-term liabilities. As such, life and health insurers are ideal financial partners for infrastructure projects as they can commit to long-term financing. 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 the life and health coverage, retirement savings and pension plans upon which British Columbians depend, and thereby increase the cost effectiveness of insurance for consumers. Life and health insurers have invested over \$45 billion in domestic infrastructure in Canada and have a strong desire and capacity to support the government in achieving infrastructure policy objectives, including by investing in infrastructure projects which support environmental, social and governance (ESG) goals, as part of Canada's economic recovery from COVID-19.

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 British Columbia to modernize its infrastructure and make the economy more productive and competitive.

3. CREATE MORE OPPORTUNITIES FOR LIFE AND HEALTH INSURERS TO INVEST IN SUSTAINABLE ASSETS

Canadian life and health insurers are supportive of governments' 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 unique 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.

As a substantial investor in the Canadian economy, the life and health insurance industry is well positioned to support the transition to a lower carbon economy through its investment portfolio. In fact, insurers have already taken steps to increase their investments in products and assets that meet ESG or sustainability criteria. Canadian life and health insurers already have more than \$50 billion invested in products or assets that integrate ESG or sustainability factors.

Actions being taken by Canadian life and health insurers to increase their investment in products and assets that meet ESG and/or sustainability benchmarks include:

- Having a sustainable investment council or external advisory board to assist them with exploring ESG investment opportunities;
- Conducting ESG analysis as part of certain investment processes and/or daily investment practices;
- Establishing internal ESG scoring systems for their investment processes;
- Issuing green bonds to support sustainability projects;
- Investing in government green bonds and/or private sector investment funds with sustainability mandates;
- Investing in resilient and sustainable infrastructure such as green buildings, clean transport and sustainable water management; and
- Targeting investments on renewable energy (wind, solar and other) and energy efficiency.

However, the industry is able and wants to do more. The industry relies on government action to stimulate the supply of sustainable assets for investment, such as infrastructure and climate transition projects. Currently, insurers capacity to invest more is not matched by available assets.

We recommend that the government create more opportunities for insurers to invest in sustainable assets and projects and look forward to working with the Government of British Columbia on this issue.

4. ELIMINATING OR REDUCING TAX DISINCENTIVES ON LIFE AND HEALTH INSURANCE

It is essential to keep business taxes low to ensure a competitive tax environment that attracts investment, creates jobs and moves British Columbia's economy forward.

British Columbia's insurance premium tax was established in the early years of the last century before the introduction of corporate income taxes. With public health care costs, including long-term care costs, and the need for disability insurance protection rising significantly, there are serious adverse implications from the continued application of premium taxes in the 21st century. Access to affordable employee and individual health and disability insurance protection provides an important addition or enhancement to public health care programs. The imposition of premium tax impedes employers' and individual's capacity to obtain additional insurance coverage by directly increasing its cost. In 2018, the industry collected and paid over \$120 million in premium taxes to British Columbia, an amount that otherwise could have provided enhanced coverage and benefits to insured workers and their families.

High taxes on insurance premiums, however structured, cause employers to curtail employee health, disability and life insurance benefits and individual consumers to purchase less protection than they would in the absence of premium-based taxes. In line with the B.C. Government's initiative to remove barriers to economic growth and given the realities of the 21st century needs for supplementary health, disability and other insurance, we believe that the policy rationale for continuing insurance premium tax should be revisited.

In addition, the premium tax on life insurance creates competitive inequities in the marketplace for financial protection and retirement savings products. Many Canadians save for retirement through the build-up of cash values in permanent life insurance policies that are subject to premium tax. Other financial services, such as deposits held by banks and trust companies, are not subject to any comparable tax. With inevitable pressures on the public income security system due to the ageing of the baby boom generation, we believe that it makes good sense for the Government to remove or reduce taxes which currently discourage the fullest possible use of savings and investment products that provide long-term retirement security.

Canada's life and health insurance companies strongly recommend that, B.C. should reduce and eventually eliminate the premium tax on life and health insurance premiums. This would encourage employers and individual B.C. residents to maintain or expand life and health insurance protection for their employees and families.

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