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### Legislation

## Government Benefits in 2003

The new year brings changes to the government provided social programmes within Canada, which affect the administration and coverages of group insurance plans. This article outlines the main features of these programmes for 2003. Should you require further information on these programmes, we invite you to consult their websites, the addresses for which we have provided in this article.

### 1 Quebec Pension Plan (QPP) and the Canada Pension Plan (CPP)

The QPP and CPP rates are the same, unless otherwise indicated. The pension amount indicated represents the maximum pension amount.

QPP Web Site:  
[www.rrq.gouv.qc.ca](http://www.rrq.gouv.qc.ca)

CPP Web Site:  
[www.hrdc-drhc.gc.ca/isp](http://www.hrdc-drhc.gc.ca/isp)

Contributions	2002	2003
Yearly maximum pensionable earnings (YMPE)	\$39,100	\$39,900
Basic annual exemption	\$3,500	\$3,500
Contribution rate (employer and employee; double for a self-employed person)	4.70%	4.95%
Maximum annual contributions (employer and employee; double for a self-employed person)	\$1,673.20	\$1,801.80
Benefits		
QPP Death Benefit (lump sum)	\$2,500	\$2,500
CPP Death Benefit (lump sum)	6 times the retirement pension, maximum \$2,500	6 times the retirement pension, maximum \$2,500
QPP monthly Survivors' Pension		
Spouse under 45 years of age		
• Not disabled with no dependent children	\$389.13	\$395.31
• Not disabled with dependent children	\$634.18	\$644.28
• Disabled with or without dependent children	\$660.24	\$670.76
Spouse between 45 and 54 years of age	\$660.24	\$670.76
Spouse between 55 and 64 years of age	\$695.37	\$700.06
Spouse 65 years of age or older	\$473.25	\$480.75
Orphan (per child until 18 years of age)	\$58.35	\$59.28
CPP monthly Survivors' Pension		
Spouse under 65 years of age	\$437.99	\$444.96
Spouse 65 years of age or older	\$473.25	\$480.75
Orphan (per child until age 18 or until age 25 if a student)	\$183.77	\$186.71
QPP monthly disability pension		
Contributor	\$956.02	\$971.23
Dependent child (per child)	\$58.35	\$59.28
CPP monthly disability pension		
Contributor	\$956.05	\$971.26
Dependent child (per child)	\$183.77	\$186.71
Maximum monthly retirement pension at age 65	\$788.75	\$801.25
Pension indexation rate as of January 1	3.0%	1.6%

## 2 Employment Insurance

To be eligible for sickness, maternity or parental benefits under the Employment Insurance Act an employee must have accumulated 600 insurable hours in the 52-week period preceding the claim. The sickness and maternity benefits are payable

for a maximum of 15 weeks. The parental leave benefits are payable for a maximum of 35 weeks. As of March 3, 2002, a combination of maternity, parental leave and sickness benefits can be paid up to a maximum of 65 weeks, whereas before it

was limited to 50 weeks (some restrictions apply). The amount of the weekly benefit depends on the earnings of the employee in the last 26 weeks of employment.

Contributions	2002	2003
Maximum annual insurable earnings	\$39,000	\$39,000
Employee contribution rate per \$100 of gross insurable earnings	\$2.20	\$2.10
Maximum annual employee contribution	\$858.00	\$819.00
Employer contribution rate per \$100 of gross insurable earnings*	\$3.08	\$2.94
Maximum annual employer contribution	\$1,201.20	\$1,146.60
Benefits		
Basic benefit rate (% of average insurable earnings)	55%	55%
Maximum weekly amount	\$412.50	\$412.50
Last weeks of salary	26 weeks	26 weeks
Waiting period	2 weeks	2 weeks
Maximum duration of sickness and maternity benefits	15 weeks	15 weeks
Maximum duration of parental benefits	35 weeks	35 weeks
Tax status of benefits	Taxable	Taxable

\* Employers who offer a wage loss replacement plan to their employees are eligible for a reduction in their employment insurance contribution, provided the plan meets the necessary requirements. Employers must share this contribution reduction with the employees covered under the plan. Employees must receive at least 5/12 of the total reduction.

Employment Insurance Web Site:  
[www.hrdc-drrc.gc.ca/ae-ei/](http://www.hrdc-drrc.gc.ca/ae-ei/)

## 3 Workers' Compensation

Workers' Compensation plans are governed by provincial legislation and are financed by employers. Participation in these plans is mandatory for some employers or groups of employees, depending on

the province. Premiums vary according to type of industry, size of company or rating class for each province. The workers' compensation plans mainly provide for income replacement benefits, but they

can also reimburse certain medical costs. These benefits are not taxable.

Province	Maximum assessable earnings 2002	Maximum assessable earnings 2003	Disability Benefits	Web Site
British Columbia	\$59,600	\$59,600	90% of net average income; For workers injured prior to June 30, 2002 will be 75% of gross average income	<a href="http://www.worksafefbc.com">www.worksafefbc.com</a>
Alberta	\$58,000	\$58,800	90% of net average income	<a href="http://www.wcb.ab.ca">www.wcb.ab.ca</a>
Saskatchewan	\$48,000	\$48,000	90% of net income	<a href="http://www.wcb.sask.com">www.wcb.sask.com</a>
Manitoba	\$54,590	\$55,620	90% of net average income for the first 24 months, 80% thereafter	<a href="http://www.wcb.mb.ca">www.wcb.mb.ca</a>
Ontario	\$64,600	\$65,600	85% of net income	<a href="http://www.wsib.on.ca">www.wsib.on.ca</a>
Quebec	\$52,500	\$53,500	90% of net income	<a href="http://www.csst.qc.ca">www.csst.qc.ca</a>
New Brunswick	\$47,600	\$48,400	85% of net income	<a href="http://www.whscc.nb.ca">www.whscc.nb.ca</a>
Nova Scotia	\$41,000	\$41,800	75% of net income for the first 26 weeks, 85% thereafter	<a href="http://www.wcb.ns.ca">www.wcb.ns.ca</a>
Prince Edward Island	\$39,300	\$40,000	80% of net income for the first 38 weeks, 85% thereafter	<a href="http://www.wcb.pe.ca">www.wcb.pe.ca</a>
Newfoundland and Labrador	\$45,500	\$45,500	80% of net income	<a href="http://www.whscc.nf.ca">www.whscc.nf.ca</a>
Northwest Territories and Nunavut	\$63,350	Unavailable at present time	90% of net income	<a href="http://www.wcb.nt.ca">www.wcb.nt.ca</a>
Yukon	\$65,100	\$66,200	75% of gross income	<a href="http://www.wcb.yk.ca">www.wcb.yk.ca</a>

## 4 Provincial Health Insurance Plans

Medical and hospital plans vary from province to province. The coverages provided are constantly being reviewed and revised.

Only British Columbia and Alberta currently require all residents to contribute to their public health care plans.

The premiums are paid directly by the individual or by the employer through the group insurance plan.

### ■ Alberta

All residents of Alberta must pay premiums for coverage under the "Alberta Health Care Insurance Plan."

The regular premiums are:

- \$44 per month for individual coverage
- \$88 per month for family coverage (two or more people)

Low-income residents and seniors may qualify for a premium reduction.

### ■ British Columbia

All residents of British Columbia must join the "Medical Services Plan," for which premiums are required. Premiums are based on the number of people in the family and on income. The monthly premiums are as follows:

- \$54 for an individual
- \$96 for a family of two
- \$108 for a family of three or more

In Quebec, participation in the government provided prescription drug plan is mandatory for all residents who are not covered under a group insurance plan. On July 1, 2002, the contribution and reimbursement rates for the plan were increased by 9.6%.

Quebec Drug Plan	Before July 1, 2002	As of July 1, 2002
Monthly deductible	\$8.33	\$9.13
Co-insurance	25%	27.4%
Maximum annual out-of-pocket expense	\$750	\$822
Annual premium	\$385	\$422

For your information, here are the web sites for each province's Ministry of Health:

British Columbia  
[www.gov.bc.ca/healthplanning/](http://www.gov.bc.ca/healthplanning/)

Alberta  
[www.health.gov.ab.ca/](http://www.health.gov.ab.ca/)

Saskatchewan  
[www.health.gov.sk.ca](http://www.health.gov.sk.ca)

Manitoba  
[www.gov.mb.ca/health/index.fr.html](http://www.gov.mb.ca/health/index.fr.html)

Ontario  
[www.gov.on.ca/health/index.html](http://www.gov.on.ca/health/index.html)

Quebec  
[www.msss.gouv.qc.ca](http://www.msss.gouv.qc.ca)

New Brunswick  
[www.gnb.ca/HW-SM/sm/index.htm](http://www.gnb.ca/HW-SM/sm/index.htm)

Nova Scotia  
[www.gov.ns.ca/health](http://www.gov.ns.ca/health)

Prince Edward Island  
[www.gov.pe.ca/infopei/Health/index.php3](http://www.gov.pe.ca/infopei/Health/index.php3)

Newfoundland and Labrador  
[www.gov.nf.ca/health](http://www.gov.nf.ca/health)

## Legislation

# Taxation of Group Insurance Plans

Group insurance plans within Canada are subject to different forms of taxation. The importance of taxes is such that group plans are often designed to take advantage of tax benefits or to reduce the employer's fiscal burden. There are 3 types of taxes applicable to group plans:

- 1 Income tax
- 2 Premium tax
- 3 Sales tax

## 1 Income Tax

Benefit plans impact an employee's taxable income as much as they do an employer's. In general, employers can deduct the amounts paid for their employees' benefits from their taxable income as a business expense. One of the principles of taxation is that what is deducted by one party (the employer) is then taxable for

another (the employee). Therefore, employees find themselves taxed for some benefits that were paid for by their employer and for which their employer received a deduction. There are some exceptions, however, which are described below.

**For the employer:** Premiums paid by employers for the following group insurance benefits can be deducted from their taxable income:

- Life Insurance and Accidental Death and Dismemberment
- Income Replacement Insurance
- Health and Dental Insurance

In the case of an ASO (Administrative Services Only) plan, paid benefits and administration fees are also deductible from the employer's taxable income.

**For the employee:** Tax treatment varies according to the type of coverage. The tables below illustrate the tax impact on employees

when premiums are paid by the employer. Where the employer paid premium is taxable income for the employee, the premium will include sales tax and will be subject to various payroll taxes (QPP/CPP, employment insurance, etc.).

The benefit from an income replacement insurance plan that is 100% employee-paid is not taxable.

Employee contributions cannot be deducted from their taxable income and are not eligible for a tax credit, except in the case of health and dental insurance. This portion, combined with eligible and non-reimbursed medical and dental fees, cannot exceed 3% of net income (with a federal limit of \$1,728 in 2002).

Please note that federal tax rules apply to both federal and provincial income tax for all provinces, except Quebec, where different tax rules apply.

### Federal Rules:

Benefit	Premium paid by employer: taxable income for the employee?	Benefit received: taxable?
Employee and dependent life insurance	Yes	No*
Death and Accidental Dismemberment	No	No*
Health and Dental Insurance	No	No
Short- and long-term income replacement insurance	No	Yes

### Quebec Rules:

Benefit	Premium paid by employer: taxable income for the employee?	Benefit received: taxable?
Employee and dependent life insurance	Yes	No*
Death and Accidental Dismemberment	Yes	No*
Health and Dental Insurance	Yes	No
Short- and long-term income replacement insurance	No	Yes

\* If the death benefit is paid by the employer, the benefit is taxable after a deduction of \$10,000 provided the beneficiary is the spouse.

## 2

### Premium Taxes

A tax on group insurance premiums is in effect in all the provinces and applies to gross premiums less experience rating refunds, if any. In Quebec, Ontario and Newfoundland, this premium tax also applies to the benefits of ASO plans and to the related administration fees. The tax rates in force in each province are as follows:

British Columbia	2%
Alberta	2%
Saskatchewan	3%
Manitoba	2%
Ontario	2%
Quebec	2.35%
New Brunswick	2%
Nova Scotia	3%
Prince Edward Island	3.5%
Newfoundland and Labrador	4%
Northwest Territories and Nunavut	3%
Yukon	2%

## 3

### Sales Tax

The federal goods and services tax (GST), the harmonized sales tax (HST) which is in force in New Brunswick, Nova Scotia and Newfoundland, and the Quebec sales tax (QST) do not apply to insurance. However, administration fees relating to ASO benefit plans (without any pooling) are subject to GST, as well as to HST and QST, depending on the province.

In Quebec and Ontario, an additional sales tax applies.

- In Quebec, the sales tax is 9% and applies to group insurance premiums and to the benefits of ASO plans. When these plans include an insurance product (stop-loss), the sales tax also applies to the related administration fees. These fees would then not be subject to GST and QST.
- In Ontario, the sales tax is 8% and applies to group insurance premiums, as well as to the benefits of ASO plans and their administration fees.

## Benefits

### Multinational Pooling

For a multinational employer with benefit plans covering employees of subsidiaries and/or divisions in different countries, multinational pooling (also known as "international pooling") offers the employer the opportunity to bring the local benefit plans together into a single unit or "pool".

By combining the local benefit plans into one pool, the employer can take advantage of combining the global experience of the local plans for experience rating. This allows the multinational employer to spread its global risk among itself and its subsidiaries and divisions resulting in the return of any surplus to the multinational employer.

The most common benefits that are included in multinational pools by employers are Life and Long Term Disability Insurance. However most employer sponsored insurance benefits are eligible to be included in a multinational pool.

The Industrial Alliance Group is able to provide its group clients with multinational pooling through its membership in the Zurich Employee Benefits Network ("ZEBN"). Based in Switzerland, ZEBN has partners in over 40 countries. In Canada, the Industrial Alliance Group is the exclusive partner of ZEBN.

For a multinational pool to be implemented by a multinational employer through ZEBN and the Industrial Alliance Group the following minimum requirements would need to be met:

- Local benefit plans in at least 2 countries (including Canada)

- 300 employees insured under the local benefit plans
- Life Insurance and/or Long Term Disability Insurance must be included in the pool
- \$300,000 annualized premium in total for the benefits included in the pool

To learn more about international pooling call your Group Sales Representative. In addition, if you would like to learn more about ZEBN and its world-wide partners you can visit ZEBN's website at [www.zurichbusiness.com/international-pooling](http://www.zurichbusiness.com/international-pooling).

## Your Input

We are always interested in hearing from you. If you have any comments or questions regarding any of the articles included in this bulletin, or if you would like a particular topic to be covered in a future issue, please contact your Group Sales Representative.

## The Industrial Alliance Group



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