

MERCER'S RESPONSE: POTENTIAL TAXATION OF EMPLOYER-PROVIDED HEALTH AND DENTAL PLANS

Taxing Private Group Health and Dental Plans Would be Bad for Canadians and the Healthcare System

The federal government is reportedly considering amending the Income Tax Act to end the tax-free status of employer-provided group health and dental benefit plans, replacing it with a system of refundable tax credits for individuals. Mercer believes that such a change, if implemented, would have serious negative consequences for Canadians, Canadian businesses and Canada as a whole, while the added costs to the public healthcare system would greatly exceed any additional tax revenue generated. Employers are advised to make their views known to the government about this possible change and take steps now to protect themselves from its possible implications.

THE VALUE OF PRIVATE GROUP BENEFITS PROGRAMS

Employer-sponsored private group health and wellness benefits help fill crucial gaps in the public health system – including preventive care, prescription drug coverage and mental health services – for more than 22 million Canadians. Private group coverage offers significant cost savings and access advantages over individual insurance, where high costs, medical underwriting, pre-existing condition limitations and benefit maximums are significant barriers to coverage, particularly for those in greatest need.

IMPACT ON EMPLOYERS

The cost of private group benefits programs, particularly for prescription drugs, has greatly outpaced payroll growth, putting these plans under substantial financial pressure. The tax exemption of employer contributions to these programs has

enabled employers to mandate plan participation, which keeps costs affordable to the group by retaining young, healthy plan members. Taxation of benefits will destabilize these plans as individuals drop coverage.

When Quebec introduced provincial taxation of employer contributions to health benefits in 1993, about one in five employees reportedly lost their employer-provided plan. With the costs and risks of such programs much higher now, a far larger proportion of employers could abandon these programs if they are taxed federally.

Ending the tax exemption of employer contributions also will effectively reduce employee after-tax compensation, which would cause significant disruptions in labour relations and collective bargaining, resulting in substantial additional costs to Canadian businesses, including an estimated \$1 billion increase in CPP and EI contributions. Employers would also be subject to added legal risk, especially with respect to the devaluation of vest post-retirement benefits accrued over the working career of retired members.

IMPACT ON INDIVIDUALS AND CANADIAN SOCIETY

The estimated \$2.9 billion of foregone tax revenue from employer contributions to health benefits programs is tiny in comparison to the estimated \$23-billion value of such coverage to the health system. It has been suggested that replacing the tax exemption with refundable tax credits for individuals would open up coverage opportunities for the uninsured, including workers who lose their employer-provided plan. The Quebec experience

suggests, however, that most individuals will not obtain replacement coverage and that the number of uninsured Canadians will rise, putting greater pressure on public health programs.

Half of employees covered by an existing employer-provided benefits plan earn \$40,000 a year or less. Ending the tax exemption for employer contributions is therefore expected to have the biggest impact on the middle class, the working poor and seniors on fixed incomes and could even negatively affect the eligibility of some seniors for income-tested government programs such as the Guaranteed Income Supplement.

EXPRESS YOUR VIEWS

Amending the Income Tax Act to end the tax exemption for employer contributions to private group health and dental benefits programs will have direct and significant consequences for individual Canadians, Canadian businesses and the broader healthcare system. Employers and individuals can let the government know what they think about the idea by contacting the Minister of Finance directly at:

The Honourable William F. Morneau, P.C., M.P.
Minister of Finance
90 Elgin Street
Ottawa, (ON) K1A 0G5

Email: bill.morneau@canada.ca or Bill.Morneau@parl.gc.ca

They can also contact their local Member of Parliament or get more information and make their views known by visiting: <http://donttaxmyhealthbenefits.ca/>

BE PREPARED

Employers should take this opportunity to review their current benefits programs and take appropriate steps to protect themselves, regardless of whether the federal government decides to end the tax-exempt status of contributions to those programs. Given the fiscal pressures faced by governments at all levels in Canada, there is always a possibility that proposed measures to increase tax revenues will have a negative impact on the ability of Canadian businesses to continue to provide benefits to their employees that also benefit Canada as a whole. The best way for employers to protect themselves from such possibilities is to plan ahead and always be prepared.

We will continue to share Mercer's Response to changing legislation, trending public policy as well as federal and provincial budget announcements and keep you abreast of the news that could affect your business. These insights from Mercer's thought leaders are intended to keep you up to date and ensure you have the most relevant information in a timely manner.

Contact your Mercer consultant today to discuss what this means for your organization.

ABOUT MERCER

At Mercer, we make a difference in the lives of more than 110 million people every day by advancing their health, wealth, and careers. We're in the business of creating more secure and rewarding futures for our clients and their employees – whether we're designing affordable health plans, assuring income for retirement or aligning workers with workforce needs. Using analysis and insights as catalysts for change, we anticipate and understand the individual impact of business decisions, now and in the future. We see people's current and future needs through a lens of innovation, and our holistic view, specialized expertise, and deep analytical rigour underpin each and every idea and solution we offer. For more than 70 years, we've turned our insights into actions, enabling people around the globe to live, work, and retire well. At Mercer, we say we *Make Tomorrow, Today*.

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