

2021

Provincial Budget Submission

Presented to

The Honourable Darlene Compton

Minister of Finance

Government of Prince Edward Island

Canadian Life and Health Insurance Association

January 2021



2021 Prince Edward Island Budget

The Canadian Life and Health Insurance Association (CLHIA) is pleased to provide its comments to the Minister of Finance in advance of Prince Edward Island's 2021 budget. The Canadian life and health insurance industry supports the government's efforts to balance the budget while creating jobs and ensuring Prince Edward Islanders continue to have access to the supports they need.



Protecting 120,000 Prince Edward Islanders

120,000 with drug, dental and other health benefits

85,000 with life insurance averaging \$212,000 per insured

50,000 with disability income protection



\$346 million in payments to Prince Edward Islanders

\$158 million in annuities

\$146 million in health and disability claims

\$42 million in life insurance policies

Canada's life and health insurers play a key role in providing financial security to Prince Edward Islanders. Additionally, the industry makes a significant contribution to the province's economy. More than 300 Islanders 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 to the government through provincial taxes.



\$10.7 million in provincial tax contributions

\$2.0 million in corporate income tax

\$1.2 million in payroll and other taxes

\$7.5 million in premium tax



Investing in Prince Edward Islanders

\$6 billion in total invested assets

98% held in long-term investments

Prince Edward Islanders are experiencing unusual and difficult times from both a health and economic perspective as a result of the COVID-19 pandemic. 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.

For example, the life and health insurance industry has provided support in a number of areas, including:

1. Supporting Canadian employers, workers and their families

- Many insurers have proactively provided premium reductions and other forms of relief, including premium deferrals to reduce costs for employers to help them and their employees get through this unprecedented economic crisis
- Waived the standard waiting period to qualify for short-term disability benefits so that COVID-19 patients could access needed income supports from day one
- Made it as easy as possible for patients to access their benefits – waiving requirements for

doctor's notes and lab tests in favour of self-declarations

2. Helping Canadians return home

- Assisted an unprecedented number of Canadians activate travel insurance to get home following the Government of Canada's unprecedented global travel order
- Worked closely with Global Affairs Canada to encourage Canadians overseas to return home, including "snowbirds" with travel medical insurance in the southern United States

3. Protecting essential services

- Introduced new measures so commercial truckers can count on continued medical coverage in the United States
- Worked with pharmacists to prevent prescription drug shortages;
- Worked with governments to have life and health insurers designated an essential service so that benefits and benefit support could continue to flow without interruption to Canadians

Our industry will continue to work closely with all levels of government to offer assistance to all Canadians. However, as the Province looks to formulate plans to recover the economy and create schemes to return to a balanced budget state post COVID, it is important to note that the life and health insurance sector already makes significant tax contributions to the province. We are the only sector that is currently subject to premium tax, corporate income tax and capital tax providing approximately \$9.5 million to the Prince Edward Island economy. Any additional tax burdens will put significant pressure on our members' ability to continue to fulfil their current mandate of providing for the health and financial well-being of all Prince Edward Islanders.

In this submission, we recommend the following initiatives:

1. SUPPORTING ACCESS TO AFFORDABLE PRESCRIPTION DRUGS

All Canadians should have access to affordable prescription medicines regardless of where they live. Currently, 120,000 Islanders have access to a wide range of prescription medicines and other health supports through extended health care plans.

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 federal Patented Medicine Prices Review Board (PMPRB) reforms which were to be implemented on July 1, 2020 but which have been delayed until July 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 health 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. Prince Edward Islanders 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 Prince Edward Island.

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 reductions and deferrals. Working together with all levels of government we will continue to help maintain benefits for workers in Prince Edward Island and across the country. Workplace plans have shown remarkable resilience, with industry-wide data collected by the CLHIA showing that 98.5 per cent of the 26 million Canadians who had extended health benefits at the beginning of March continued to have coverage in mid-September.

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 improved access for all Islanders 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 2019 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. The life and health insurance industry looks forward to seeing further details from the federal government on the national strategy for high cost drugs for rare diseases which it announced in Budget 2019.

We recommend that the government ensure the residents of Prince Edward Island continue to have access to affordable prescription drugs by supporting workplace and individual drug plans that currently provide tens of thousands of Prince Edward Islanders 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. PENSION INNOVATION

New types of annuities

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. Typically, Canadians reduce spending to preserve their savings for future needs, adversely impacting the quality of their retirement years.

A better approach would pool individuals' longevity risk, to provide an enhanced and secure source of earnings in retirement for Canadians. Current income tax rules prevent new plans from adopting this strategy.

The 2019 federal budget proposed two measures – Variable Payment Life Annuities (VPLAs) and Advanced Life Deferred Annuities (ALDAs) – to meet these objectives. Our industry supports these measures; however, those steps restricted access to VPLAs to members of large Defined Contribution pension plans, disadvantaging those who save through other types of retirement plans. Standalone VPLAs should be permitted to provide the broadest possible access for Canadians.

In order to provide sustainable, affordable retirement income arrangements for older Prince Edward Islanders, we encourage the government to monitor and parallel forthcoming federal measures to introduce ALDAs and VPLAs as new income options.

Automatic enrolment and escalation

Universal access to workplace savings plans can help Prince Edward Islanders achieve greater financial security in retirement. There is a significant savings shortfall and declining pension coverage for individuals at or near retirement in Prince Edward Island 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 savings plans, many struggle with selecting the appropriate contribution level and investments for their needs. Many employees do not take full advantage of these plans, missing out on millions of dollars of potential matching contributions by their employers.

Increasingly, employers and employees are concerned about the ability to retire 'on time'. Employees work longer because they believe they cannot afford to retire, which has health and economic impacts. Automatic solutions – which include automatic plan participation at a pre-set (or starter) contribution rate, automatic annual contribution increases, and automatic investment in a default investment option – have proven to be highly effective in increasing participation in workplace savings plans and the rate of savings in several countries. Such solutions remain rare in Canada, however, due mainly to legislative restrictions.

We recommend that Prince Edward Island enable automatic plan participation and escalation to make it easier for Islanders to achieve lifetime financial security through higher retirement income, improving the province's productivity, competitiveness and health outcomes.

Enhancing Retirement Savings

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.

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 retirement¹. 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 approximately two-thirds of private sector pension plans in Canada, CLHIA members strongly support implementing PRPPs in Prince Edward Island as a meaningful contribution to closing this pension gap. Allowing regulated financial institutions to provide professionally managed, universally available, PRPPs to Islanders complements the balanced, internationally respected, public-private basis of Canada's "multi-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 Islanders 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 Prince Edward Island 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 Prince Edward Island 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.

3. TAX DISINCENTIVES ON INSURANCE

Prince Edward Island imposes a 3.75 per cent tax on life, health and disability insurance premiums. Life insurers – and consequently insured Islanders – paid \$7.5 million in premium taxes in 2019. The premium tax is outdated – it predates corporate income taxes and imposes a supplemental tax burden more than three times the \$2 million in corporate income taxes levied on life and health insurance companies in Prince Edward Island in 2019.

Canada's life and health insurance companies oppose any form of consumption tax on insurance premiums that increase the cost of insurance for consumers and business and consequently makes it more difficult for Islanders 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 Prince Edward Islanders' reliance on publicly funded social services in the event of illness, injury and death.

Consideration should be given to eliminating the tax on life, health and disability insurance premiums. This tax is counterproductive to ensuring Islanders have affordable insurance coverage as it may encourage individuals and employers to reduce or forego their essential insurance coverage, placing families at 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 Islanders have the fullest possible access to affordable life and health protection and avoiding unnecessary demands on public services.

4. INFRASTRUCTURE INVESTMENT

World-class infrastructure is vitally important to maximizing economic development and prosperity throughout Prince Edward Island and Canada as we compete to grow in a challenging economy. There are important infrastructure investments to be made in Prince Edward Island's 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. As such, life insurers are ideal financial partners for public-

private partnership (P3) infrastructure projects as they can commit to long-term financing throughout the "design, build, maintain and operate" stages. 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 Prince Edward Islanders 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 Prince Edward Island to modernize its infrastructure and make the economy more productive and competitive.

5. SUPPORT ACTIONS TO MITIGATE CLIMATE CHANGE

Canadian life and health insurers are supportive of governments' taking 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 investment in sustainable financial products and assets, including infrastructure. Canadian life and health insurers already have more than \$50 billion invested in products or assets that integrate environmental, social and governance (ESG) or sustainability factors.

Beyond investment dollars, several Canadian life and health insurers have publicly supported the Financial Stability Board's (FSB) Task Force for Climate-related Financial Disclosure (TCFD) recommendations, and some are also signatories of the United Nations-supported Principles for Responsible Investment (PRI) and the UN Environment Programme (UNEP) Principles for Sustainable Insurance (PSI). The CLHIA itself also recently became a supporting institution of the PSI alongside the Insurance Bureau of Canada (IBC) and the International Actuarial Association (IAA), which is headquartered in Canada.

However, the industry is able and wants to do more. Currently, insurers' capacity to invest more is not matched by available sustainable assets. Further there is a lack of simple and clear definitions for sustainable investments and green financial products.

The industry is available to collaborate with the government on the issue of lack of supply of sustainable assets for investment, such as infrastructure, low-carbon electricity generation, and climate transition projects. The industry is also available to support policymakers in developing

clear language and definitions for the various investments and financial products that meet ESG criteria.



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