

2021-22

Provincial Budget Submission

Presented to

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

Canadian Life and Health Insurance Association
February 2021



2021-22 New Brunswick Budget

The Canadian Life and Health Insurance Association (CLHIA) is pleased to provide its comments to the Minister of Finance in advance of New Brunswick's 2021-22 budget. The Canadian life and health insurance industry supports the government's efforts to balance the budget while creating jobs and ensuring New Brunswick residents continue to have access to the supports they need.



Protecting 620,000 New Brunswickers

530,000 with drug, dental and other health benefits

540,000 with life insurance averaging \$163,000 per insured

180,000 with disability income protection



\$2.1 billion in payments to New Brunswickers

\$978 million in annuities

\$849 million in health and disability claims

\$272 million in life insurance policies

Canada's life and health insurers play a key role in providing financial security to New Brunswick residents. Additionally, the industry makes a significant contribution to the province's economy. Approximately 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 revenue through provincial taxes to the government.



\$47 million in provincial tax contributions

\$13 million in corporate income tax

\$12 million in payroll and other taxes

\$22 million in premium tax



Investing in New Brunswick

\$14 billion in total invested assets

97% held in long-term investments

New Brunswick residents 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, 530,000 New Brunswick residents 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. 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. New Brunswick residents 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 New Brunswick.

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 New Brunswick 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 December.

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

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 Brunswick residents 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 working with the federal government through their consultation process as they develop a strategy for high cost drugs for rare diseases.

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

2. PENSION INNOVATION

New types of annuities

We support enhanced retirement income security for all New Brunswickers, 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 2019 federal budget proposed two measures – Variable Payment Life Annuities (VPLAs) and Advanced Life Deferred Annuities (ALDAs). These products pool individuals' longevity risk, to provide an enhanced and more secure source of retirement earnings for Canadians.

Our industry supports these measures. To provide the broadest possible access to Canadians we support standalone VPLAs as well as VPLAs being made available to members not in large Defined Contribution pension plans.

In order to provide sustainable, affordable retirement income arrangements for older New Brunswick residents, 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 New Brunswick residents achieve greater financial security in retirement. There is a significant savings shortfall and declining pension coverage for individuals at or near retirement in New Brunswick 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 tens of 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 New Brunswick enable automatic plan participation and escalation to make it easier for New Brunswick residents to achieve lifetime financial security through higher retirement income, improving New Brunswick's productivity, competitiveness and health outcomes.

Enhancing Retirement Savings

The CLHIA is pleased that New Brunswick took a key step to better grow retirement income security for 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. However, New Brunswick has not yet brought forth the regulation necessary to implement 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 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 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

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

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. SUPPORTING A DYNAMIC AND INNOVATIVE BUSINESS CLIMATE

New Brunswick imposes a two per cent tax on life, health and disability insurance premiums. Life insurers – and consequently insured New Brunswick residents – paid \$22 million in premium taxes in 2019. The premium tax is outdated – it predates corporate income taxes, and imposes a supplemental tax burden almost twice the \$13 million in corporate income taxes levied on life and health insurance companies in New Brunswick in 2019.

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 New Brunswick residents to adequately protect themselves, their families and their employees. Premium and retail sales 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 an aging population and escalating health care costs are increasing New Brunswick 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 New Brunswick develop a tangible plan to reduce, and eventually eliminate, tax on life and health insurance premiums.

4. MODERNIZING AGENT LICENSING REGIME

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 agent licensing regime to better reflect current distribution models for life and health insurance.

For example, we would support provincial action to license 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 agent proficiency in the insurance industry through the introduction of mandatory continuing education. Similarly, a mandatory errors and omissions insurance requirement for agents would enhance consumer protection and would be consistent with requirements in many 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. 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. INFRASTRUCTURE INVESTMENT

World-class infrastructure is vitally important to maximizing economic development and prosperity throughout New Brunswick 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 New Brunswick'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 New Brunswick 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 New Brunswick to modernize its infrastructure and make the economy more productive and competitive.

7. SUPPORT ACTIONS TO MITIGATE CLIMATE CHANGE

We support the Government of New Brunswick 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.

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 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), 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.

CONCLUSION

The industry greatly appreciates the opportunity to provide comments on New Brunswick's 2021 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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