

# 2019

## Provincial Budget Submission

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**Presented to  
The Honourable Joe Ceci  
President of Treasury Board  
And Minister of Finance  
Government of Alberta**

Canadian Life and Health Insurance Association  
February 2019



# Executive Summary

The Canadian life and health insurance industry supports the government's efforts to bring down the province's deficit while continuing to invest in public services.

Canada's life and health insurers play a strong role in supporting the province's economy. Over 17,000 Albertans 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.



**Contributed \$276 million  
in Alberta taxes**

**\$ 51 million** - Corporate income tax  
**\$ 46 million** - Payroll and other taxes  
**\$179 million** - Premium tax



**Investing in Alberta**

**\$94 billion** - Total invested assets  
**98%** - Held in long-term investments

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



**Protecting 3.1 million  
Albertans**

**2.9 million** - With supplementary health benefits  
**2.1 million** - With life insurance averaging  
\$310,000 per insured  
**1.6 million** - With disability income protection



**\$9.6 billion in payments  
to Albertans**

**\$ 3.8 billion** - Annuities  
**\$ 4.5 billion** - Health and disability claims  
**\$ 1.3 billion** - Life insurance policies

In this submission, we recommend the following initiatives:

- **Ensure the people of Alberta continue to have access to affordable prescription drugs by supporting workplace drug plans that currently provide millions of Albertans 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 Alberta to modernize its infrastructure and make the economy more productive and competitive;**
- **Adopt regulations to facilitate the provision of Pooled Registered Pension Plans (PRPPs) which are prudent, efficiently-managed, portable private pension plans, that would be available to Alberta workers, particularly within smaller businesses, and the self-employed, thus vastly improving access to a pension plan;**
- **Reduce and ultimately eliminate the premium tax 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.**

Our recommendations are sustainable, prudent and will help drive prosperity for all Albertans.

# 2019 Alberta 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 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. Albertans 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 overall wellness for the residents of Alberta.

### *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 Albertans 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.

In addition, the initiatives being led through the federal government on the Patented Medicine Prices Review Board (PMPRB) reform, will assist in reducing the cost of prescription drugs in Canada and improving affordability and access for patients. It is the view of our industry that the proposed changes to the PMPRB guidelines, published in 2018, are essential for ensuring the affordability of prescription drugs in Canada. We believe that the proposed framework strikes an appropriate balance that can contribute to an environment conducive to innovation in the pharmaceutical industry, while controlling

the costs of prescription drugs. We would encourage your government to support the advancement of the PMPRB modernization framework.

***We recommend that the government ensure the residents of Alberta continue to have access to affordable prescription drugs by supporting workplace and individual drug plans that currently provide millions of Albertans 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

Building modern, world class, infrastructure is vitally important to maximizing economic development and prosperity in Alberta. There are important investments to be made in Alberta's infrastructure - such as public transit, roads, hospitals and schools.

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. Life insurers can commit to long-term financing staying in place throughout the "design, build, maintain and operate" 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 the life and health coverage, retirement savings and pension plans upon which Albertans depend on. 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 Alberta 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, but Alberta has yet to adopt necessary regulations, almost six years after Royal Assent was granted to the enabling legislation.

While recently proposed enhancements to the Canada Pension Plan will help, it is estimated that 30% of middle-income Canadians are not saving enough for their retirement<sup>1</sup>. 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.

As service providers to about two-thirds of Canada's pension plans, CLHIA members strongly support implementing PRPPs in Alberta as a meaningful contribution to closing this pension gap. Allowing

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

regulated financial institutions to provide professionally managed, universally-available PRPPs to Albertans complements the balanced, internationally-respected, public-private basis of Canada's "three 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 Albertans 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 Alberta 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 based on the Quebec model, we estimate that over 85% of Alberta 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

Alberta imposes a 3% tax on life, health and disability insurance premiums. Life insurers – and consequently insured Albertans – paid \$179 million in premium taxes in 2017. The premium tax is outdated – it predates corporate income taxes, and imposes a supplemental tax burden more than 3.5 times the \$51 million in corporate income taxes levied on life and health insurance companies in Alberta in 2017.

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 Albertans 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 for themselves, their dependents, and their employees and increase Albertans' reliance on publicly-funded social services in the event of illness, injury and death.

With the improvement of the fiscal situation in Alberta in the past year, consideration should be given to eliminating the tax on life, health and disability insurance premiums. This tax is counterproductive to ensuring Albertans have affordable insurance coverage. We are concerned that this tax encourages individual Albertans and employers to reduce or forego their essential insurance coverage, placing Alberta families in financial risk, and increasing costs to the public system.

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

#### 5. SUPPORT ACTIONS TO MITIGATE CLIMATE CHANGE

Canadian life and health insurers are supportive of action to address climate change, and managing risks associated with such change. The industry encourages the government to make investments to reduce emissions and protect air, 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 and provincial health expenditures. 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, not only for

travel insurers, as Canadians often vacation in warmer areas that are particularly susceptible, but 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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