Mercer

welcome to brighter

Mercer's response:

2022 federal budget

On April 7, 2022, Finance Minister Chrystia Freeland tabled Budget 2022: *A Plan to Grow Our Economy and Make Life More Affordable.*

The budget was tabled in an environment characterized by uncertainty: inflation, supply chain disruptions, and geopolitical instability continue to affect our economy. The crisis in Ukraine was mentioned by the Minister several times, as were Canada's challenges with respect to labour and talent shortages, dizzying appreciation in housing prices, and spiking energy costs.

The budget included significant new spending aimed at catalyzing industrial development and creating jobs. It also included funding for long-time Liberal promises like childcare – and new commitments like National Dental Care, which is a condition of the confidence and supply arrangement they have negotiated with the New Democrats.

Pharmacare alone has significant implications for organizations' employee value proposition – let alone additional promises like National Dental Care.

Employers in every sector should pay attention – there are fundamental changes coming their way.

Pharmacare and Dental Care for all?

The Liberals and New Democrats made headlines across the political world when they signed a three year Confidence and Supply Agreement on the condition that the government would act on certain NDP priorities. Among these priorities were National Pharmacare – which has seen little momentum since the advisory council released its report and proposed model in 2019, but which remains a Liberal commitment – and National Dental Care, which was an NDP campaign promise.

Pharmacare: The budget did not contain further details beyond those that were already contained in the Agreement – the federal government would look to table and pass a Pharmacare Act by the end of 2023, and thereafter develop a national essential medicines formulary and bulk purchasing plan.

Critical details of this plan remain to be finalized, such as whether it will follow a multi-payer or single-payer model. The way the program will be funded also remains to be determined. But as we wrote in 2018, Canadians are well-served by their private plans – and therefore the federal government should adopt a model of Pharmacare that extends coverage to those who do not already have it. They should do this while supporting private plan sustainability and flexibility, such as through supports for high cost rare disease coverage. As we indicated in 2021, this is a reform employers would welcome.

It is especially critical that the federal government preserve employer freedom of plan and formulary design to meet their business needs at this trying time.

National Dental Care – The budget committed $5.3 billion over five years, and $1.7 billion thereafter, to implement a national dental care program. As indicated in the Liberal-NDP agreement, this plan – which subject to provincial agreement purports to cover Canadian households with a household income of $90,000 or lower – will be implemented in stages:

- Canadians under 12 in 2022,
- Canadians under 18, seniors and people living with disabilities in 2023,
- Full implementation by 2025

According to the Canadian Dental Association, in its "The State of Oral Health in Canada" report, Canadians have some of the best access to dental care in the world – as with Pharmacare, Canadians remain well-served by their private dental plans. The Association supports a model that, like our Pharmacare model, focuses on gaps and vulnerable populations.

There are few details on the scope of coverage and the stated timeline is very ambitious, particularly given the need for provincial buy-in and the lack of consultation to date. By contrast, the national Pharmacare approach was developed after an extensive set of consultations with industry stakeholders.

Before implementing this program, we call on the federal government to consult widely on it – and especially to consult employers and insurers, who have provided Canadians with the dental coverage that has served them well to date.

A sustainable transition

Climate change is one of this government's core issues, and a big focus of this budget was the transition of Canada's economy away from fossil fuels. Budget 2022 included an announcement that the Sustainable Finance Action Council will develop and report on strategies for aligning private sector capital with the transition to net-zero. It also committed the government to mandating that federally regulated pension plans disclose environmental, social and governance (ESG) considerations, including climate-related risks.

While many more details remain to be finalized, the direction of the government is clear: it intends to transform the Canadian economy. As we wrote in our whitepaper Shifting to Green, for any investor with a long-term view, this presents risks – but also opportunities. The time is now to understand your exposure to climate-related risks – and plan your own transition for a net-zero future.

In addition to these climate-related measures, the government announced further measures of interest to pension plan sponsors. They announced their intention to amend the Pension Benefits Standards Act and the Pooled Registered Pension Plans Act to buttress the sustainability and long-term security of federally-regulated pensions through improved governance and new frameworks for solvency reserve accounts and variable payment life annuities (VPLAs).

Mercer has called for action on defined benefit (DB) pension plan sustainability and broadening access to VPLAs for many years. We are therefore supportive of the government's moves in that direction and look forward to seeing more detail on these initiatives.

This budget also looks to provide more borrowing flexibility to administrators of DB plans.

Flexibility in and out of work

The Minister made reference to Janet Yellen's 'modern supply side economics' – an economic view that looks to drive economic growth through increasing supply to end shortages and meet soaring demand.

Employers who have tried to hire in the Canadian job market will understand what talent shortages look like. They are unable to find the talent that they need – and their ability to deliver goods and services to Canadians and contribute to economic growth is hindered.

The government is looking to address this talent shortage through an increase to immigration targets – aiming for 451,000 permanent residents in 2022, compared to 405,000 in 2021 – as well as looking to reduce delays in the processing of immigration applications.

They are also looking to help Canadians improve their skills, through doubling the Canada Student Grant to bolster access to post-secondary education.

But most interestingly, they are aiming to remove barriers to labour force participation – particularly among women. This is a welcome development that will help employers with their Diversity, Equity and Inclusion (DEI) initiatives which have been shown to increase organizations' bottom lines.

The Liberals' childcare plan and supports for families have been much remarked upon. The budget reiterates earlier commitments with respect to EI sickness benefit changes in 2022 (to 26 weeks from current 15) as well as for federally-regulated industries, paid sick days and additional time off for women who have suffered a miscarriage. Additional moves in this budget include allowing some fertility-related expenses, such as surrogacy or fertility clinic fees, to qualify for the Medical Expense Tax Credit.

It has long been our view that employers must grant their workers the flexibility they need to balance work priorities with personal events. We are glad to see the government lead on this issue – it is now for employers to follow suit.

As always, we remain committed to keeping you informed and helping you however we can. If you have questions about the options available to you, please click here to contact us today.

For further information, please visit www.mercer.ca

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