

2020

Provincial Budget Submission

Presented to
The Select Standing Committee on
Finance and Government Services

Canadian Life and Health Insurance Association
June 2019



Executive Summary

The Canadian Life and Health Insurance Association (CLHIA) is supportive of the province's plan to build a strong and sustainable future for the province.

Canada's life and health insurers play a strong role in supporting the province's economy. Almost 17,000 British Columbians work within the sector (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.



**Contributed \$217 million
in British Columbia taxes**

\$ 64 million - Corporate income tax
\$ 35 million - Payroll and other taxes
\$118 million - Premium tax



**Investing in
British Columbia**

\$89 billion - Total invested assets
97% - Held in long-term investments

The industry also plays a key role in providing a social safety net to British Columbians.



**Protecting 3.5 million
British Columbians**

3.2 million - With supplementary health benefits
2.3 million - With life insurance averaging
\$259,000 per insured
1.3 million - With disability income protection



**\$10.4 billion in payments
to British Columbians**

\$4.7 billion - Annuities
\$4.3 billion - Health and disability claims
\$1.4 billion - Life insurance policies

In this submission, we recommend the following initiatives:

- ***Ensure British Columbians continue to have access to affordable prescription drugs by supporting workplace and individual drug plans that currently provide millions of British Columbians with comprehensive access to medicine and by working with our industry to coordinate efforts to bring down costs through bulk-buying and enhanced access to high cost medicines when needed;***
- ***Leverage our industry's investment capacity in order to expand and accelerate long-term infrastructure projects, allowing British Columbia to modernize its infrastructure and make the economy more productive and competitive;***
- ***Refrain from increasing taxes on life and health insurance premiums that are ultimately borne by B.C. consumers; and***
- ***Continue to make investments to mitigate the effects of climate change and to continue to work with the life and health insurance industry on this issue.***

Our recommendations are sustainable and will help drive prosperity for all British Columbians.

2020 British Columbia Budget

1. SUPPORTING ACCESS TO AFFORDABLE PRESCRIPTION DRUGS

All Canadians should have access to affordable prescription medicines regardless of where they live. Canada's life and health insurers play an important role in providing prescription drug coverage to Canadians. Life and health insurers provide more than 25 million Canadians with access to a wide range of prescription drugs and other health supports through extended health care plans.

However, the industry recognizes that real problems exist in our prescription drug system today and that the time has come to take meaningful steps to make improvements for the benefit of all Canadians.

Improving the system requires more than simply "filling the gaps". Rather, improvements must address access issues as well as the cost and financial sustainability of the system. In order to achieve this, it is important that federal, provincial, and territorial governments work collaboratively with private insurers to meet the objectives of ensuring everyone has access to their needed medications and to address the relatively high costs faced by Canadians.

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 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. These services both help prevent illness and contribute to overall wellness for the residents of British Columbia.

Providing drug coverage for everyone

Governments should ensure that all Canadians can access and afford the medicines they need so that no one is excluded from coverage and all are able to take their needed medications as prescribed. To achieve this, we recommend the development of a standard list of medicines for all Canadians regardless of whether they are covered by a private or public plan. This list of drugs would be based on scientific evidence. Public and private plans could continue to offer more medicines but all Canadians would have access to a standard list regardless of where they live or work.

Ensuring affordability for consumers and taxpayers

Meaningful reductions in prescription drug prices and improving access for all British Columbians can be achieved today by working within our current system. For instance, negotiations through the pan-Canadian Pharmaceutical Alliance (pCPA) have helped to bring down costs for public plans. However, the current approach only leverages half the buying power of the Canadian market in any negotiation and leaves those Canadians with private insurance, or paying out of pocket, to fend for themselves. We therefore recommend that private plans be included in the pCPA. This would allow governments and insurers to negotiate the best prices possible using the entire Canadian market volume while ensuring that all Canadians are treated fairly and pay the same price for the same drug.

In addition, the initiatives being led through the federal government on the Patented Medicine Prices Review Board (PMPRB) reform will assist in reducing the cost of prescription drugs in Canada and improving affordability and access for patients. It is the view of our industry that the proposed changes to the PMPRB guidelines, published in 2018, are essential for ensuring the affordability of prescription drugs in Canada. We believe that the proposed framework strikes an appropriate balance that can contribute to an environment conducive to innovation in the pharmaceutical industry, while controlling

the costs of prescription drugs. We would encourage your government to support the advancement of the PMPRB modernization framework.

We recommend that the government ensure the residents of British Columbia continue to have access to affordable prescription drugs by supporting workplace and individual drug plans that currently provide millions of British Columbians with comprehensive access to medicine and by working with our industry to coordinate efforts to bring down costs through bulk-buying and enhanced access to high cost medicines when needed.

2. INFRASTRUCTURE INVESTMENT

CLHIA is pleased that the Government recognizes the need to make long-term investments in infrastructure for the province. World-class infrastructure is vitally important to maximizing economic growth as British Columbia and Canada compete to grow in a struggling global economy.

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. Life insurers can commit to long-term financing throughout the "design, build, operate and maintain" stages of infrastructure projects. 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 Columbians depend, and thereby increase the cost effectiveness of insurance for consumers. 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 British Columbia to modernize its infrastructure and make the economy more productive and competitive.

3. ELIMINATING OR REDUCING TAX DISINCENTIVES ON LIFE AND HEALTH INSURANCE

It is essential to keep business taxes low to ensure a competitive tax environment that attracts investment, creates jobs and moves B.C.'s economy forward.

B.C.'s insurance premium tax dates back to the early years of the last century, before the introduction of corporate income taxes. With public health care costs and the need for disability insurance protection rising significantly, there are serious adverse implications from the continued application of premium taxes in the 21st century. Privately provided employee health and disability insurance programs provide an important "relief valve" for the pressures facing public health care programs, but the premium tax impedes employers' capacity to obtain private insurance by directly increasing its cost. In 2015, the industry paid \$101 million in premium taxes to British Columbia, an amount that otherwise could have provided enhanced coverage and benefits to insured workers and their families.

High taxes on insurance premiums, however structured, cause employers to curtail employee health, disability and life insurance benefits and individual consumers to purchase less protection than they would in the absence of premium-based taxes. In line with the B.C. Government's initiative to remove barriers to economic growth and given the realities of the 21st century needs for supplementary

health, disability and other insurance, we believe that the policy rationale for continuing insurance premium tax should be revisited.

In addition, the premium tax on life insurance creates competitive inequities in the B.C. marketplace for financial protection and retirement savings products. Many Canadians save for retirement through the build-up of cash values in permanent life insurance policies that are subject to premium tax. Other financial services, such as deposits held by banks and trust companies, are not subject to any comparable tax. With inevitable pressures on the public income security system due to the ageing of the baby boom generation, we believe that it makes good sense for the Government to remove or reduce taxes which currently discourage the fullest possible use of savings and investment products that provide long-term retirement security. As the province's Budget 2017 Consultation Paper notes, "Low taxes support affordability and stimulate economic growth".

Finally, provinces that have imposed Retail Sales Tax on insurance premiums for workplace life and health insurance benefit plans have seen a marked reduction in employers' ability to provide such benefits, transferring costs to the public purse by increasing income support and health care expenditures.

Canada's life and health insurance companies strongly recommend that the province resist any suggestions to impose a provincial Retail Sales Tax on insurance premiums. In addition, we recommend that, B.C. should reduce and eventually eliminate the premium tax on life and health insurance premiums. This would encourage employers and individual B.C. residents to maintain or expand life and health insurance protection for their employees and families.

4. SUPPORT ACTIONS TO MITIGATE CLIMATE CHANGE

Canadian life and health insurers are supportive of the Government's plan of action on climate change, and managing risks associated with it. The industry encourages the Government to continue to make investments to reduce emissions, reduce air pollution, and protect land and water.

Climate change presents a unique risk to life and health insurers. Climate change, driven by air pollution and emissions of greenhouse gases, leads to negative health outcomes, including respiratory illness, cardiovascular disease and death. Climate change also increases the risks of the spread of vector borne diseases, which will create particular challenges for travel insurers, as Canadians often vacation in areas that are particularly susceptible, including the Caribbean. While managing climate change is of interest to many, it is of particular interest to the life and health insurance industry.

We support the Government's continued investment in mitigating climate change and looks forward to continuing to work with the Government on this issue.



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