

SUBSIDIZING SENIORS: GOVERNMENT POLICY INCONSISTENCY BETWEEN ICBC'S AND BC FERRIES CORPORATION

The recent announcement that seniors will now enjoy free rides on BC Ferries from Monday to Thursday thanks to additional taxpayer funding highlights a policy discrepancy with the funding of the 25% seniors' discount at ICBC, where policyholders must make up the foregone income.

I -- THE SENIORS SUBSIDY AT BC FERRIES

During the May 2017 election the NDP pledged to reduce the fares charged by the BC Ferries corporation, and finance minister Carole James announced the fulfilment of this promise in her 20 February 2018 budget. In addition to a rate freeze on the major routes, and a 15% fare reduction on the lesser routes, seniors would see their discount rise from 50% to 100% when travelling from Monday to Thursday.¹

The details of the financing arrangement between BC Ferries and the government were released in early April. The fare reductions and extending the seniors' discount to 100% would result in foregone income over two years of \$98 million, of which the government would fund \$59 million (60%).²

The seniors' discount had been reduced to 50% in April 2014 as part of a fare increase package required to meet rising costs. The government directly funded the "social" programs on the ferries, including the seniors' and students' discounts, and travel for people with disabilities and for medical purposes. In 2012/13, BC Ferries provided some 1.5 million free rides for seniors which cost the government approximately \$14.9 million.³

1

<http://www.bcferries.com/bcferries/faces/attachments.jsessionid=d7b63ccb1791f4f81fec06aa73cdf85731cc7efa519b6466dd365377b3c9659a.e34Na3mPaxaOe34KbN90?id=1130822>

² <http://www.timescolonist.com/news/local/full-seniors-discount-returns-to-b-c-ferries-fares-cut-15-on-minor-routes-1.23255653> The government's actions seem to have side-stepped the BC Ferry Commission, which regulates fares to balance the interests of ferry users with the financial sustainability of the corporation.

³ <http://www.timescolonist.com/news/local/half-price-seniors-fare-a-bonus-for-b-c-ferries-1.915150>

II -- THE SENIORS' SUBSIDY AT ICBC

In August 2016 I documented the estimated cost of the seniors' subsidy on ICBC.⁴ At the time I compared the number of Basic policies sold in 2010 and 2014, where the principal operator was 65 or older.

The paper highlighted the growing proportion of the senior drivers/policyholders to the total Basic policyholders, and the growing financial impact of the government-mandated 25% discount.

In November 2017 ICBC provided the data for 2016/17 (April to March), which has been incorporated into tables 1 and 2 (these exclude trailers).

Table 1 – Number of Private Vehicle Written Exposures by Age of Principal Operator

	2010	2014	2016/17
Under 25	158,000	158,617	155,902
Age 25 to 39	588,689	608,763	657,678
Age 40 to 64	1,380,836	1,413,794	1,460,344
Age 65 and older	423,733	522,306	612,221
Total	2,551,258	2,703,480	2,886,145

Source; BCUC, ICBC 2015 Rate Request, IR 2, RM 4.2-3, and 2017 Rate Request, IR 1, RM 4.9.

Table 2 provides the age grouping policies as a proportion of the total Basic private vehicle policies sold.

Table 2 – Percent of Private Vehicle Exposures by Age of Principal Operator

	2010	2014	2016/17
Under 25	6.2	5.9	5.4
Age 25 to 39	23.1	22.5	22.8
Age 40 to 64	54.1	52.3	50.6
Age 65 and older	16.6	19.3	21.2

Source; BCUC, ICBC 2015 Rate Request, IR 2, RM 4.2-3, and 2017 Rate Request, IR 1, RM 4.9.

The percentage of principal operators aged 65 and older remained relatively constant between 2000 and 2009,⁵ but began to increase significantly in 2010. From 2010 to 2016/17, while total private vehicle policies increased by 13%, the number sold to seniors rose by a staggering 44.5%. Of the total six-year increase, approximately two of every three policies were sold to a senior.

⁴

http://www.bcpolicyperspectives.com/media/attachments/view/doc/occasional_paper_no_4_22_august_2016/pdf/occasional_paper_no_4_22_august_2016.pdf

⁵ BCUC, ICBC 2012 Rate Request, IR 1, BCUC 7.1.

Estimating the Cost of the Discount

The provincial government requires ICBC to provide policyholders aged 65 and older who are classed as pleasure use with a 25% discount on their Basic insurance.⁶

Presumably, the discount is to assist those over 65 with the financial cost of buying Basic auto insurance. It does not compensate seniors as lower-risk drivers as the degree of riskiness is recognized in the design of the Basic rates.

This subsidy must be paid by other Basic policyholders. It is estimated that the discount 'cost' ICBC approximately **\$85 million** in 2014, and **\$125 million** in 2017/18.⁷

2014 (Jan. to Dec.)	Assumes 485,000 policies at \$525 vs \$700; difference is approximately \$85 million.
2017/18 (Apr. to Mar.)	Assumes 550,000 policies at \$695 vs \$925; difference is approximately \$125 million.

If the 2017/18 seniors' subsidy was \$125 million, then the balance of the private vehicle policyholders—approximately 2.18 million -- paid an average of approximately \$57 more to provide 550,000 seniors with an average \$230 subsidy.

The 156,000 drivers under 25 years (the low earning years) paid some \$89 million more in order that drivers 65 and older could enjoy the 25% discount.

One must wonder why the taxpayer funds the social programs, including the seniors' discount, at BC Ferries, but the same principle does not apply when it comes to the government-mandated seniors' discount at ICBC. Clearly, the growing numbers of seniors are putting a significant pressure on the already financially troubled Basic insurance program, and the government funding the mandated subsidy would reduce some of the pressure on rates.

©Richard McCandless April 9, 2018. <http://www.bcpolicyperspectives.com/>

The writer is a retired senior BC government public servant whose paper describing the BC government's manipulation of the finances of BC Hydro from 2008 to 2014 was published by *BC Studies* in November 2016. *BC Studies* published his paper on the 40-year financial history of ICBC in 2013. He has been an intervener in the BC Utilities Commission's recent reviews of both ICBC's and BC Hydro's rate requests.

⁶ The seniors discount was first implemented in 1976 and has remained part of the Basic rating structure. It was reaffirmed by OIC 39/07 in January 2007.

⁷ These estimates assume that approximately 90% of the seniors group of policyholders are classified as pleasure use.

