



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

Submission to the **THE BRITISH COLUMBIA SELECT STANDING COMMITTEE ON FINANCE AND GOVERNMENT SERVICES**

June 16, 2023





INTRODUCTION

The CLHIA is pleased to provide its comments to the Select Standing Committee on Finance in advance of British Columbia's 2024 Budget.



Protecting **3.6 million** British Columbians

3.6 million with drug, dental and other health benefits

2.3 million with life insurance averaging \$303,000 per insured

1.3 million with disability income protection



\$12.8 billion in payments to British Columbians

\$5.4 billion in annuities

\$5.4 billion in health and disability claims

\$1.9 billion in life insurance policies

Canada's life and health insurers play a key role in providing financial security to British Columbians. Additionally, the industry makes a significant contribution to the province's economy. Over 18,000 British Columbia 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.



\$250 million in provincial tax contributions

\$74 million in corporate income tax

\$37 million in payroll and other taxes

\$139 million in premium tax



Investing in British Columbia

\$113 billion in total invested assets

97% held in long-term investments

Below are our detailed recommendations for the 2024 Budget.

SUPPORTING WORKPLACE HEALTH BENEFITS PLANS

Life and health insurers work together with employers to offer access to a wide variety of health services, including prescription drugs, vision care, dental care, and mental health supports, through employer sponsored benefit plans. For example, in 2021, about 3.6 million British Columbians had supplementary health insurance and over \$4 billion in health insurance benefits were paid.

Support for affordable prescription drugs

We know that British Columbians value their health benefit plans that offer them access to affordable prescription drugs and other health care services. In fact, insurers paid out nearly \$1.3 billion in coverage for prescription medicines in British Columbia in 2021. The life and health insurance industry is also a key contributor to supporting British Columbians with rare disease drugs. For instance, insurers paid out over \$33 million in coverage for rare disease drugs to 1,200 British Columbians in 2020.



In the 2022 Federal Budget, the federal government committed to introducing a national *Pharmacare Act* in 2023. Nationalizing drug coverage could lead to employers dropping coverage in their workplace benefit plans, putting the health of British Columbians, workplace benefit plans, and the sustainability of the healthcare system at risk. Unravelling private plans will also hurt British Columbians that rely on these plans for affordable prescription coverage at a time where issues of affordability are a priority.

Public benefits have a history of working in concert with the private sector's offering of health benefits to support workers and their families. This approach allows the public and private sector to work together to improve access to healthcare in an affordable way, while protecting the sustainability of the healthcare system.

We recommend that the provincial government advocate to and work with the federal government to ensure that the national Pharmacare Act does not put existing prescription drug coverage or workplace benefit plans at risk.

PENSION INNOVATION

Automatic features

Universal access to workplace pension and savings plans can help British Columbians achieve greater financial security in retirement. There is a significant savings shortfall and declining pension coverage for individuals at all age cohorts due to multiple factors, including employees who have not taken the step to participate in their workplace pension plan. In fact, **about 40 per cent of employees** across Canada **do not** take full advantage of employer contributions to their workplace pension, **leaving as much as \$3 billion on the table annually in free company matching money.**

Increasingly, employees are also 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.

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. Internationally, the United States and the United Kingdom have made sweeping legislative changes to mandate the adoption of automatic features in workplace pension plans. Based on actual cases in these jurisdictions, it is found that for large employers, the participation rate in pension plans increased from around 70 per cent to over 90 per cent. We are supportive of enabling automatic features for both existing and new employees while offering employees the opportunity to opt out of the automatic features. Automatic features are voluntary, meaning employers would have the option to decide whether to include them in the workplace pension and savings plans they offer, and employees retain the right to opt-out.

We recommend British Columbia make legislative amendments as needed to:

- ***Revise the opt-out process to reduce administrative burden;***

- ***Prohibit automatic escalation from being considered an adverse amendment to a pension plan; and***
- ***Expressly provide for deductions from an employee's income as contributions to a group pension or savings plan.***

These reforms will make it easier for British Columbians to receive employer matching dollars, receive higher retirement income, and achieve lifetime financial security. With rising inflation impacting British Columbians' ability to save for retirement, this change would support employees in their retirement planning and enable employers to help their employees save for a secure retirement.

Enhancing Decumulation Solutions

Individuals saving for retirement seldom know either the amount of retirement income they can draw from those savings or how long those savings can last. The inability to anticipate their length of retirement and associated financial needs pushes many to be overly cautious in their spending habits out of fear they will outlive their savings. Not only could this impair the comfort of retirees later in life but could also minimize their spending contributions back into the economy, reducing the economic growth in the province.

We support enhanced retirement income security for all British Columbians, including access to widely available, effective, and innovative retirement income solutions, including enhancing access to decumulation solutions. Decumulation solutions can help retirees manage their retirement income to meet their financial needs throughout their retirement.

In 2021, the federal government enacted legislation to enable Variable Payment Life Annuities (VPLAs) and Advanced Life Deferred Annuities (ALDAs), two decumulation solutions intended to help Canadian retirees. Recently, the federal government introduced legislation to permit VPLAs within federally regulated defined benefit pension plans and Pooled Retirement Pension plans. While we support the federal government's commitment to introducing a decumulation instrument for Canadians, we remain concerned that the legislation may hinder some individuals from being able to access the product. The industry is currently working closely with the federal government to ensure all Canadians can benefit from this decumulation solution.

As part of this, it is important that all levels of governments work together to harmonize pension legislation. For example, there are different administrative requirements with respect to how PRPPs are administered within each province.

In order to provide sustainable, affordable retirement income arrangements for British Columbian residents, we encourage provincial pension jurisdictions to work with the federal government to continue to improve harmonization amongst their legislation and to remove differences for efficient administration of multi-jurisdictional PRPPs.

SUPPORT PRIVATE SECTOR INVESTMENT IN SUSTAINABLE INFRASTRUCTURE

Climate change 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 lower carbon future.



We support the Government of British Columbia taking action to reduce, mitigate and adapt to the risks of climate change and to transition to a low carbon, green economy. We also encourage the continued focus on climate change risk adaption, preparation and education.

In 2021, the industry [responded to the province's consultation on the Climate Adaptation and Preparedness Strategy](#). As noted in our response, the life and health insurance industry is an important source of stable capital for infrastructure projects that both mitigate Green House Gas (GHG) emissions and adapt to the impacts of climate change. Additionally, our industry recognizes the important role infrastructure investments have in mitigating the negative implications on the health of British Columbians. The industry is supportive of British Columbia's continued investments in climate-resilient and sustainable infrastructure.

Insurers remain a leading source of long-term infrastructure financing and have participated in various infrastructure projects ranging from public transit to wastewater systems. For instance, the industry invested \$60 billion in infrastructure across the country in 2021 and more than \$75 billion in products or assets that integrate (environmental, social and governance) ESG or sustainability factors.

However, the industry is able and wants to do more. 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.

We recommend the government continue to leverage our industry's investment capacity in order to expand and accelerate long-term infrastructure projects by structuring projects to attract long-term investors. We also encourage the provincial government to encourage private investment in infrastructure, including climate-resilient and sustainable infrastructure, allowing British Columbia to accelerate its transition towards a low carbon, green economy.

SUPPORTING A DYNAMIC AND INNOVATIVE BUSINESS CLIMATE

British Columbia imposes a two per cent tax on life, health and disability insurance premiums. Life insurers – and consequently insured British Columbians – paid nearly \$140 million in premium taxes in 2021. The premium tax is outdated – it predates corporate income taxes and imposes a supplemental tax burden nearly two times the \$74 million in corporate income taxes levied on life and health insurance companies in British Columbians in 2021.

Premium taxes directly increase the cost of insurance, causing existing employers in British Columbia to provide fewer life, health, and disability insurance benefits to their employees and driving individual consumers to purchase less protection than they would in the absence of these taxes. Population aging and health care cost increases above core-inflation rates (or British Columbia general economic growth rate) would increase British Columbians' needs for income security and supplementary health care. Discouraging individual responsibility for these benefits by taxing the purchase of insurance coverage is not good public policy.

Furthermore, the premium taxes on insurance products are inequitable as they reduce savings efficiency within life insurance products. There are no comparable impediments to savings in competing products offered by banks, credit unions, trust companies or the securities industry.

We recommend that British Columbia develop a tangible plan to reduce and eventually eliminate premium-based taxes as fiscal circumstances permit. Such a move would encourage



employers and individual British Columbians to maintain or expand employment in British Columbia.

CONCLUSION

The industry greatly appreciates the opportunity to provide comments on British Columbia's 2024 Budget. Should you have any questions, you may contact Susan Murray, Vice President, Government Relations and Policy at smurray@clhia.ca.



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