

Multi-Employer Benefit
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Submission to the House of Commons Standing Committee on Finance

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EXECUTIVE SUMMARY

The Multi-Employer Benefit Plan Council of Canada (MEBCO) represents the interests of Canadian multi-employer pension and benefit plans (MEPs) and is representative of all persons and disciplines involved in MEPs, including union and employer trustees, professional third party administrators, non-profit or "in-house" plan administrators and professionals.

Among MEBCO's many constituents are multi-employer pension plans (MEPPs) which provide pensions to their members. There are approximately 360 MEPPs in Canada which have membership of almost 700,000 individuals. In 1994, employee contributions to MEPPs exceeded \$1.1 billion. The majority of Canadians who participate in MEPPs earn middle to low incomes. In addition, MEBCO represents the interests of multi-employer benefit plans (MEBPs).

MEPPs in Canada are a unique labour and management response for meeting the needs of workers and their dependents. This role should not only be recognized by government, but should be preserved and indeed encouraged with the continuation of tax incentives to both provide necessary health and dental care benefits which are not otherwise available under Canada's public health care system and to promote retirement savings.

The assumption that the treatment of contributions to health care plans and pensions is inequitable or constitutes a tax "loophole" is erroneous. The tax system has a multitude of incentives for a multitude of purposes. The social objectives of preserving the well-being of Canadians and the financial independence of seniors has led to the placement of certain incentives in the tax system. Those who have chosen to avail themselves of these incentives should not now be penalized for doing so.

The purpose of our submission is to both assist the government in meeting its fiscal and monetary objectives and to represent the interests of our members with respect to retirement and taxation issues.

Highlights of our Recommendations

Health Care. We applaud the federal government for establishing the Commission on the Future of Health Care in Canada under the stewardship of the Honourable Roy Romanow. The Commission represents a recognition of MEBCO's previous recommendations to the Government for the establishment of an third party entity to assess and monitor the needs of health Care in Canada. We look forward to working with the Commission in this regard.

The Federal Government must play a role in Medicare. However the political gamesmanship between the two levels of Government must end. Canada needs a health care system that meets the needs of a modern society and can adapt to newer and more effective technologies. The pressures on our health care system must be addressed in this context and not solely in terms of dollars and cents. Further, the increasing costs associated with pharmaceuticals cannot be sustained. These rising costs are a burden on Canadians, Governments, and the benefit plans we provide for our members.

No Taxation of Supplementary Health and Dental Benefits. MEBCO applauds the government's decision in the 1998 budget to permit a deduction for self-employed individuals' supplementary health and dental expenses thereby promoting equity between employees and the self-employed. MEBCO continues to oppose taxation of group benefit plans. It would

discourage participation in MEBPs, thereby placing an additional burden on the public health care system. Therefore, MEBCO supports maintaining the status quo by continuing to exempt supplementary health and dental benefits from taxation.

Retirement Tax Credit. As an alternative to the mandatory savings proposal, a Retirement Tax Credit could be introduced that would provide that, for every additional dollar contributed to an RPP, individuals up to a specified income level would be entitled to receive a tax credit lowering their tax payable for that year. Since data suggests that lower and lower middle income Canadians are least likely to consistently save for retirement, the credit could be used as an added inducement to save for this targeted group.

Amendments to the Early Retirement Rules. The income tax rules regarding early retirement pensions should be modified to recognize the reality of frequent job/career changes by increasingly mobile workers to permit unreduced early retirement on the basis of total career-wide pensionable service and age, regardless of with which employer such service accrued. In other words, the current requirement that pensionable service must be accumulated under one pension plan should be changed to recognize service under any other pension plan as well.

Exempt the SMEPs from the Maximum Accrual Rate Rules. The Income Tax Regulations should be amended to specifically exempt SMEPs from the application of paragraph 8503(3)(g), as does paragraph 8504(1) with respect to the Maximum Pension Rule.

GST/Sales Tax Harmonisation. In the event that Ontario retail sales tax is harmonised with the GST, that contributions received and premiums payable by MEBPs be exempt from the harmonised tax. Otherwise, MEBPs will experience an immediate increase in cost equal to 7%. This could result in consequent reductions in the benefits made available to MEBP members.

RPP Administration Rebate. That a rebate be provided to MEPPs in respect of the GST paid on administration services. To the extent necessary, MEBCO urges the Department of Finance to implement legislation that will permit Revenue Canada the latitude necessary to provide such rebates.

Preservation of EET Approach. MEBCO opposes any taxation of investment earnings or contributions to registered pension plans and RRSPs. Canada's approach should remain exempt, exempt, tax (EET) meaning no tax on contributions, no tax on investment earnings, and tax on receipt of the benefit or lump sum payout.

In conclusion, would like to thank the Committee for once again providing us with the opportunity to provide our advice and recommendations.

Introduction

(a) *Who we are*

The Multi-Employer Benefit Plan Council of Canada (MEBCO) was established in 1992 to represent the interests of Canadian multi-employer pension and benefit plans (MEPs) in relation to existing or proposed federal and provincial legislation and policies affecting MEPs. MEBCO is a federal non-share capital corporation operating on a not-for-profit basis. MEBCO's Board of Directors consists of representatives from a diverse cross-section of the employment benefits field. MEBCO represents all persons and disciplines involved in MEPs, including union and employer trustees, professional third party administrators, non-profit or "in-house" plan administrators, and professionals including actuaries, benefit consultants, lawyers and chartered accountants.

MEBCO currently has over 190 members in jurisdictions across Canada. MEBCO's members have responsibility for administering plans with a cumulative membership of workers and dependants of over one million people throughout Canada. There are hundreds of MEPs registered in Canada covering well over **1,000,000 workers and their families** in industries such as building and construction, food service, retail, hotel and restaurant, graphic art, garment manufacturing, security, textile, transportation, and entertainment. A MEP may be national, regional, provincial or local in coverage. Anywhere from two to over one thousand employers may contribute to a single MEP pursuant to several collective agreements.

(b) *Our Submission*

MEBCO is pleased to once again participate in the pre-budget consultation process. Although we are in a post-deficit era, due to the steps taken by the Federal Government in consultation with Canadians, we have moved into a very uncertain fiscal period due to recent world events that strike at our sense of personal and economic security. We hope to provide assistance and insight into the potential uses of funds to achieve the government's economic and social objectives to ensure that our economy and our country remain strong. In preparing this submission, we have kept in mind the broad themes the Committee is focussing on, which are:

- Ensuring that Canada remains a **major player in the new economy**;
- Providing Canadians with **equal opportunity to succeed**; and
- Creating an economic and social environment where Canadians can enjoy **the best quality of life and standard of living**.

Because MEBCO's focus is on employee pensions and benefits, the initiatives we are recommending are aimed at improving the quality of life of working Canadians and thereby productivity. Specifically, our initiatives address two broad concerns many Canadian workers have had over the past few years:

1. the **quality of health care**; and
2. the **adequacy of retirement income sources**.

1. Modernizing Canada's Health Care System

Medicare, Canada's system of health care, is a defining characteristic of our nation. One cannot talk about the quality of life in Canada without specific reference to Medicare. Quality health care is essential in ensuring the competitiveness of Canada as a place to live and to do business. Accessible and high quality health care is a lynchpin in providing every Canadian with quality of life and an equal opportunity to succeed in work and business.

In previous submissions to this committee, MEBCO has voiced its concern over the increase in the private sector share of health care spending. As the private sector share continues to increase at a faster rate than public sector spending, costs are shifted to private insurance plans. By 1999, almost 30% of total health costs were paid for privately, with only 70% coming from the public sector.¹ The added importance of this is demonstrated by the fact that while private insurance benefits are enjoyed by an average 60% of employees, the percentage varies from 40% for low-income employees to over 71% for higher-income employees.

MEBCO continues to stress the importance of the Federal Government's role in Medicare. Last year we expressed our support for the co-operation among Canada's First Ministers on health care and federal transfers. This represents significant progress in our battle to reform and modernize Medicare. We remained encouraged that the Provincial and Territorial First Ministers once again made sustainable health care a key issue at the 42nd annual Premiers' Conference. **But we remain firm in our view that politics must be removed from health care.**

In last year's pre-budget submission, we recommended the appointment of a third party entity to assess and monitor the needs of health care in Canada. **We are pleased that the Government listened to our advice.** This year we would like to express our support for the Federal Government's establishment of the Commission on the Future of Health Care in Canada and welcome the appointment of the Honourable Roy Romanow as Commissioner.

We will avail ourselves to the Commission to provide our insights and expertise on the Health Care system. To this end we have contacted Mr. Romanow and have offered our assistance in understanding the needs and demands of our health care system and our assistance in finding solution to the complex issues that plague health care in Canada.

For the benefit of the Finance Committee we would like to reiterate MEBCO's views on Canada's health care system:

(a) *Investing in reforms to the system*

As we have stated in the past, the response to meeting the health care needs of Canadians is not as simple as cash infusions to Medicare.

Canadian's health care needs have changed and they have also evolved. Yet our ability to meet those needs have not caught up. Demographic pressures and new technology are outpacing the ability of Medicare to meet the quality of life expectations of Canadians. Canadians are living longer, potentially put greater pressure on health care costs. Diagnosis of illness is occurring

¹ "Health Care in Canada 2000, A first Annual Report", Canadian Institute for Health Information, April 2000, Chapter 2, page

earlier than before and we are now able to arrest certain illnesses before they reach a chronic state. Instead of only being able to treat illness we are positioned to prevent it, providing Canadians with the ability to live longer and healthier lives. However, Medicare still isn't oriented to preventive care, nor are its models of care delivery. This is where the real debate over health care must be directed.

Medicare must evolve to a more integrated model of health care delivery that responds to all stages of life and it also requires a multidisciplinary approach that draws upon all health care professions in the delivery of that care.

Medicare faces a number of challenges in meeting the changed needs of Canadians:

- Drugs are consuming a rising portion of health care spending. This is due not only to the rising cost of drugs, but also to their increased use in preventing and treating the early diagnosis of illness, and as a replacement for invasive surgical treatment. The Canadian Institutes of Health Information have documented a fivefold increase in the cost of prescription drugs over a 15-year period. Canadians now spend more on prescription drugs, \$12.4 billion, than the cost of doctors' services, \$11.7 billion. ²
- The face of institutional care is changing dramatically. There were 25% fewer hospital beds in Canada in 1997/98 compared to 1993/94 beds, during which time the rate of day surgeries more than doubled. Studies in BC and Saskatchewan have demonstrated that care in the home an in-home convalescence is less expensive compared to care in institutions, and comparable health care outcomes. In 1996/97 there were 185,000 seniors in nursing homes. In 1998/99 12% of seniors received some services through home care programs, and in 1996 2.1 million adults provided support for a senior who had a long term-health problem.
- The traditional health care workforce represented by physicians and nurses is aging, and they are under incredible stress and strain. Over the past 6 years the number of family doctors has declined 2.8%. The demographic outlook for nursing workforce is poor with 25%v of the workforce slate to retire over the next decade. In addition, all jurisdictions are experiencing difficulties attracting health care professionals to under-served areas such as rural and remote communities.

(b) *Accountability in Health Care*

There is a familiar refrain that is no stranger to the debate over health care: **there is only one taxpayer**. This fact has been lost on many engaging in the debate over the future of health care in Canada. The debate has been side tracked by arguments over federal cash contributions, tax points, jurisdictional matters and the multi-purpose nature of the transfers.

Let's be clear, at the end of the day Canadians, not governments, pay for health care through the tax system. And Canadians want a health care system that will be properly managed and held accountable to measurable health care outcomes.

Instead of debating how to improve health care, governments have been squabbling over who pays what. Regardless of increased funding for health care, it is no longer possible to calculate

² Drug Costs called 'unsustainable' *Globe and Mail*, August 14, 200

the amount of funding each level of government contributes. The health care allocation process is broken and no longer serves as an adequate or stable measure for health care funding. We need only look at these examples:

- Federal “tax points” transferred to the provinces in 1977 for health care have lost their significance in the funding allocation;
- Under the Established Programs Financing Program (EPF), the federal government unilaterally revised the funding formula eight times from 1986-1996; and
- The Canadian Health and Social Transfer (CHST) is a multi-purpose transfer. The provinces can spend the CHST however they wish.

Over the past two decades, accountability in health care outcomes has increasingly been the victim of political posturing over health care funding and the pressures of increasing public debt. The sad reality is that health care funding across Canada, although it leveled off during the early 1990’s, has steadily risen. It is estimated that approximately \$72 billion is spent on health care every year or an average of \$2,500 per person. Instead of undertaking the needed reforms to modernizing health care delivery, time has been lost an unproductive blame game.

MEBCO continues to argue that politics be removed from the delivery and management of health care. We therefore welcome the establishment of the Commission on the Future of Health Care in Canada.

(c) *Taxation of Health and Dental Benefits*

MEBCO RECOMMENDATION

Taxation of group benefit plans will discourage participation in multi-employer benefit plans (MEBPs), thereby placing an additional burden on the public health care system. The current tax treatment of health and dental benefits should be maintained.

When in 1994, the issue of equity was raised as a rationale for eliminating the tax preference, MEBCO argued that it was inequitable to penalize the majority of the population to attain comparable treatment for both employed and self-employed workers. The government accepted this argument and opted to provide tax relief to the self-employed to re-establish equity respecting the tax treatment of these benefits.

2. Ensuring Adequate Retirement Income for Canadians

Much has been said and written in recent years about the impending retirement for aging Canadians, especially “baby boomers”. Most Canadians expect to retire on income from both public sources (i.e. CPP/QPP and OAS) and private sources (e.g. employer-sponsored pension plans and RRSPs, RRIFs). As a matter of public policy, it is desirable to minimize the reliance of

Canadians on public sources and to encourage and promote private funding of retirement income.

Among MEBCO's many constituents are pension plans which cover workers with middle to low incomes. The current retirement saving system in Canada is failing this group by not providing the kind of tax-assisted incentives needed to encourage greater retirement savings. **As the responsibility to ensure adequate retirement income shifts to private sources, additional incentives will be necessary to encourage individuals and their employers to save for retirement.**

Accordingly, our initiatives focus on improving the ability of Canadians and their employers to fund private sources of retirement income. Specifically, we propose:

- (a) Converting the tax deduction for pension plan contributions by employees to a tax credit;
- (b) Modify income tax rules to allow **unreduced early retirement pensions for mobile workers who worked for different employers during their careers**; and
- (c) **Exempt multi-employer pension plans from the limit on defined benefit pension benefits.**
- (d) Contributions received and premiums payable by MEBPS be exempt from any harmonization of the GST and Ontario Retail Sales Tax
- (e) Extend to MEBPs the current rebate concept found in section 261.01 of the Excise Tax Act. The rate of the rebate should be 100% of the GST paid on taxable supplies.

(a) ***Retirement Savings Tax Credit***

MEBCO RECOMMENDATION

The tax deduction for employee contributions to registered pension plans be replaced with a tax credit equivalent to a personal marginal tax rate, which should be lowered to 23%. This tax credit could be refundable as a cash payment.

Canadian workers need to be encouraged to save for retirement. Currently, workers contributing to a pension plan are entitled to claim a deduction from income.³ The tax advantage of claiming such a deduction depends on the income level of the worker. For workers in lower income tax brackets, the combined federal and provincial tax savings could in the range between nil and approximately 40% of the contribution. We propose that this deduction be converted to a tax credit with a rate equivalent to the top marginal tax rate. With a tax credit, greater fairness is achieved in the tax system in that every taxpayer would receive the

³ Subsection 147.2(4) of the *Income Tax Act*

same amount of tax benefit for making RPP contributions that is currently available only to those in the top tax bracket.

The proposed credit would be targeted to lower and middle income Canadians who need to contribute more to their retirement savings by encouraging further savings. This tax credit could assist in reducing the dependence that many in this group would otherwise have on publicly provided retirement income sources. To provide even greater incentive to low income Canadians, the government may consider making this tax credit refundable as cash.

(b) ***Unreduced Early Retirement Pensions for Mobile Workers***

MEBCO RECOMMENDATION

The income tax rules regarding early retirement pensions should be modified to recognize the reality of frequent job/career changes by increasingly mobile workers to permit unreduced early retirement on the basis of total career-wide pensionable service and age, regardless of with which employer such service accrued. In other words, the current requirement that pensionable service must be accumulated under one pension plan should be changed to recognize service under any other pension plan as well.

Under current tax rules, a worker may retire early with no reduction in current pension if the sum of the worker's age and the number of years of early retirement eligibility service is at least 80 (75 for public safety occupations)⁴. Otherwise, a pension on early retirement must be reduced by at least 0.25% for each month that the pension begins before the worker is eligible for an unreduced pension.

Pensionable service for early retirement eligibility consists of pensionable service in respect of that plan together with any other periods of employment of the member with an employer who participates in that plan or with a predecessor employer to that employer. **The rules currently in effect restrict early retirement eligibility on an unreduced basis to participation in one particular pension plan only. In other words, the current rules are biased against workers who have changed employers and/or careers.**

Despite having a lengthy record of total pensionable service, mobile workers are precluded from being able to take an unreduced early retirement benefit, even if the plan sponsor wishes to provide the unreduced benefit, because all service had not accrued under one plan.

There is an obvious benefit to modifying this rule. If an individual is permitted to retire with an unreduced pension, the monthly benefit will be greater and therefore there will be less reliance on publicly funded retirement programs. Further, an earlier retirement from the workforce can also aid in providing more job opportunities for younger generations of Canadians workers. As well, the tax rules would no longer discourage or penalize employee mobility, which is important, if Canada is to remain competitive in the global economy.

⁴ Paragraph 8503(3) of the Income Tax Regulations

(c) ***Exempt Multi-Employer Pension Plans from the Maximum Pension Accrual Limit of 2%***

MEBCO RECOMMENDATION

The Income Tax Regulations should be amended to specifically exempt “specified multi-employer plans” (SMEPs) from the 2% maximum defined pension benefit rule.

Pension plans considered to be SMEPs are typically used in the context of a collective agreement in an industry where workers typically change employers fairly frequently, such as construction. Employers make contributions to SMEPs in amounts fixed by a collective agreement.

To determine pension adjustments (PA), a SMEP is treated like a money purchase pension plan and the PA is equivalent to the total contributed to the SMEP in respect of a member. Since SMEPs are treated as money purchase plans, SMEPs are exempt from the maximum pension rule in Income Tax Regulation 8504(1) for defined benefit plans⁵. It follows that SMEPs should also be exempt from the rule which limits the annual defined benefit pension benefit accrual to 2%.⁶ An exemption from this provision would allow the affected SMEP to provide the highest possible benefits within the PA limits provided under the Income Tax Act.

(d) ***GST Relief for MEBPs***

MEBCO RECOMMENDATION

Extend to MEBPs the current rebate concept found in section 261.01 of the Excise Tax Act. The rate of the rebate should be 100% of the GST paid on taxable supplies. Given that employers contributing to single-employer benefit plans (SEBPs) currently claim Input Tax Credits (ITCs) on all GST paid on Taxable Supplies, a 100% rebate rate would put MEBPs and their contributing employers on a level playing field with their SEBP counterparts.

Neither MEBPs nor their contributing employers are able to claim ITCs or rebates for GST paid by MEBPs for Taxable Supplies. In contrast, an employer who sponsors a SEBP claims ITCs in respect of GST paid on plan administration expenses paid by the employer. The single employer engaged in commercial activities typically regards this expenditure as an overhead cost which directly relates to its business activities. **This comparative inequity increases the cost of providing benefits to participants of MEBPs and their families.**

There is no practical or cost-efficient mechanism for contributing employers to pay or to be invoiced for their pro rata shares of administrative expenses incurred by a MEBP. Furthermore, just as was the case with multi-employer pension plans, it would be a practical impossibility for each of the many contributing employers of an MEBP to be required to pay a pro rata amount of each Taxable Supply. The administrative costs for both employers and MEBPs, as is the case with multi-employer pension plans, would be

⁵ Paragraph 8510(6)(b) of the Income Tax Regulations

⁶ Paragraph 8503(3)(g) of the Income Tax Regulations

absolutely prohibitive, resulting in less money being available for much needed health care benefits.

The vulnerable position of employees incurring medical expenses is further exacerbated by the provinces continuing to cut back on health care benefits. These cut backs are made up by either the private sector (through MEBPs or SEBPs) or, unfortunately, individual employees. Yet SEBPs and their employer sponsors have a distinct advantage over MEBPs and their sponsors in respect of claiming ITCs.

This problem for MEBPs is the same problem that multi-employer pension plans formerly faced. That problem was alleviated by the recent introduction of a GST rebate under section 261.01 of the *Excise Tax Act*.⁷

➤ Technical Analysis

Under the existing provisions of the Excise Tax Act, it is not possible to obtain any relief for GST paid by MEBPs for administrative expenses. In contrast, many employers contributing to SEBPs claim ITCs for GST paid on expenses incurred by them in the delivery of benefits to their employees. A single employer engaged in “commercial activities” typically may regard such expenses as overhead costs, which directly relates to its business activities.

Generally, a GST registrant may claim ITCs to the extent that it makes “taxable supplies” in the course of its “commercial activities”. The corollary is that a GST registrant cannot claim ITCs to the extent that it makes GST “exempt supplies” and/or it is not engaged in “*commercial activities*”.⁸

A “commercial activity” can be:

- (a) a business (other than a business carried on without a reasonable expectation of profit by an individual, a personal trust or a partnership, all of the members of which are individuals);
- (b) an adventure or concern in the nature of trade (other than an adventure or concern engaged in without a reasonable expectation of profit by an individual, a personal trust or a partnership, all of the members of which are individuals); or
- (c) the making of a supply of real property⁹.

The making of exempt supplies is specifically excluded from being “commercial activities”¹⁰.

Benefit plans, whether single-employer or multi-employer, are usually unable to claim ITCs because they are not considered to be engaged in “commercial activities”¹¹.

⁷ Bill C-24 received Royal Assent on 20 October 2000. Rebate applicable to GST paid or payable after 1998.

⁸ *Excise Tax Act* (ETA), s. 169(1).

⁹ ETA, s. 123(1) “commercial activity”.

¹⁰ Ibid.

¹¹ ¹¹ Benefit plans are not typically engaged in commercial activities because they are:

- not engaged in a business;
- not engaged in an adventure or concern in the nature of trade; and/or

A single employer who contributes to an SEBP usually claims ITCs on the basis that it paid GST on expenses incurred in the course of its commercial activities. Typically, in an SEBP, administrative expenses are paid as incurred and often after the invoice for such expenses is forwarded directly to the **employer for payment**. Since the SEBP cannot generally claim ITCs, the employer claims them in the same way as any other overhead expense. The benefit levels are defined in advance and the employer's contribution obligation is determined based on the funded status of the plan given the established benefit level.

In contrast, in the MEBP environment, there is no mechanism to have contributing employers pay for administrative expenses directly or to invoice employers for such expenses on a transaction-by-transaction basis, collect the GST and remit it to the Canadian Customs and Revenue Agency (CCRA). The contribution obligation of employers under a MEBP is established through collective bargaining. Based on the funded status of the MEBP, the trustees establish the benefit level so that both benefits and administrative expenses can be paid out of the contributions received from the participating employers and earned income.

A MEBP, unlike a SEBP, may have hundreds of participating employers most of whom would be small companies and who would remit contributions in varying amounts depending on the applicable collective agreement. Also, in a MEBP, the employer group is constantly changing with certain employers exiting due to bankruptcy, etc. and new employers becoming contributors.

In the similar context of pension plans, the CCRA has indicated that, in the absence of actual transactions for consideration flowing from a multi-employer pension plan to the employers, the multi-employer pension plan cannot be viewed as engaging in commercial activities and therefore cannot claim an ITC. Hence, the resulting recent amendment to the *Excise Tax Act* providing for a GST rebate.

The bottom line for MEBPs is that GST in respect of the delivery of health and welfare benefits is a net cost and, therefore, is reflected in either decreased benefits to employees and their families or increased contributions by employers.

(e) *Harmonization of the GST and Provincial Retail Sales Tax and Statutes*

MEBCO RECOMMENDATION

In the event that Ontario retail sales tax is harmonized with the GST, that contributions received and premiums payable by MEBPs be exempt from the harmonized tax. Otherwise, MEBPs will experience an immediate increase in cost equal to 7%. This could result in consequent reductions in the benefits made available to MEBP members.

If harmonization of the GST is agreed upon and implemented in Ontario, the cost of providing group health and dental coverage will be increased.

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- making exempt supplies by paying benefits to employees.

Under the Ontario Retail Sales Tax Act, (the RSTA) a MEBP is subject to sales tax if the plan protects against risk to an individual that could otherwise be purchased by taking out a contract of insurance. As a result, the RST applies to most types of group benefit coverage including:

- Life insurance
- Accidental death and dismemberment
- Short term disability plans
- Long term disability plans
- Supplemental health plans
- Dental plans
- Health care expense accounts
- Certain aspects of employee assistance plans, and
- Health and welfare trusts

The Ontario government considers any contribution received by the trustees of such plans from participating employers to be inclusive of the tax. The legal liability to pay the RST is placed on the employer. However, the burden of the tax is sometimes borne by the Fund, or possibly the plan members (if the Fund is unable to make the required benefit payments as a result of the imposition of the tax). For example, if a collective agreement specifies a \$1.00 contribution net of tax and the employer deposits \$1.00 to the Fund, 1/108th of that contribution will be deemed tax and must be remitted to the government. Consequently, there will be a shortfall in the expected quantum of contributions received by the Fund.

MEBCO's concern is that a future harmonization agreement with Ontario could result in an increase in the cost of MEBPs due to the levying of an additional 7% tax. We encourage the Minister of Finance to oppose any additional increase in the taxation of such plans.

(f) No Taxation of *Pension Fund* or RRSP Investment Income

MEBCO RECCOMENDATION

MEBCO opposes any taxation of investment earnings or contributions to registered pension plans and RRSPs. Canada's approach should remain exempt, exempt, tax (EET) meaning:

- **No tax on contributions**
- **No tax on investment earnings**
- **Tax on receipt of the benefit or lump sum payout**

As we have stressed in our past submissions to the Standing Committee on Finance (federal) during pre-budget consultations, we continue to strongly oppose any taxation of pension fund assets or RRSP investment income. Such actions would have a further negative impact on a system that already is demonstrated as not producing sufficient retirement income.

MEBCO reiterates that the characterization of retirement savings tax assistance as an expenditure is incorrect. This is a tax deferral. The assets in pension plans will be subject to tax upon the payout of pension benefits.

Professor Zelinsky has written at length about the inappropriate characterization of registered pension plan tax treatment as an expenditure (in the context of United States taxation):

The income tax [system] encourages...taxpayers to spend an hour in leisure rather than earning taxable income. The [Tax] Code similarly stimulates individuals to perform services within their own households rather than earn income in the outside world and purchase domestic services with after-tax dollars. The owner of an unmortgaged home is not taxed on the earnings he could receive if he sold his residence and put the proceeds in certificates of deposit. The failure of the Code to tax currently unrealized appreciation encourages taxpayers to hold assets that appreciate in value rather than assets that generate currently taxable income. Nevertheless, for reasons of liquidity, administrability, and the like, no tax expenditure budget has ever reflected the "subsidies" created by the failure to tax leisure, the imputed value of household services, the implicit rental value of owner occupied housing, or unrealized appreciation nor is any such budget likely to reflect such "subsidies" in the future."

In the same vein, the failure to tax current realized and unrealized earnings in pension funds should not be regarded as an expenditure. These assets will be used to provide future taxable retirement income. This is properly characterized as a tax deferral, not a tax expenditure.

(a) **Conclusion**

MEPPs in Canada are a unique labour and management response for meeting the needs of workers and their dependents. This role should not only be recognized by government, but should be preserved and indeed encouraged with the continuation of tax incentives to both provide necessary health and dental care benefits which are not otherwise available under Canada's public health care system and to promote retirement savings.

Canada needs a health care system that meets the needs of a modern society and can adapt to newer and more effective technologies. The pressures on our health care system must be addressed in this context and not solely in terms of dollars and cents. Further, the increasing costs associated with pharmaceuticals cannot be sustained. These rising costs are a burden on Canadians, Governments, and the benefit plans we provide for our members. In terms of accountability for health care, the political gamesmanship must end and Canadians want co-operation among jurisdictions, as do we.

The assumption that the treatment of contributions to health care plans and pensions is inequitable or constitutes a tax "loophole" is erroneous. The tax system has a multitude of incentives for a multitude of purposes. The social objectives of preserving the well-being of Canadians and the financial independence of seniors has led to the placement of certain incentives in the tax system. Those who have chosen to avail themselves of these incentives should not now be penalized for doing so.

The taxation of contributions to pension plans and on the plan's investment earnings will reduce plan coverage and benefit levels. Individuals not financially equipped for retirement will rely on social services. The government will not save money by taxing pension plans. In addition, changes to public pension coverage will affect private pension plan design and, therefore, cannot be considered in isolation.

Harmonization of the RST and GST in Ontario could have serious negative effects on group health and dental plans. We strongly encourage the federal government to ensure that the taxation of benefit plans is excluded from sales tax harmonization.

Accordingly, we respectfully submit that health benefits remain tax free, that the current retirement savings and pension system be preserved, that MEBPs be permitted to recover GST paid in respect of administration supplies and services and that harmonization of sales tax exclude the taxation of contributions to group benefit plans.

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