Canadian Life & Health Insurance Association
Association canadienne des compagnies d'assurances de personnes

Submission to the

HONOURABLE DOMINIC LEBLANC MINISTER OF FINANCE CANADA

March 10, 2025

EXECUTIVE SUMMARY

The Canadian Life and Health Insurance Association (CLHIA) is pleased to provide its recommendations to the Minister of Finance in advance of the 2025 Federal Budget.

Canada is facing heightened economic and political uncertainty. In this current climate, Canadians want governments to take a fiscally conservative approach to spending and undertake measures that promote global competitiveness and economic stability. Our industry believes there are opportunities for the government to take a more fiscally prudent use of government resources, promote stability for Canadians and invest in economic growth.

In our submission, we have provided the following key recommendations for consideration:

1. Support workplace health benefit plans and minimize disruption to Canadians by:
    a) Supporting universal access to medication through a mixed-payer system and work towards a framework that focuses tax dollars on those without access to prescription drug coverage; and,
    b) Ensuring Canadians continue to be able to access virtual care services through public health care and workplace health benefit plans.

2. Re-think the introduction of sector specific additional taxes to ensure the industry is not being unfairly targeted for additional taxes.

3. Leverage our industry's investment capacity to expand and accelerate long-term infrastructure projects by structuring projects to attract long-term investors.

4. Create more secure retirement income by broadening the scope of Variable Payment Life Annuities and Advanced Life Annuities to allow Canadians in and approaching retirement to obtain lifetime incomes through more flexible annuity options funded from registered pensions, RRSPs, RRIFs and TFSAs.

5. Introduce amendments to allow for the electronic delivery of documents by financial institutions to promote efficient delivery of documents to customers.

WHO WE ARE

The CLHIA is the national trade association for life and health insurers in Canada. Our members account for 99 per cent of Canada's life and health insurance business. The industry provides a wide range of financial security products such as life insurance, annuities, and supplementary health insurance. Life and health insurers play a key role in providing financial security to Canadians.

$11.2 billion in tax contributions

$2.7 billion
in corporate income tax

$1.7 billion
in payroll and other taxes

$2.0 billion
in premium tax

$4.8 billion
in retail sales and payroll taxes collected

Investing in Canada

$1.1 trillion
in total assets

90%
held in long-term investments

Protecting **30 million Canadians**

27 million
with drug, dental and other health benefits

23 million
with life insurance averaging $252,000 per insured

12 million
with disability income protection

$128 billion in payments to Canadians

$48 billion
in health and disability claims

$17 billion
in life insurance claims paid

$63 billion
in annuities

1. SUPPORTING WORKPLACE HEALTH BENEFIT PLANS

Overview

Life and health insurers work together with employers to offer access to a wide variety of health services through employer sponsored benefit plans. Canadians value the benefit plans that provide them with access to prescription medicines, vision care, dental care, and mental health support. For example, in 2023, $36.6 billion in health insurance benefits were paid to over 27 million Canadians with supplementary health insurance.

It is important that governments coordinate with workplace benefit plans and ensure policies and programs do not have unintended consequences on workplace benefit plans that can negatively impact the health of Canadians. Additionally, as our sector is a key partner in the healthcare system, we can provide valuable insights that can benefit Canadians as the government considers health priorities and solutions.

Support for prescription drugs

Canadians value their health benefit plans and do not want to put those at risk. This coverage provides much-needed financial relief, especially during times of economic uncertainty.

Our industry is concerned about the risks posed by the Pharmacare Act in widening the gaps in prescription drug coverage. The legislation itself is unclear. These concerns are further compounded by the Minister’s letter to Senators, clarifying that the legislation establishes a Canadian pharmacare plan for diabetes and contraceptive medications paid for and administered exclusively through a public plan, rather than through a mix of public and private payers. This eliminates Canadians’ existing private coverage for these medications and creates significant uncertainty for their remaining drug benefits. Canadians could lose coverage for some or all of their medications. Even the best government plan covers far fewer medications than workplace plans.

Not only does the federal approach limit Canada's authority to negotiate a system that works best for them, the legislation risks:

- Disrupting or prohibiting existing prescription drug coverage paid for by employers;
- Limiting choice for Canadians;
- Using scarce fiscal resources to replace existing coverage paid for by the private sector; and,
- Failing to provide coverage for uninsured Canadians who rely on other medications beyond a short list of diabetes medications and contraceptives.

Nearly 4 million Canadians with existing private coverage for their diabetes medication or contraceptives could be disrupted, with over 2 million Canadians that could be pushed off their existing plan and nearly 2 million Canadians that could be forced to switch medications or pay out-of-pocket for their current medications. A better approach is to target scarce public resources to those who do not have existing drug coverage.

We recommend that the federal government:

- ***Work with our industry to develop mechanisms to ensure continued coverage through workplace health benefit plans for all medications; and,***
- ***Support universal access to medication through a mixed-payer system and work towards a framework that focuses tax dollars on those without access to prescription drug coverage.***

Continued access to virtual care services

In 2023, over 10 million Canadians had access to employer funded virtual care through their workplace benefit plans, amounting to more than half a million virtual care visits. Employer funded virtual care offers benefits to employers, Canadians, and the healthcare system. Canadians, especially those living in rural and remote areas, have grown appreciative and reliant on employer-funded virtual care. Employer funded virtual care is not paid for by Canadians out of pocket, but rather delivered as an add on, complementary service to health benefit plans.

This is a critical service for Canadians and helps provide access to needed medical care for the over 6 million Canadians without a family doctor. Taking away employer funded virtual care from over 10 million Canadians without a plan for how to provide access for these individuals will just make things worse.

As you may know, the federal Minister of Health sent the Canda Health Act interpretation letter to the provincial and territorial Health Ministers on January 10, 2025. The letter does not help address the primary care crisis in Canada nor does it provide reassurance to the 10 million Canadians who rely on employer-funded virtual care.

Provinces should continue to have the flexibility to offer their residents the choice of virtual care options. It is a critical component of Canada's health care system and should be supported by all governments as an important model to support access to care in Canada.

Policy and decision makers should be focused on the real problem of Canadians paying out of pocket for care. Insurers are calling on the federal government to provide flexibility to address out of pocket payment for care without removing employer funded virtual care for 10 million Canadians who already have access to it through their workplace benefit plans. ***We ask the federal government to ensure the continuation of employer funded virtual care. Further, we encourage Canada to protect access to virtual care currently afforded to over 10 million Canadians by permitting and encouraging employer funded virtual care through any forthcoming interpretations of the Canada Health Act. CLHIA would be happy to work with Canada on an interpretation that would protect the employer-funded model while ensuring Canadians do not pay out of pocket for healthcare.***

2. REDUCE ANTI-COMPETITVE TAXATION ON LIFE INSURERS

The life and health insurance industry provides financial protection to nearly 30 million Canadians and makes significant tax contributions to the federal and provincial governments ($11.2 billion in 2023). However, the following revenue measures announced in the 2022 and 2023 federal budgets unfairly target financial institutions (FI), including life insurers:

- The 2022 Budget measure to charge an additional 1.5% tax on taxable income over $100 million of Canadian banks and life and health insurers has created an inequitable sector-specific corporate tax system in Canada. This policy has the potential to negatively impact flow of capital to FIs. Higher taxes ultimately increase the price of products and services these FIs provide to Canadians, adding to the affordability challenges Canadians are currently facing.

- Starting in 2023, the government taxed 90% of the contractual service margin (CSM) of life insurers immediately, instead of over the term of the contract. The CSM represents unearned, projected future profits on long-term insurance contracts that can span several decades. Taxing projected future profits is fundamentally unfair and inconsistent with the tax principles applied to all other taxpayers. We believe that the insurance industry is the only industry being taxed upfront on unearned profits in Canada. Further, Canada is also outlier globally to levy a tax on the unearned future profits of life and health insurers. We urge the government to reconsider this unfair policy position and tax life and health insurers on their profits as earned.

- In 2024, Canada's Global Minimum Tax Act (GMTA) came into effect which imposes a minimum tax of 15% on the profits earned in each jurisdiction where a Canadian entity operates. Many of the world's largest economies such as China and India have not announced any plans to adopt this international tax measure. Further, the United States of America has withdrawn from the OECD Global Minimum Tax deal on January 20, 2025. In light of our major trading partners not implementing these measures, any additional revenues from Canada's early adoption of the GMTA comes at a cost of making Canadian headquartered multinationals less competitive in global markets. In particular, Canadian life insurers have to compete with US and Chinese insurers in international markets at a significant tax disadvantage. We further recommend that Canada does not implement the undertaxed profits rule in the current economic environment.

A robust FI sector is important for Canada, especially in uncertain economic times, to encourage growth and innovation. The government's rationale for continuing to impose a heavier tax burden on FIs considering the vital financial services we provide to Canadians is inequitable, uncompetitive and counterproductive.

We urge the government to re-evaluate the domestic and international tax burden on life and health insurers to ensure that the industry is not paying significantly more taxes than other sectors or being unfairly assessed tax on income that is not yet earned and is not subject to higher tax burden than competitors in international markets due to the GMTA. Reducing this burden would increase the financial security of Canadians.

3. SUPPORT PRIVATE SECTOR INVESTMENT IN INFRASTRUCTURE PROJECTS

Managing climate-related risks is an area of growing concern to our industry and we want to help governments build a more resilient Canada. Sustainable infrastructure plays a critical role in mitigating and adapting to climate change, which includes building climate-resilient infrastructure projects that mitigate climate change, as well as assets that support adaptation.

The nature of Canadian life and health insurance products − routinely lasting more than 50 years − results in predictable, long-term, liabilities. As such, life insurers are ideal financial partners for long-term infrastructure projects, including public-private partnerships (P3), as they can commit to long-term financing. This inherent structural advantage makes the industry an important and stable investor in Canada's infrastructure and consequently, Canada's economy.

As a substantial investor in the Canadian economy, the life and health insurance industry can play a key role in helping mitigate and build resilience to the impacts of climate change through sustainable investments. Canadian life and health insurers already have $60 billion invested in domestic infrastructure and over $75 billion invested in products or assets that integrate ESG or sustainability factors.

The industry is able and wants to do more. However, there are barriers that prevent life and health insurers from investing more in infrastructure. For example, current capital charges under federal and provincial capital regimes are excessive given the risk profile of high-quality infrastructure investments. The industry has evidence to support a lower capital charge that has been shared with the federal regulator, but progress has been slow. Given the current economic environment, it is important that governments consider and move quickly on any initiative that helps drive economic growth.

We recommend the government leverage our industry's investment capacity to expand and accelerate long-term sustainable infrastructure projects by structuring projects to attract long-

term investors, allowing Canada to modernize its infrastructure and make the economy more productive and competitive.

Municipalities, who maintain and build most of Canada's infrastructure, need access to large capital pools and a guarantee of financial support for privately funded resiliency projects. We would encourage the Government to develop policies to encourage private investment in infrastructure and ensure that municipalities can access dedicated funds for resiliency and mitigation projects.

We would also recommend that the federal government work closely with the Office of the Superintendent of Financial Institutions to support a lower capital charge for infrastructure investments.

4. PENSION INNOVATION

Enhancing Accumulations

The CLHIA commends the federal government for enacting legislation in 2021 to enable Advanced Life Deferred Annuities (ALDAs) and Variable Payment Life Annuities (VPLAs). Also, in 2023, amendments were introduced to the Pension Benefits Standards Act and Pooled Registered Pension Plans Act to enable variable life benefits (VLBs) and variable life payments (VLPs) respectively in the pension legislation. These initiatives will provide Canadians with more opportunities to achieve retirement income security. However, the federal government can ensure more Canadians have secure lifetime income in their retirement by broadening the scope of these initiatives. Given the current economic uncertainty, it has become increasingly important that more Canadians be able to obtain secure lifetime incomes.

The CLHIA continues to believe the VPLA legislation, as enacted in the Income Tax Act (ITA), would only benefit a select minority of Canadians participating in very large Defined Contribution Pension Plans (DC plans) or Pooled Registered Pension Plans (PRPPs). This means that those who save for their retirement through smaller DC plans, as well as group and individual RRSPs, RRIFs, etc., would not be eligible to acquire a VPLA directly.

Instead, these individuals with RRSPs, RRIFIs, LIRAs, etc., are required to transfer these funds to a PRPP in order to access a VLP solution. It is important that these individuals, who are only looking to access decumulation solution in the form of VLPA, be able to do so cost effectively and with ease. The ITA and PRPP legislation should facilitate this without any unnecessary and costly burden.

We recommend the government work with the industry to broaden the existing framework of retirement solutions to allow Canadians to access standalone VPLAs and "decumulation only PRPPs".

5. ELECTRONIC DELIVERY OF DOCUMENTS

Electronic delivery of governance documents

The 2024 Budget announced the government's intention to introduce legislative changes allowing the electronic delivery of governance documents by financial institutions by introducing a "notice-and-access" method of delivery. We welcome these legislative changes and recommend these changes be introduced as soon as possible.

It is important to note that, for insurance companies, many policyholders also receive disclosure and voting packages that are almost identical to those received by shareholders. To ensure fairness, policyholders of these products should also benefit from a notice and access regime. This will allow for more environmentally friendly and efficient communication between companies and policyholders.

Electronic delivery of tax slips

In alignment with ongoing work to embrace electronic delivery of documents in the financial sector, we recommend that electronic delivery become the default option for tax slips, with consumers having the option to opt out if they prefer to continue receiving paper copies. Currently, the default delivery method of tax slips in Canada is paper copies, with customers having to actively opt into electronic delivery.

Default electronic delivery would reduce the environmental footprint of the financial services sector. It would also promote more efficient communication of documents to customers, enable cost savings that can be passed down to Canadians, and ensure a safer, more secure delivery in comparison to the current model.

We recommend that the legislative changes allowing the electronic delivery of governance documents be introduced as soon as possible and that voting policyholders and shareholders be included. We also recommend that electronic delivery of tax slips become the default.

CONCLUSION

The industry greatly appreciates the opportunity to provide comments on the Federal 2025-2026 Budget. Should you have any questions, you may contact Sarah Hobbs, Vice President, Policy at Shobbs@clhia.ca.

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