

# 2020

## Provincial Budget Submission

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**The Honourable Ernie Steeves  
Minister of Finance and Treasury Board  
Government of New Brunswick**

Canadian Life and Health Insurance Association  
February 2020



# Executive Summary

The Canadian Life and Health Insurance Association (CLHIA) supports New Brunswick's approach to ensuring fiscal sustainability in order to protect the province's ability to invest in key priorities. We commend the government for taking steps over the past year to balance New Brunswick's finances and put the province on track for a budget surplus and reduction in net debt.

Canada's life and health insurers play a key role in providing financial security to New Brunswickers.



## Protecting 610,000 New Brunswickers

550,000 with drug, dental and other health benefits

530,000 with life insurance averaging \$162,000 per insured

180,000 with disability income protection



## \$2 billion in payments to New Brunswickers

\$937 million in annuities

\$812 million in health and disability claims

\$286 million in life insurance policies

Additionally, the industry makes a significant contribution to the province's economy. Nearly 3,000 New Brunswick 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 income through provincial taxes to the government.



## \$43 million in provincial tax contributions

\$10 million in corporate income tax

\$11 million in payroll and other taxes

\$22 million in premium tax



## Investing in New Brunswick

\$12 billion in total invested assets

96% held in long-term investments

In this submission, we recommend the following initiatives:

- **Ensure that New Brunswick residents have access to affordable prescription drugs by supporting valuable workplace benefit plans which currently provide hundreds of thousands of residents with comprehensive access to essential medicines;**
  - **Work with our industry to bring down costs and enhance access to high cost medicines;**
- **Address inadequate retirement savings and income security options by**
  - **Monitoring and paralleling forthcoming federal measures to introduce Advanced Life Deferred Annuities and Variable Payment Life Annuities as new income options for members of defined contribution pension plans and other deferred income plans, in order to provide additional flexibility and certainty in designing sustainable retirement income arrangements for older Canadians who are unlikely to have sufficient guaranteed retirement income from other sources, and**
  - **Enacting measures to facilitate the provision of Pooled Registered Pension Plans (PRPPs) which are prudent, efficiently-managed, portable private pension plans,**

*and would be available to New Brunswick workers, particularly within smaller businesses, and the self-employed, thus vastly improving access to a pension plan;*

- *Eliminate consumer borne taxes on life, health and disability insurance premiums as fiscal circumstances permit;*
- *Update the advisor licensing regime to reflect modern insurance distribution channels and strengthen consumer protections;*
- *Require all long-term disability income plans not backed by government to be offered on an insured basis in order to protect disabled employees and their families;*
- *Support investment in reducing, mitigating and adapting to the risks of climate change; and*
- *Leverage our industry's investment capacity in order to expand and accelerate long-term infrastructure projects, allowing New Brunswick to modernize its infrastructure and make the economy more productive and competitive.*

Our recommendations are sustainable and will help drive prosperity for all New Brunswickers.

# 2020 New Brunswick Budget

## 1. SUPPORTING ACCESS TO AFFORDABLE PRESCRIPTION DRUGS

All Canadians should have access to affordable prescription medicines regardless of where they live. Currently, 550,000 New Brunswickers have access to a wide range of prescription medicines 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 make meaningful improvements for the benefit of all Canadians. 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 cost of prescription drugs in Canada.

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. New Brunswickers value their benefit plans, which provide access to a wide variety of health services, including prescription medicines, vision care, dental care, and mental health supports. These services both help treat illness and contribute to overall wellness for the province's residents. Any reforms must ensure that New Brunswickers retain access to these benefits.

Private insurance plans often provide coverage for a wider variety of medications than public plans. Nineteen per cent of New Brunswick's residents use a medication that is not listed on the provincial formulary. In 2017 New Brunswickers submitted claims for \$50.1 million of prescription drugs which were not on the provincial formulary but which were covered by their private health insurance plans. If reform is not done in a way which protects group and individual insurance plans, many New Brunswickers with coverage could end up worse off, particularly patients with cancer, diabetes, pain and gastrointestinal conditions.

### *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 New Brunswickers 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 commend your government in taking a leadership role by working with your counterparts in the other Atlantic provinces. We support the Atlantic Premiers call to the federal government to bring forward a program that includes drugs for catastrophic illnesses and to ensure that a federal program recognizes the current private sector coverage available.

***We recommend that the federal, provincial and territorial governments work collaboratively and with private insurers to ensure that New Brunswick residents have access to affordable prescription drugs by supporting workplace and individual drug plans that currently provide over 70 per cent of New Brunswickers with comprehensive access to essential medicines. We additionally recommend working with our industry to bring down costs and enhance access to high cost medicines.***

## 2. PENSION INNOVATION

Through its innovative development of shared risk pension plans, New Brunswick has taken significant steps in recent years to ensure that existing workplace pension plans remain viable. But further action is necessary to ensure that New Brunswickers without access to workplace pension plans can save in a low-cost, efficient, manner, and thereby look forward to a more comfortable and certain income stream in retirement.

### *Providing Retirement Income Security and Flexibility*

Individuals without defined benefit pension plans who save to provide themselves with retirement incomes lack certainty with regard to both the amount of retirement income they can draw from those savings and how long those savings must last. Typically, Canadians reduce their income withdrawals from such plans for fear of running out of savings. The result is reduced living standards in retirement, and enhanced value in their estates upon death.

A more efficient approach would allow individuals to pool longevity risk while retaining some investment flexibility, providing more stable and durable income benefits throughout retirement. This approach has been used successfully by several defined contribution pension plans, but current income tax rules prevent new plans from adopting this strategy.

Similarly, individuals may be comfortable managing their retirement investments during early retirement but may prefer to use part of those savings to purchase a guaranteed lifetime income beginning in later retirement,

The 2019 federal budget proposed two measures – Variable Payment Life Annuities (VPLAs) and Advanced Life Deferred Annuities (ALDAs) – to meet these objectives. The Canadian life and health insurance industry is supportive of these measures, however, we believe that the budget measures were narrower than may be appropriate, since they effectively restricted access to VPLAs to members of large DC pension plans, disadvantaging those who work for small employers or save through other types of retirement plans. We believe that standalone VPLAs should be permitted to pool participants from all registered retirement plans to provide the broadest possible access for Canadians.

While enabling tax measures have not come before Parliament yet, provincial pension legislation will likely require amendment to permit VPLAs and ALDAs. To ensure that New Brunswickers have early and broad access to these measures, ***we encourage the government to monitor and parallel forthcoming federal measures to introduce Advanced Life Deferred Annuities and Variable***

***Payment Life Annuities as new income options for members of defined contribution pension plan and other deferred income plans, in order to provide additional flexibility and certainty in designing sustainable retirement income arrangements for older New Brunswickers.***

### *Enhancing Retirement Savings*

The CLHIA is pleased that New Brunswick took a key step to better grow retirement income security for this second group of workers by adopting The *Pooled Registered Pension Plans Act* in 2017. This Bill follows a federal legislative template to provide an accessible, simple, consistent, portable and cost-effective pension regime throughout Canada. British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, Quebec and Nova Scotia have already joined Ottawa in introducing or enacting PRPP legislation. But New Brunswick has not yet brought forth the regulation necessary to implementing PRPPs.

While recent enhancements to the Canada Pension Plan will help, it is estimated that 30 per cent of middle-income Canadians are not saving enough for their retirement<sup>1</sup>. Statistics Canada data indicates that only 20 per cent 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 to affordable workplace retirement pension plans.

As service providers to about two-thirds of Canada's private-sector pension plans, and with a particular focus on small and medium-size workplaces, CLHIA members strongly support PRPPs which would allow regulated financial institutions to provide professionally-managed, universally-available, portable pension arrangements. PRPPs can have a significant and lasting impact on future retirement savings and we urge New Brunswick to act quickly to adopt regulations that will allow PRPPs.

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 New Brunswickers 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 New Brunswick adopt the recent Quebec approach, requiring all employers above a certain size (five employees, in the case of Quebec) to offer some form of workplace retirement plan. We applaud this approach, and estimate that nearly 95 per cent of New Brunswick workers would then have access to a workplace retirement plan, ensuring a profoundly positive impact on their future retirement savings, at essentially no cost to their employers.***

### **3. ELIMINATING TAX DISINCENTIVES ON LIFE & HEALTH INSURANCE**

New Brunswick imposes a two per cent tax on life, health and disability insurance premiums. Life insurers – and consequently insured New Brunswickers – paid \$22 million in premium taxes in 2018. The premium tax is outdated – it predates corporate income taxes, and imposes a supplemental tax burden more than twice the \$10 million in corporate income taxes levied on life and health insurance companies in New Brunswick in 2018.

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

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 New Brunswickers 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 New Brunswickers' 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 and as recently reported by the C.D. Howe Institute,<sup>2</sup> these taxes are counterproductive to ensuring Canadians have access to affordable insurance coverage. We are concerned that these taxes encourage individual New Brunswickers and their employers to reduce or forego essential insurance coverage, placing families at financial risk, and increasing their reliance on publicly funded social services in the event of illness, injury or death.

***We strongly urge the Government to eliminate the premium tax rate on life, health and disability insurance premiums. This would ensure New Brunswickers have the fullest possible access to affordable life and health protection and would avoid unnecessary demands on publicly funded health and welfare services.***

#### **4. MODERNIZING ADVISOR SCREENING**

The life and health insurance industry has been supportive of the province's intention to update its Insurance Act in order to remain relevant, and we would support amendments to modernize New Brunswick's advisor licensing regime to better reflect current distribution models for life and health insurance.

For example, we would support provincial action to license distribution firms (MGAs), consistent with the incoming licensing model in Saskatchewan, in order to enhance consumer protection in New Brunswick. We would also support the enhancement of advisor proficiency in the insurance industry through the introduction of mandatory continuing education. Similarly, a mandatory errors and omissions insurance requirement for advisors would enhance consumer protection and would be, consistent with requirements in other provinces.

***We support changes to the provincial Insurance Act in order to modernize the licensing regime and improve consumer protection.***

#### **5. PROHIBITING SELF-INSURED EMPLOYER LTD BENEFITS**

The Canadian life and health insurance industry believes it is critically important to ensure that employees who receive long-term disability (LTD) income replacement benefits are protected in the event of a plan sponsor's financial stress or insolvency. History has shown that when an employer becomes insolvent, and its LTD plan is uninsured, disabled employees can sometimes lose their benefits.

Currently, in Canada, there are no protections in place to ensure that there are adequate funds available to support ongoing LTD claims in the event of an employer's bankruptcy. Several provinces have passed requirements for employers to notify employees that their LTD benefits are not insured.

<sup>2</sup> A. Laurin and F. Omran, *Piling On - How Provincial Taxation of Insurance Premiums Costs Consumers*, C.D. Howe Institute, Commentary No. 522, October, 2, 2018, <https://www.cdhowe.org/public-policy-research/piling-%E2%80%93-how-provincial-taxation-insurance-premiums-costs-consumers>

However, notice provisions regarding LTD were in place in some provinces when Nortel became insolvent in 2009 but could not alter the fact that disability benefits ceased when the employer was no longer financially able to fund the self-insured benefit payments.

We believe that LTD plans not backed by government should be required to be offered on an insured basis in order to maximize protection for disabled employees and ensure that employees are paid, regardless of their plan sponsor's financial situation. With insured plans, the risk and financial liabilities for providing the LTD benefits are transferred to the insurer. In order to meet expected future payment obligations, the insurer sets up a reserve fund that requires actuarial valuation and reporting. As an added level of protection, insurers are required to hold a capital cushion to support their obligations. This capital can be drawn upon in the event that more workers than expected experience disabilities. In these ways insured plans protect consumers from potential employer insolvency.

***We would therefore recommend that the government require all LTD plans, not backed by government, to be offered on an insured basis in order to protect disabled employees and their families.***

## 6. SUPPORT ACTIONS TO MITIGATE CLIMATE CHANGE

Canadian life and health insurers are supportive of governments' action to reduce, mitigate and adapt to the risks of climate change. The industry encourages the Government of New Brunswick to make investments to reduce the province's carbon footprint and protect its coastlines.

Climate change, which is occurring due to increasing concentrations of greenhouse gases in the earth's atmosphere, is leading to more variable and extreme weather, worsening air pollution and rising sea levels. 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.

For example, hotter Canadian summers increase the risk of heat-related health problems in elderly Canadians, longer and more severe forest fire seasons can contribute to increased rates of respiratory illnesses, and research is showing that living through a major flood or hurricane can result in prolonged mental health issues. Atlantic Canada is particularly vulnerable to the effects of climate change because many of its communities are along coastlines, which will experience the impacts of rising sea levels and more frequent storm surges.

***We support investment in reducing, mitigating and adapting to the risks of climate change and look forward to working with the Government of New Brunswick on this issue.***

## 7. 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 New Brunswick and Canada as we compete to grow in a challenging 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. As such, life and health insurers are ideal financial partners for public-private partnership (P3) infrastructure projects as they can commit to long-term financing throughout



the "design, build, operate and maintain" stages. This inherent structural advantage makes the industry an important and stable investor in long-term assets.

Canadian life insurers have participated in financing projects ranging from roadways and public transit to hospitals, schools and wastewater systems. These investments efficiently match insurers' long-term liabilities for life coverage, retirement savings and pension benefits upon which New Brunswickers 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 local or regional government level, a more focused 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 these levels 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 New Brunswick to modernize its infrastructure and make the economy more productive and competitive.***



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