

Building a Drug Plan for uninsured New Brunswickers

A small business perspective

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Providing a fair, accessible drug plan for in-need and uninsured New Brunswickers is a laudable goal. However, there are considerable impacts of introducing a costly program at a time when the province is struggling fiscally and economically. Greater still is the concern the employer community would be forced to shoulder the cost – through a payroll tax – with a devastating impact on the economy.

The Canadian Federation of Independent Business (CFIB) represents 5,000 small and medium-sized businesses operating in New Brunswick. These businesses – and those like them – drive the economy of New Brunswick through job creation. It is these operations that create employment and in doing so provide tax revenue to government to fund cherished public services. As employers, community members and economic drivers, small businesses are a stakeholder in all aspects of public policy and have a unique perspective which deserves consideration. It is for this reason CFIB is weighing in on the proposal to introduce a drug plan for uninsured New Brunswickers.

New Brunswick and Prince Edward Island are the two remaining provinces without some form of general drug coverage. Currently, New Brunswick has a drug program designed specifically for seniors, covering about 13 per cent of the population at a cost of approximately \$200 million per year. It is

estimated that a new, expanded drug program would likely cover an additional 20 per cent of the population, with costs estimated to start at \$180 million per year. Further, additional cost increases of up to nine per cent are expected every subsequent year¹.

The Context

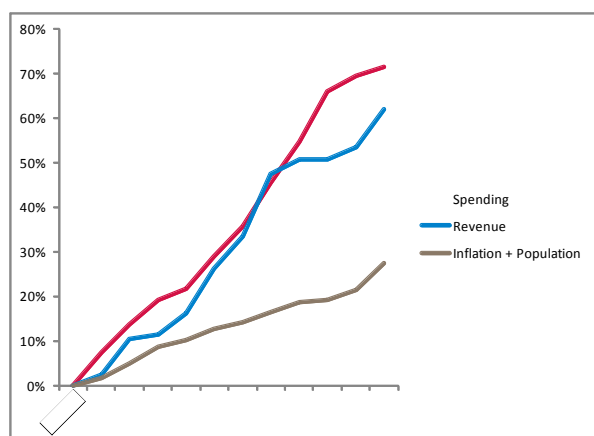
It is critical to put this additional expense in the province's fiscal context. Not only is the province running a significant deficit, the province's debt has grown considerably over the past several years. Certainly, the Canadian Federation of Independent Business (CFIB) has been pleased that government has restrained spending – rather than resorting to additional taxation – to bring the province back to balance. That said, the lack of discipline in government spending over the past decade is

¹ Estimates provided by Advisory Committee on Health Benefits, April 27, 2012 information session

one of the primary reasons the province faces its current challenges (Figure 1). Given this trend, CFIB is extremely concerned with the discussion of adding a significant program whose costs have the propensity to continually increase at a time when the province is diligently attempting to get back to balance – without additional tax increases and adding to an already crushing debt load.

Figure 1:

NB Government Spending & Revenue Growth (2001-2012)



Source: Statistics Canada & New Brunswick Budget Documents (Base = 2001)

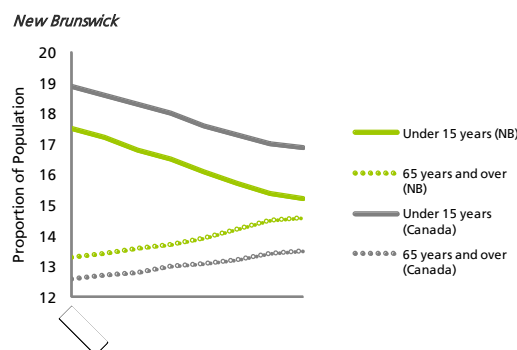
Add to this, New Brunswick's demographic picture. Compared to the rest of Canada, New Brunswick has a greater share of seniors, aged 65 and older, and a smaller share of people who are younger than 15 years old (Figure 2). Low fertility levels, combined with low immigration and high out-migration rates, means that the New Brunswick population is ageing faster than any other region in Canada.

New Brunswick's rapidly ageing population will mean falling numbers of new labour force entrants and increasing numbers of seniors retiring from the workforce. These changes will have implications for economic growth beyond the decline of the region's labour force, as they will also impact productivity. While approximately one in 20 workers were 60 years of age and over in 2003, a study by the C.D. Howe Institute predicts this number

will increase to approximately one in 11 over the next decade.²

Figure 2:

NB's Demographic Challenge



Source: Statistics Canada, Catalogue no. 91-209-X, July 2008.

Combined, this means that as the population continues to age, it will put increased demands on expensive public services, such as health care, on a tax base that is in decline.

Funding a Plan

Finding the money to introduce a program of this magnitude is no small undertaking – but who is ultimately going to pay for it? For most insurance systems, plan costs are spread across plan members through deductibles and premiums. It is our belief that the same principles be applied – within reason – to a public insurance plan. A further funding option is diverting general tax revenue from areas of less priority to pay for this new program. The option that the small business community strongly opposes is forcing the employer community to pay for this through a new mandatory payroll tax or employer surcharge.

At a time when the economy of New Brunswick desperately needs job creation, small- and medium-sized firms offer the greatest potential for creating new jobs and innovation.

² Guillemette, Yvan (2003) *Slowing Down With Age: The Ominous Implications of Workforce Aging for Canadian Living Standards*. C.D. Howe Institute.

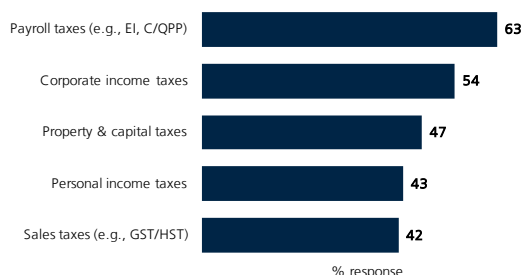
To do this, a healthy climate for investment and growth must exist. This includes a competitive tax system. It is no secret that excessive taxation has a negative effect on job creation, wage growth and investment in innovative and productivity improvements.

As it stands, New Brunswick businesses pay a host of taxes, including personal, corporate, property, sales, and excise taxes. As well, they pay the fees attached to any licenses or permits required to operate their business.

Of all these tax costs, payroll taxes are consistently identified by small businesses as having the most negative impact on business growth (Figure 3).

Figure 3

Which forms of taxation affect the growth of your business the most?



Source: Canadian Federation of Independent Business, *Point of View: Tax Competitiveness*, based on 7,756 responses, June 2007.

Many New Brunswick employers – particularly smaller ones – have been struggling to keep up with rising costs such as energy, insurance, taxes, and wages and have resorted to some drastic measures to cope. For instance, CFIB has raised concerns about rapid increases to the minimum wage, which has far outpaced the rate of inflation. Businesses with low margins and high payroll costs have found it difficult to absorb these increases, and are often unable to pass costs along to their customers (in the form of price increases) for competitive reasons.

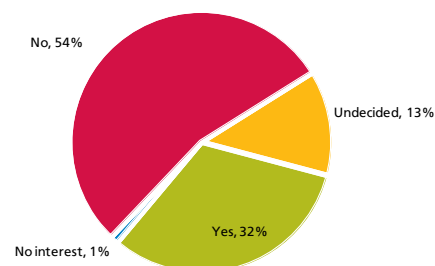
While reducing staff is typically one of the last routes that small employers tend to take to reduce expenses, many are finding no other way to keep their businesses afloat. Some

business owners have been scaling back hours of operation while others have themselves been working longer hours to help manage escalating labour costs. Some businesses have been forced to close. These are not the actions that will grow an economy.

It is likely for these reasons that when CFIB asked its members if there should be a publicly funded national Pharmacare system, just over half indicated they did not support such a system. While this question focused on a national program, only about one-third of New Brunswick respondents were in favour (Figure 4).

Figure 4:

Should there be a publicly funded national Pharmacare system?



Source: CFIB Mandate Ballot 209 (NB Data, 617 responses), February 2003

Another Consideration: Compliance Costs

In addition to cost considerations, it must be recognized that red tape has a disproportionate impact on smaller employers simply because they do not have the resources or economies of scale to spread the costs.

On average, employers with fewer than five workers, spend more than five times the amount on annual regulation per employee than those with 100 or more workers.³ Given that about seven of every 10 businesses in New Brunswick fall into this category, it is

³ Jones et al, (2010) *Prosperity Restricted by Red Tape* (2nd Edition)

necessary for regulators to have a heightened awareness of compliance requirements that are placed on employers by all three levels of government.

Any universal drug plan that would involve employers on some administrative level would necessarily add to the paperwork burden of the employer. Therefore the cost and burden of compliance must be factored when considering the true cost of any program.

Conclusion and Recommendations:

While many employers offer group benefits that typically cover some portion of drug costs, there are still many people – whether employed or not – that do not have access to reasonable drug coverage. Addressing this, as many other provinces have, is a laudable goal.

To assist the committee in its work, CFIB provides the following recommendations:

1. Put the discussion on hold until the budget is balanced

Currently, the province is struggling to get out of deficit and under pressure to reduce its debt. This begs the question: is now is the time to be adding significant costs that are virtually guaranteed to grow over time?

2. Any program must be tax neutral

If government has determined that introducing a drug plan for uninsured New Brunswickers is a priority, it must commit that it will not increase the tax burden for families or business to pay for it. This means that government would need to fund the program, in addition to reasonable premiums, deductibles and maximums, through existing revenue by reallocating resources from areas of lesser priority.

3. Reject an employer payroll tax or premium

While the small business sector is interested in a healthy and productive workforce, it is unable to shoulder another tax. Further,

payroll taxes are known to be the most harmful of all taxes as they – in effect – punish an employer for creating jobs through additional costs.

4. Examine regional opportunities to share costs

New Brunswick should examine whether cooperation with other Atlantic provinces that have plans (Newfoundland and Labrador and Nova Scotia) and/or without a plan (Prince Edward Island) to determine whether there is an opportunity to achieve economies of scale, efficiencies and ultimately cost savings.

5. Minimize the administrative burden

If and when a drug plan for the uninsured is introduced – either in a provincial or regional context – there must be a focus to minimize cost and the administrative burden for employers.