

Multi-Employer Benefit Plan
Council of Canada

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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. Employee contributions to MEPPs exceeded \$1.8 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

GST Rebate for MEBPs. 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 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. 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.

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.

RPP Administration Rebate. That a rebate be provided to MEPPs in respect of the GST paid on administration services.

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.

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.

Health Care. The Federal Government in cooperation with the provinces must begin the process of modernizing Medicare with meaningful reforms. The pending release of two major parliamentary reports on the future of health care in Canada, by Senator Michael Kirby and Former Saskatchewan Premier Roy Romanow, should provide the catalyst for much needed reforms.

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. As we have suggested in the past, the Canada Health and Social Transfer must be returned to a targeted transfer so that federal dollars to health care can be accounted for and measured.

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 (MEBPs) 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 MEBPs, 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 MEBPs registered in Canada covering well over **one million workers, and the dependants of those workers**, in industries such as building and construction, food service, retail, hotel and restaurant, graphic art, garment manufacturing, security, textile, transportation, and entertainment. A MEBP may be national, regional, provincial or local in coverage. Anywhere from two to over one thousand employers may contribute to a single MEBP pursuant to several collective agreements.

(b) *Our Submission*

MEBCO is pleased to once again participate in the pre-budget consultation process. In preparing this submission, we have kept in mind the broad themes the Committee is focussing on, which are:

- How Canada can best assure greater levels of economic prosperity, widely shared by all Canadians, and
- How the government can best assure the highest quality of life for all.

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 **adequacy of health and welfare benefits:**
2. the **adequacy of retirement income sources: and.**
3. the **quality of health care.**

1. 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 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*.¹

➤ 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.

¹ Bill C-24 received Royal Assent on 20 October 2000. Rebate applicable to GST paid or payable after 1998.

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*”.²

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 property³.

The making of exempt supplies is specifically excluded from being “commercial activities”⁴.

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”⁵.

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

² *Excise Tax Act* (ETA), s. 169(1).

³ ETA, s. 123(1) “commercial activity”.

⁴ *Ibid.*

⁵ ⁵ 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
- making exempt supplies by paying benefits to employees.

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.

2. Taxation of MEBPs

(a) 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.

(b) 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.

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.

3. 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:

- Converting the tax deduction for pension plan contributions by employees to a tax credit;

- Modify income tax rules to allow **unreduced early retirement pensions for mobile workers who worked for different employers during their careers**; and
- **Exempt multi-employer pension plans from the limit on defined benefit pension benefits.**
- Contributions received and premiums payable by MEBPS be exempt from any harmonization of the GST and Ontario Retail Sales Tax
- 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.⁶ 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 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.

⁶ Subsection 147.2(4) of the *Income Tax Act*

(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)⁷. 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.

(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

⁷ Paragraph 8503(3) of the Income Tax Regulations

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 plans⁸. It follows that SMEPs should also be exempt from the rule which limits the annual defined benefit pension benefit accrual to 2%.⁹ 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) 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

⁸ Paragraph 8510(6)(b) of the Income Tax Regulations

⁹ Paragraph 8503(3)(g) of the Income Tax Regulations

"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.

4. Adequate Funding for Canada's Health Care System

We have watched and participated with interest in the debate over the future of health care, especially with respect to the Royal Commission on the Future of Health Care and the Senate Committee headed by Senator Michael Kirby. We are eager to see the results of their consultations and the advice that they will provide on this crucial public policy matter. Both reports come at a critical juncture in the future of health care system.

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.**

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. Almost 30% of total health costs were paid for privately, with only 70% coming from the public sector.¹⁰ 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.

The same challenges facing governments also face employer-sponsored 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.

¹⁰ "Health Care in Canada 2000, A first Annual Report", Canadian Institute for Health Information, April 2000, Chapter 2, page 29

The real solution to a sustainable health care system has never really been one of funding, although changes in the structure of the Canada and Social Transfer helped to mask the lack of real reform by undermining accountability in the system.

As we have stated in past submissions, we believe rolling all the federal transfer into one fund was misguided. We support targeting the federal transfers to the individual areas. In this way the transfer of health dollars can be measured and accounted for in the system. Accountability must return to the management our health care funding.

Simply 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, as we have just discussed, 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 downloaded 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 2001.¹¹ 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. A 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.

The federal and provincial governments must come up with a workable solution to managing and accounting for drug costs in the health care system. The continued downloading of drug costs to benefit plans through delisting etc. is not sustainable for our plans or for the health of Canadians in general.

¹¹ Supra note 3, p 84

5. 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.