

# Benefits Bulletin

UPDATE: 2008 federal budget and over-the-counter medications

## CANADIAN LIFE AND HEALTH INSURANCE ASSOCIATION RECEIVES CONFIRMATION FROM DEPARTMENT OF FINANCE

**The Department of Finance has confirmed that the recent federal budget was not intended to exclude the reimbursement of over-the-counter drugs from private health services plans**

### Background

As part of the federal government's Budget 2008, changes were proposed to the *Income Tax Act* whereby over-the-counter drugs prescribed by a medical practitioner and dispensed by a pharmacist no longer qualify as eligible medical expenses under Canada's Medical Expense Tax Credit program. After the budget was tabled on February 26, some insurance industry analysts interpreted this change to also mean that over-the-counter drugs will no longer qualify as medical expenses under private health services plans. This change could have had tax implications for group benefits plans that cover over-the-counter drugs.

### Confirmation from Department of Finance

The Group Benefits industry, represented by the Canadian Life and Health Insurance Association, wrote to the Department of Finance and confirmed that the changes announced on February 26, 2008 were not intended to affect group benefits drug plans. Manulife Financial's interpretation is that:

- The budget's clarification regarding over-the-counter medications is specific to the Medical Expense Tax Credit.
- The budget was not intended to change the existing treatment of private health services plans regarding over-the-counter drugs.

- The definition of a private health services plan in subsection 248 (1) of the *Income Tax Act* is legislatively broad in scope.

Based on the clarification from the Department of Finance, plan designs that cover over-the-counter drugs prescribed by medical practitioners and dispensed by pharmacists do not need to be modified as a result of the changes contained in the federal budget.

### Health Care Spending Accounts and Cost Plus agreements

The section of the *Income Tax Act* that was changed in the federal budget to exclude over-the-counter drugs is Section 118.2. Some Manulife Financial Health Care Spending Accounts and Cost Plus agreements use Section 118.2 to define the list of expenses that are eligible under these plans. Manulife is doing more research on this subject. Plan sponsors will receive further information on the topic including the options available to them if they wish to amend their plans in light of the changes.

For more information, or to amend your plan to remove over-the-counter drugs from your drug plan, please contact your Manulife Financial representative.

This *Benefits Bulletin* is for information purposes only. Questions about your specific tax situation should be directed to an appropriate professional advisor.

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