

2023

Provincial Budget Submission

Presented to The British Columbia Select Standing Committee on Finance & Government Services

Canadian Life and Health Insurance Association
June 24, 2022



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

2022-23 British Columbia Budget

EXECUTIVE SUMMARY

In this submission the Canadian Life and Health Insurance Association (CLHIA) provides recommendations in four key areas:

1. Supporting workplace benefits plans which provide millions of British Columbians with comprehensive access to prescription medicines, dental care and mental health services;
2. Pension innovation to increase the retirement savings and decumulation options for British Columbians;
3. Increasing private sector investment in sustainable and resiliency-building infrastructure to support the transition to a low-carbon economy and support the health and well-being of British Columbians; and
4. Supporting an innovative business environment by reducing the tax on health and disability premiums.

INDUSTRY OVERVIEW

The CLHIA is pleased to provide its comments to Select Standing Committee on Finance in advance of British Columbia's 2023 budget.



Protecting 3.6 million British Columbians

3.5 million with drug, dental and other health benefits
 2.3 million with life insurance averaging \$282,000 per insured
 1.3 million with disability income protection



\$10.6 billion in payments to British Columbians

\$4.6 billion in annuities
 \$4.6 billion in health and disability claims
 \$1.4 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 16,500 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.



\$213 million in provincial tax contributions

\$49 million in corporate income tax
 \$30 million in payroll and other taxes
 \$134 million in premium tax



Investing in British Columbians

\$106 billion in total invested assets
 97% 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 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. We recognize that employers, both large and small, are still recovering from the impacts of the COVID-19 pandemic and our sector is no exception.

In 2020 the industry added 1,300 jobs across the country, including 300 in British Columbia. 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.

Working together with all levels of government we will continue to help maintain benefits for workers in British Columbians and across the country. We will release revised statistics for 2021 in the fall of 2022. We anticipate that these statistics will give new insight into the use of mental health supports and disability claims.

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 3.6 million British Columbians had supplementary health insurance and \$3.5 billion in health insurance benefits were paid.

British Columbians 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 affordable prescription medicines

Canadian life and health insurers provide 3.6 million British Columbians with access to a wide range of health services and prescription drugs, including rare disease drugs, through extended health benefits plans. In 2020 insurers paid out more than \$1.2 billion in coverage for prescription medicines in British Columbia, including \$33 million in coverage for rare disease drugs to 1,200 British Columbians.

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. The Canadian life and health insurance strongly supports the federal Patented Medicine Review Board (PMPRB) reforms, which will be implemented in July 2022, and will help to ensure affordability for consumers and taxpayers. However, we remain concerned about the cost of expensive drugs for rare diseases—between 2012 and 2019 they increased by 32 per cent, more than six times the rate for all prescription medicines.

The life and health insurance industry is actively participating in the federal government's consultations on a national rare disease strategy, which is being developed in collaboration with provinces, territories and other stakeholder groups.

We believe that a successful rare disease strategy will take a holistic approach and include three priorities—improving patient access, evidence-based decision making and fiscal sustainability. It is crucial that the strategy ensures consistent access for all Canadians regardless of whether they access medication through a private or public plan. Only by including both public and private payers will we be able to focus on patients and ensure the sustainability of the system. We look forward to working with the Government of British Columbia as it considers the strategy from its own perspective.

Support for accessible dental care

Millions of Canadians rely on workplace benefits plans to access dental services and in 2020 the industry paid over \$7 billion in dental claims. Eighty-eight per cent of Canadians with access to an employer sponsored benefits plan say that they find it helpful with access and affordability for a variety of health services, including dental care.

The current system works well for many, but it has gaps that leave some without coverage. We applaud the federal government on its stated intention to provide dental care to those without dental coverage. It is important that the new program provide access for those without coverage but does not result in fewer Canadians accessing dental benefits through their workplace plan.

We are encouraging the federal government to work with provinces and territories on this initiative. Provinces and Territories already provide dental care to many citizens and have infrastructure to deliver these services. Workplace benefit plans already coordinate with provinces and territories and could easily adapt to enhanced programs.

Support for mental health

We commend the Government of British Columbia for prioritizing mental health in past budgets—including a \$500 million investment to improve mental health and addictions care in Budget 2021. We believe that all levels of government as well as the private sector have a role to play in helping curb Canada's mental health crisis, which has been exacerbated by 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 is crucial that the public and private sectors work together to create psychologically safe and healthy workplaces. For example, small and medium-sized businesses in particular have been disproportionately impacted by COVID-19. Businesses 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.

We recommend that the government ensure that British Columbians continue to have access to affordable prescription drugs, dental services and mental health supports. This can be achieved by supporting workplace and individual health benefits plans that currently provide millions of residents with comprehensive access to a wide range of health services.

2. PENSION INNOVATION

Increasing retirement security

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 in British Columbia 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 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. When employees retire on time, employers can more effectively plan for younger talent to succeed retiring employees.

Automatic features allow employees to save earlier, save more, and retire on time. However, the current legislative framework does not expressly provide for deductions from an employee's income for contributions to a workplace savings plan. Furthermore, under the current legislative framework, automatic escalation may also be interpreted as an adverse amendment to a pension plan, adding more administrative complexity for the plan sponsor. These barriers prevent employees from using automatic features that enable them to receive an employer match and save for retirement..

We recommend British Columbia:

- ***Revise its 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.***

Enhancing Decumulation Solutions

We also support enhanced retirement income security for all British Columbians, 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), to take advantage of these solutions. 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 British Columbia 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. SUPPORT PRIVATE SECTOR INVESTMENT IN SUSTAINABLE INFRASTRUCTURE PROJECTS

Canadian life and health insurers are supportive of all governments taking steps to reduce, mitigate and adapt to the risks of climate change. The immediate impact of climate change— more frequent and severe storms, flooding, drought and forest fires—is obvious to property and casualty insurers. However, life and health insurers are closely watching the impact of climate change on mortality and morbidity, public health, peoples' livelihoods and inequality. For example, recent analysis modelled the impact of climate change on Canadian health outcomes and health care costs ([Canadian Institute for Climate Choices, 2021](#)). Further, in February 2022 Health Canada released [Health of Canadians in a Changing Climate: Advancing our Knowledge for Action](#), which assesses the risks of climate change to Canadians—including mental health, infectious disease and air quality—as well as to the health care system.

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. The industry participated in British Columbia's 2021 [consultation on its Climate Change and Adaptation Strategy](#) and looks forward to continued engagement with the province going forward.

Infrastructure investment is a vitally important aspect of reducing, mitigating and adapting to the risks of climate change. This is particularly important for British Columbia, which has experienced significant climate-related extreme weather events in the past year including a heat dome, forest fires and flooding. Infrastructure investment is also crucial to maximizing economic development and prosperity throughout British Columbia 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 lower carbon economy through investment in sustainable financial products and assets, including clean energy, transportation and resiliency-building 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 British Columbia to modernize its infrastructure and make the economy more productive and competitive.

4. 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 close to \$134 million in premium taxes in 2020. The premium tax is outdated – it predates corporate income taxes and imposes a supplemental tax burden nearly three times the \$49 million in corporate income taxes levied on life and health insurance companies in British Columbians 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 British Columbia to adequately protect themselves, their families and employees. This is problematic given that an aging population and escalating health care costs are increasing British Columbia 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 British Columbia develop a tangible plan to reduce, and eventually eliminate, tax on life and health insurance premiums.

CONCLUSION

The industry greatly appreciates the opportunity to provide comments on British Columbia's 2023 Budget. Should you have any questions, you may contact Susan Murray, Vice President, Government Relations and Policy at 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