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**Submission to the Commission on the Future of Health  
Care in Canada**

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**The Role and Importance of Multi-employer Benefit  
Plans in Canada's Health Care System**

**July 2002**

## Multi-Employer Benefit Council of Canada

### Submission to the Royal Commission on the Future of Health Care in Canada

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#### INTRODUCTION

##### **Multi-Employer Benefit Council of Canada ("MEBCO") – Who we are**

MEBCO was established in 1992 to represent the interests of Canadian multi-employer benefit (MEBPs) and pension plans (MEPPS) and 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.

##### **Purpose of our Submission**

This submission is made by the **Multi-Employer Benefit Plan Council of Canada ("MEBCO")** to provide input on the future of health care in Canada and to explain the importance of **multi-employer benefit plans ("MEBPs")** to Canada's health care system and highlight some of the challenges faced by MEBPs.

The role of supplemental health insurance plans is well documented. The Commission has already received detailed information on the role of **supplementary health insurance** from the Canadian Life and Health Insurance Association. MEBCO concurs with the importance of such plans, which encompass MEBPs.

Our submission will be speak directly to the issues affecting MEBPs and their role in Canada's health system. Specifically we will touch on the following:

- (a) We are seeking an improved recognition of the importance of MEBPs in providing Canadians with health care coverage. The narrow debate over public versus private is too simplistic and does not tell us much about the role of government or individuals in the funding of health care. Employer sponsored benefit plans play an integral role in Canada's health care system, through the provision of health coverage to individuals and families for those services not covered under the Canada Health Act (e.g. dental care, prescription drugs, preferred hospital accommodations, out of country services).
- (b) We are seeking a removal of premium and retail sales tax on all supplemental insurance plans which encompass MEBPS.
- (c) We are seeking **improvements to the tax treatment of MEBPs** to address the inequity between single-employer benefit plans ("SEBPs") and MEBPs, which negatively impacts the value of MEBP benefits to employees. MEBPs incur GST costs in respect of various administrative expenses considered to be taxable supplies

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under the Excise Tax Act. Unlike single-employer benefit plans (“SEBPs”), there is no possibility of offsetting these GST costs by claiming input tax credits (“ITCs”). Due to the current GST legislation and the inherent nature of multi-employer plans, ITCs cannot be claimed by either an MEBP or, a contributing employer

- (d) We are deeply **concerned by the downloading of health care costs by government**, which simply shifts the burden of health care to employers and individuals. This in turn impacts the level of benefits that can be covered through supplemental benefits plans.
  
- (e) Studies demonstrate that the increasing role of pharmaceuticals in our health system is not properly accounted for in overall health. The rising cost of drugs is unsustainable not only for governments but also for SEBPs and MEBPs. Action must be taken to manage this aspect of health care services in relation to the overall health system.

**1. MEDICARE - A COMPLEX PARTNERSHIP:**

Maintaining a publicly run system of health care, remains a core value for our members as it is for all Canadians. 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 a high standard of living and an equal opportunity to succeed in life and work.

The National Forum on Health was correct when it stated:

Our system is highly nuanced, with combinations of public private health insurance, government funded and individually funded services, primary provincial responsibility for organization and delivery, and framed by a general piece of federal legislation – the Canada Health Act – which outlines the basic principles of the system, but also permits considerable variations in the organization and structuring of services and funding arrangements across the country.<sup>1</sup>

We support the principles of the Canada Health Act ("*CHA*") and believe that they must be preserved, not weakened. We also support the roles of both the federal and provincial governments in the funding and organization of our health care system. **And we see MEBPs as active partners in the provision of health care coverage in Canada.**

**We believe that the health care system is sustainable as long as these partners work together and acknowledge and respect each other's role as integral to its functioning.**

MEBPs are an integral part of this system of meeting the health care needs of Canadians and their families. They build on the limitations of the *CHA*. In this way they help to alleviate fiscal pressures on Canada's public health insurance.

The exclusion of certain services from the *CHA*, such as dental care and prescription drugs, leaves millions of Canadians vulnerable to illness and disease. It is ironic in the sense that should such illness or disease not be treated in a preventive manner or in its early stages, they will have to be managed with more complicated and costlier care which is insured by government programs. This is counterproductive to prudent fiscal management of health care dollars.

The figures surrounding health care spending in Canada are remarkable. According to the Canadian Institute for Health Information, the projected level of spending on health care will have reached \$102.5 billion in 2001, up from \$89.5 billion in 1999 or \$2,936 on per capita basis.<sup>2</sup> Of this amount, the private sector level of spending has continued to grow and at a rate faster than public sector spending since 1983. While the rate of private sector spending growth ease in 2001, some 30% of the health care services used by Canadians are still

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<sup>1</sup> The Public and Private Financing of Canada's Health System, National Forum on Health; September 1995. <http://www.nfh.hc-sc.gc.ca/publicat/public/canada.htm>

<sup>2</sup> "Total Health Care Spending Surpasses \$100 Billion, Reports CIHI" December 18, 2001 Canadian Institutes of Health Research media release. <http://www.cihi.ca/medrls/18dec2001exec.shtml>

funded privately.<sup>3</sup> Canadians are paying on average, \$1,357 per household for health insurance premiums and out-of-pocket health care spending.<sup>4</sup> Within private sector spending, supplemental plans represent 38% of private spending which translates into more than 11% of total health spending.<sup>5</sup>

Over 20 million Canadians are covered under private supplementary health plans. Statistics Canada's 1995 Survey of Work analysis shows 63 percent of Canadians are entitled to an extended health plan and 59 percent, a dental plan.<sup>6</sup> Some workers without employer sponsored benefit plan coverage of their own, may be covered by that of a working spouse or parent. Of married employees, 66% have their own coverage, while an additional 16% of married employees are covered through a spousal plan.<sup>7</sup> These statistics demonstrate a remaining gap.

Throughout the debate on health care and during the Commissions consultations, there has been a very narrow discussion about the role of the private sector in health care. This has done a disservice to the debate. **"Private" in Canada is often defined as anything non-governmental, but this distinction, while useful does not tell us very much about the actual government role. In fact, the health care financing mechanisms allow employers to deduct the cost of health benefit plans for employees for tax purposes.** This is recognition that encouraging benefit plan coverage in non-CHA insured services is important. However, that encouragement is not strong enough.

Beyond the limitations of government sponsored health care under the CHA, many employees still do not have access to employer sponsored plans due to employment status and the fact that the administrative costs of managing such benefits is too onerous for a small employers. Larger firms (over 500 workers) are more likely to provide employer sponsored benefits than small firms.<sup>8</sup>

MEBPs however, offer a unique structure that allows small employers and certain industries to work cooperatively so that they can provide a combination of health benefits that provide employees and the families with comprehensive coverage.

## **2 BACKGROUND TO MEBPs:**

The employer-sponsored segment of the system is further divided into "single-employer" and "multi-employer" plans. MEBPs help extend employer-sponsored benefits to many more Canadian employees and their families who might otherwise not be covered by a single employers plan.

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<sup>3</sup> "Health Care in Canada 2000, A first Annual Report", Canadian Institute for Health Information, April 2000, Chapter 2, p 29

<sup>4</sup> Ibid, p 30

<sup>5</sup> Supra note 2

<sup>6</sup> "Employer Sponsored Benefits – Not to be taken for granted." Mark Reesor and Brenda Lipsett, Applied Research Branch Human Resources Development Canada Vol 4, No 1 (Winter-Spring 1998)

<sup>7</sup> Ibid

<sup>8</sup> Ibid

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Over the past quarter-century labour and management have joined together to develop a response to the problems of delivering quality benefits to workers and their families in industries typified by small companies and a mobile work force. **There are hundreds of MEBPs in Canada covering well over 1,000,000 workers and their families**, in industries as diverse as building and construction, food, service, retail, hotel and restaurant, graphic arts, garment manufacturing, security, textiles, transportation, and entertainment. A single plan may be national, regional, provincial or local in coverage. Anywhere from 2 to over 1,000 employers may contribute to a single plan pursuant to several collective agreements.

Collective agreements negotiated by one or more unions establish these plans and the contributions necessary to finance and provide benefits. Contributions are usually based on a dollar amount per hour worked by an employee. These plans are "trust funds" and are generally administered by a joint board of trustees, comprised of an equal number of trustees appointed by the participating union(s) and the employer groups. These trustees are responsible for receiving contributions from employers, determining and paying certain benefits to members and their dependants and/or entering into insurance contracts for the provision of other benefits. In the event that an employer is delinquent in making contributions, the trustees pursue collection proceedings.

**1. Benefits Provided by MEBPs**

Some of the more common forms of coverage provided by MEBPs include:

- Extended Health and Hospital Care;
- Drug Care;
- Dental Care;
- Vision Care;
- Sickness and Disability;
- Life Insurance; and
- Retiree Health, Dental and Life Insurance.
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As the Commission can see, many of the benefits that are covered represent areas that can be defined as preventive health care and ones that are not covered under the Canada Health Act.

**2. Value of MEBPs to Employees and Employers**

MEBPs are particularly beneficial to employees and employers because:

- a) They provide continuous benefits coverage to workers as they change employment from one contributing employer to another. This portability or seamless coverage is essential for workers in mobile, seasonal industries like construction and entertainment.
- b) They provide a vehicle through which employers can offer benefit coverage that due to their small size might otherwise not be able to offer employees.
- c) Most MEBPs allow for the accumulation of revenues and "pay-direct" schemes to protect workers and their dependents during periods of unemployment not uncommon in many of the industries represented.

### **3. Typical Structure of MEBPs**

A MEBP is typically structured as a “health and welfare trust” in accordance with the Canada Customs & Revenue Agency’s (“CCRA”) Interpretation Bulletin IT-85R2. The trust receives income-tax- deductible contributions from employers and pays benefits to employees that are restricted to benefits under:

- a group sickness or accident insurance plan,
- a private health services plan,
- a group term life insurance policy, or
- any combination of the above.

A health and welfare trust is considered an inter vivos trust and, therefore, is subject to tax under Part I of the Income Tax Act (Canada).

A health and welfare trust is governed by a trust agreement. The trustees are appointed pursuant to a trust agreement and are typically responsible for the administration of the trust fund. The fund will either handle its own administration through its duly appointed administrator, or hire a third party administrator.

The administrator is responsible for the ongoing administration of the plan, which includes maintaining an accurate database of plan members and related data and providing member services. These services comprise of receiving and crediting of contributions, preparing member communications, answering member questions, receiving and considering member applications for benefits, adjudicating contested benefits applications, and investing of fund assets. The trustees along with the Administrator are typically responsible for budgetary and financial administration tasks, and for retaining, supervising and monitoring a fund's investment counsel.

Most MEBPs are funded through employer contributions (and member contributions in limited instances).

Both MEBPs and SEBPs incur administrative expenses that are subject to GST (“Taxable Supplies”). Such expenses include:

- actuarial fees,
- legal fees,
- accounting fees,
- investment fees. and
- consulting fees.

#### 4. PUBLIC POLICY ISSUES

MEBPs are beneficial not only in terms of an employee and their employer, but they are also important to the broader health care system. MEBPs help extend employer sponsored benefits to many more Canadian employees and their families who might otherwise not be covered by a single employer without a plan. Especially for these reasons, it is important to acknowledge that public policy changes to health care have a significant impact employers and employees.

##### a) Taxation Issues

The levying of federal and provincial taxes on MEBPs and other supplemental benefit plans is a deterrent and is counter to good public policy. For each dollar of tax levied is an additional administrative cost the results in decreased benefits or increased premiums to employers.

- **Goods and Services Tax ("GST")**

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.**

**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.**

**In resolving the GST disparity**, there is currently 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. **The simplest and most effective solution would be to extend to MEBPs the current rebate concept found in section 261.01 of the Excise Tax Act.** That provision provides a rebate of 33% of GST paid by a multi-employer *pension* plan. Section 261.01 was enacted to remedy a problem faced by multi-employer pension plan that is identical to the problem that MEBPs still face.

However, the rebate rate for MEBPs should be 100% of the GST paid on Taxable Supplies. Given that employers contributing to SEBPs currently claim 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.

We ask that the Commission support us in securing a rebate of all GST paid by MEBPs to remove the comparative inequity between SEBPs and MEBPs.

- **Premium Taxes**

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MEBPs are further affected by the premium tax of between two and four percent, which is levied by each Canadian jurisdiction on supplemental plans.

The Commission should encourage all Canadian jurisdictions should be strongly encouraged to remove these premium taxes in relation to employer sponsored health and welfare plans at the earliest opportunity.

- **Retail Sales Tax:**

MEBPs, like all supplemental insurance plan premiums, are to retail sales tax of eight percent in Ontario and nine percent in Quebec. They are the only jurisdictions in North America to levy such taxes. The combined tax burden equaled \$776 million in 2000.

The Commission should encourage Ontario and Quebec to remove application of retail sales tax employer sponsored health and welfare plans at the earliest opportunity

**b) Increasing Health Care Costs and Downloading**

In addition to creating an environment to encourage the development of MEBPs, we ask that our government partners bring us much closer into the public policy debate around about reforming our health system and setting it on a solid foundation.

Medical advances have brought us new medical procedures and have also shed new light to the role of prevention of illness. They have not come without a cost. Additionally the policy treatment of these advances have not been reformed. The end result is that as government seek to contain the cost of health care, they are simply shifting the cost to employers and individuals.

**The same challenges facing governments also face employersponsored benefit plans, (e.g. rising prescription costs, a fixed level of dollars, etc.)** By turning greater attention to preventive health care services, addressing prescription costs, Canada can affect real reforms and improvements to health care.

While health care is a provincial jurisdiction, the federal Government has a responsibility to ensure a stable level of funding to the health care system.

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, and jurisdictional squabbles. Let's be clear, at the end of the day, within the publicly funded system, Canadians, not governments pay for health care through the tax system. And Canadians want a health care system that will be properly managed, accountable and that ensures service for themselves, their family and friends.

The real solution to a sustainable health care system has never really been one of funding, although funding has been used to mask the lack of real reforms.

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Throwing more money at the health care system today is as misguided as the reductions in funding was in the 1990s. A sustained health care system will be built upon innovation not simply dollars.

As we have described above, employer benefit plans are part of the health care coverage equation. In spite of an overall increase in health care spending, the administration of health care continues to face problems because costs are simply shifted around and downloaded onto private insurance plans, such as MEBPs, without addressing the underlying reform issues.

The problems exist in two areas. One is the rise in health cost and the lack of real reform in the delivery of health care. The second is the downloading of costs instead of working with partners to ensure a more efficient and effective delivery of coverage and services.

**The cost of Pharmaceuticals**

According to Statistics Canada, the portion of health care expenditures that is due to pharmaceuticals now outstrips all other areas of health care spending secondly only to hospitals. It is expected that Canadians will spend \$15.5 billion on drugs in 2001.<sup>9</sup> In terms of personal expenditure on medical care and health services, drugs and pharmaceutical products is second to medical care.

But the public/private split is less the issue than the increasing total expenditure. The debate about the increasing cost of drugs is of great concern to us because as government plans begin delisting pharmaceuticals to contain costs, the costs will inevitably be pushed down to private plans. The cost of pharmaceuticals are not only a problem for governments, managing drug costs is also a priority for MEBP sponsors.

By 2000, drug coverage under supplemental plans had grown at a rate of 10 over the past 10 years to become the largest category of expenditure. As one can see, MEBPs are dealing with their own cost containment issues and cannot absorb any further downloading of drug costs from government plans. To do so either jeopardizes level of benefits available or drives up the premium costs to prohibitive levels.

Right now drugs are seen as a problem due to their escalating cost. But are we measuring the value that pharmaceutical therapies brings in terms other areas of health care?. Are we looking beyond drug plan management to total health management? While there is an intangible benefit realized through a productive workforce to the employer, there will be a greater tangible benefit to the public system through a reduced draw on costlier medical services insured by the public system. Unfortunately, the current public policy structure is preventing government from properly answering these questions.

We do not have the answer to solving the drug cost question, however, we can be part of the dialogue in terms of discussing workable solutions.

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<sup>9</sup> Supra note 3, p 84

**5. LOOKING FORWARD**

MEBPs are an integral part of Canada's health care system, they help to support the public delivery of care.. Without them, millions of Canadians would not have access to dental benefits, they would be exposed to the full cost of prescription drugs, and a myriad of other services that as a society were understand the value of but do not cover under the *Canada Health Act*.

If we are to ensure that Canada has a sustainable and quality health care system into the future, its various partners must work together in a co-operative manner and in a way that draws on the strengths of each. It will require our government partners to respect and acknowledge the fundamental role that MEBPs play in health care coverage for Canadians.

This will require addressing a number of public policy challenges:

- **Tax burden:** Premium and retail sales taxes are a serious and increasing disincentive to MEBPs as with other supplemental plans. The inequity of SEBPS and MEBPs in relation to GST rebates is a disincentive to small employers and industries with mobile workforces in the establishment of health and welfare plans for their workers and their families.
- **Increasing health costs:** MEBPs face the same challenges as governments with respect to health care cost containment.
- **Downloading:** Government cost containment policies simply shift costs down to employers and individuals.
- **Partnerships :** Respecting the importance of MEBPs in the provision of health care coverage to Canadians and their families, requires a heightened role for them in the public policy decisions that impact Canada's health care system..

In addressing these challenges, Government will be able to properly deal with the health care envelope and Canadians will experience real improvements to health coverage in Canada.

We thank the Commission for the opportunity to provide our insight and recommendation on the future of health care in Canada and look forward to participating further in this public policy discussion.