

2022

Provincial Budget Submission

Presented to
The Select Standing Committee on
Finance and Government Services

Canadian Life and Health Insurance Association
September 2021



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

2022 British Columbia Budget

The Canadian Life and Health Insurance Association (CLHIA) is pleased to provide its comments to the Select Standing Committee on Finance and Government Services. Our recommendations align with the Government of British Columbia's foundational principles of putting people first, creating a better future through addressing climate change and creating a strong, sustainable economy that works for everyone.



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. Approximately 16,700 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

British Columbians 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.

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, 3.5 million British Columbia residents have access to a wide range of prescription medicines and other health supports through extended health care plans.

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. British Columbians 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. Any reforms must ensure the continued viability of the health benefit plans that the majority of Canadians rely upon and value today.

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 British Columbia and across the country. Workplace plans have shown remarkable resilience—over 26 million Canadians ended 2020 with access to medications and other health care supports, which is approximately the same number of Canadians who had coverage at the start of the year.

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. We recommend that all Canadians be covered through a plan offered either by an employer, union, or other professional organization or by the government. This would address access issues, ensure that Canadians with existing plans do not see their coverage reduced while also using public funds in the most efficient and effective way.

Ensuring affordability for consumers and taxpayers

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.

We believe that meaningful reductions in prescription drug prices and improving access for all British Columbia residents can be achieved today by working within our current system. For instance, in 2020 insurers paid out more than \$650 million in coverage for rare disease drugs to over 13,000 Canadians. From 2012 to 2019, expenditures on rare disease drugs grew by 32 per cent—more than six times the rate for all prescription medicines.

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 continuing to work with the federal government through their consultation process as they develop a strategy for high-cost drugs for rare diseases.

The Canadian life and health insurance industry strongly supports the federal Patented Medicine Prices Review Board (PMPRB) reforms which have been delayed until January 2022. It is crucial that the federal government move ahead with these reforms to achieve affordability for consumers and we would encourage the Government of British Columbia to advocate with the federal government to move ahead with these reforms, which would save taxpayer dollars.

We recommend that the government ensure that British Columbians continue to have access to affordable prescription drugs by supporting workplace and individual drug plans that currently provide hundreds of thousands of residents with comprehensive access to medicine and by working with our industry to bring down costs and enhance access to high-cost and rare disease medicines.

2. PENSION INNOVATION (ACCUMULATION AND DECUMULATION)

Increasing retirement security

Universal access to workplace 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 taking the initiative to making an active choice 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. Enabling automatic enrolment means

that more employees would participate and no longer miss out on employer contributions. Based on analysis of industry data, we believe the free company matching money that employees across Canada are leaving on the table could be as much as \$3 billion annually.

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. 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 includes a reduction in disability claims (higher risk of on-the-job injuries for older employees), decreased financial stress or anxiety, and reduced demand for supplemental government income programs paid to retirees. In addition, the turnover through timely retirements better enables employers to plan for younger talent to train and succeed retiring employees.

Although British Columbia does permit employees to become plan members of voluntary pension plans as part of the terms and conditions of employment, these plans are subject to prescribed notice requirements and opt out rights. Automatic features allow employees to save earlier, save more, and retire on time. However, many employers do not offer pension plans, or they may offer additional voluntary plans, such as, a group registered retirement savings plan (RRSP), where the company matches contributions. Therefore, many employees are missing out on the automatic enrolment feature savings benefits in their employer-provided Group RRSPs.

We recommend that automatic features be extended to all capital accumulation plans (voluntary workplace pension and savings plans) where an employer matches contributions to provide all employees with equal access to these retirement tools. As COVID-19 continues to impact British Columbians, this change would support employees in their retirement planning and enable employers to help their employees save for a secure retirement.

Decumulation options

We 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), as 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. ENCOURAGE PRIVATE SECTOR INVESTMENT IN SUSTAINABLE ASSETS

We support the Government of British Columbia 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 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. Our industry [recently responded](#) to British Columbia’s consultation on its Climate Preparedness and Adaptation Strategy.

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 \$75 billion invested in products or assets that integrate ESG or sustainability factors.

Several Canadian life and health insurers have publicly supported the Financial Stability Board’s (FSB) Task Force for Climate-related Financial Disclosure (TCFD) recommendations. These disclosures provide key data to help insurance companies manage climate-related risks as asset owners. In addition, 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 with the Insurance Bureau of Canada (IBC) and the International Actuarial Association (IAA).

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.

4. SUPPORT PRIVATE SECTOR INFRASTRUCTURE INVESTMENT

World-class infrastructure is vitally important to maximizing economic development and prosperity throughout British Columbia and Canada as we compete to grow in a challenging economy. Economic recovery in the wake of COVID-19 hinges on building both for the economy we want and kick starting the economy we have right now. There are important infrastructure investments to be made in British Columbia’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 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.

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 British Columbia residents 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 by structuring projects to attract long-term investors, allowing British Columbia to modernize its infrastructure and make the economy more productive and competitive.

5. 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 \$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 Columbia in 2020.

Canada's life and health insurance companies oppose any form of consumption tax on insurance products that increases the cost of insurance for consumers and business and consequently makes it more difficult for British Columbia residents to adequately protect themselves, their families and their employees. Such taxes directly increase the cost of insurance, causing employers to provide fewer benefits to their employees and driving individual consumers to purchase less protection than they would in the absence of these taxes. 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 2022 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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