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

2024 PROVINCIAL BUDGET SUBMISSION

Presented to

THE HONOURABLE ADRIEN SALA
DEPUTY PREMIER AND MINISTER OF FINANCE

March 1, 2024

INTRODUCTION

The Canadian Life and Health Insurance Association (CLHIA) would like to congratulate Minister Sala on being appointed as Minister of Finance with the new Manitoba government. The CLHIA is pleased to provide its comments in advance of the 2024 budget.

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.

Protecting **1.1 million Manitobans**

910,000
with drug, dental and other health benefits

820,000
with life insurance averaging $226,000 per insured

410,000
with disability income protection

$4 billion in payments to Manitobans

$1.1 billion
in health and disability claims

$0.6 billion
in life insurance claims paid

$2.3 billion
in annuities

$117 million in provincial tax contributions

$14 million
in corporate income tax

$22 million
in payroll and other taxes

$34 million
in premium tax

$47 million
in retail sales tax

Investing in Manitoba

$29 billion
in total invested assets

97%
held in long-term investments

In 2022, the industry added 6,000 jobs across the country, employing over 170,000 Canadians. These jobs support Canadians making increased use of their health benefits. The industry remains financially stable, with capital reserves above regulators' expectations and our industry will continue to work closely with all levels of government.

In this submission, we have provided recommendations for consideration for the upcoming 2024 provincial budget. We believe that these recommendations will help support the government as it advances solutions on key priority areas such as healthcare and the economy.

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-provided benefit plans. In 2022, over 900,000 Manitobans had supplementary health insurance and $800 million in health insurance benefits were paid.

Based on survey data, we know that Manitobans value their benefit plans which provide them with access to prescription medicines, vision care, dental care, and mental health support.

Collaboration between our sector and the province is essential. Provinces and territories already provide programs to many citizens and have infrastructure to deliver these services. It is important that provinces and territories continue to 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 Manitobans. Additionally, as our sector is a key partner in the healthcare system, we can provide valuable insights that can benefit the province as the government considers health priorities and solutions.

Support for prescription drugs

Budget 2022 committed the federal government to introduce a Canada Pharmacare Act. Canada's life and health insurers believe that everyone should have access to the drugs they've been prescribed – but how we achieve this matters for working people's health and pocketbooks. Twenty-seven million Canadians have supplementary health insurance plans, including prescription drug coverage, largely through their workplace. We know that Canadians value their health benefit plans and do not want to put those at risk. This coverage is vital, providing much-needed financial relief, especially during times of soaring living costs.

Under a federal single-payer pharmacare model, Canadians could lose coverage for some, or all of their medications not covered under their provincial formulary. Even the best government plan covers far fewer medications than workplace plans, in 2020 almost 8 million Canadians accessed medications that were not listed on their provincial plan. Forcing working Canadians onto a public drug plan could mean millions of Canadians could lose or experience disruption to their access of much-needed medications that are not included under the single-payer pharmacare model.

A federal single-payer pharmacare program would also cost $40 billion and will shift costs to the federal government, and cause disruption as employers drop plans or reduce coverage.

The CLHIA has been advocating for the federal government to target supports to those without coverage by:

- Providing much needed coverage to the small portion of Canadians who do not have access to employer-based prescription drug coverage;
- Ensure that the majority of individuals and families continue to maintain their prescription drug coverage; and,
- Keep government costs manageable to fund an effective and sustainable pharmacare plan.

Standing together, provincial and territorial governments are the strongest possible advocates for the healthcare needs of their residents. ***We recommend that the provincial government advocate to the federal government to target support to those without access to prescription drug coverage. Our industry supports a minimum national formulary for all private and public plans and is open to working with all governments toward lower drug prices. We encourage Manitoba to advocate to the federal government to protect workplace benefit plans that are working well today.***

Continued access to virtual care services

Many employer-provided benefit plans include options for workers to consult medical professionals virtually. These consultations do not replace the need for a family physician but complement the public health care system when individuals are unable to access a family physician. Canadians need to be able to access virtual care services in the same manner that they have for many years.

Insurers have called on the federal government to provide flexibility to provinces and territories to maintain virtual care services that are enabling complementary access to care for the millions of Canadians in every region, including millions without a primary care provider. We encourage Manitoba to advocate to the federal government to continue to permit virtual primary care services (including doctors and nurse practitioners) through benefit plans.

PENSION INNOVATION

Automatic features

Universal access to workplace pension and savings plans can help Manitobans achieve greater financial security in retirement. There is a significant savings shortfall and declining pension coverage for individuals at all age cohorts in Manitoba due to multiple factors, including employees' indecision about whether to participate in their workplace pension plan. In fact, about **40 per cent of employees** across Canada do not take full advantage of them, **leaving as much as $3 billion on the table annually in free company matching money.**

Automatic features – which include automatic enrolment and contributions at a pre-set (or starter) rate, and automatic annual contribution escalation – have proven to be highly effective in increasing participation and savings rates. Increasingly, employees are working longer because they believe they cannot afford to retire. Helping employees retire on time, with the help of automatic features to increase accumulations, has positive economic and health outcomes for businesses, employees, and government. This is due to decreased financial stress and anxiety about being prepared for retirement. Further turnover through timely retirements better enables employers to plan for younger talent to train and succeed retiring employees with related reductions in disability claims (higher risk of on-the-job injuries for older employees).

We recommend that Manitoba enable automatic plan enrollment, contributions and annual contribution escalation. These reforms will make it easier for Manitobans to achieve lifetime financial security through higher retirement income by enabling Manitobans to receive employer matching dollars. With rising inflation impacting the ability to save for retirement, this change would support employees in their retirement planning and enable employers to help their employees to save for a secure retirement planning and enable employers to help their employees to save for a secure retirement.

Enhancing decumulation solutions

Individuals saving for retirement seldom know either the amount of retirement income they can draw from those savings or how long those savings need to last. The inability to anticipate their length of retirement and associated financial needs pushes many to be overly cautious in their spending habits out of fear they will outlive their savings. Not only could this impair the comfort of retirees but also minimize their spending contributions back into the economy, reducing the economic growth in the province.

We support enhanced retirement income security for all Manitobans, including access to widely available, effective and innovative retirement income solutions, including enhancing access to decumulation solutions. Decumulation solutions can help retirees manage their retirement income to meet their financial needs throughout their retirement.

In 2021, the federal government enacted tax legislation to enable Variable Payment Life Annuities (VPLAs) and Advanced Life Deferred Annuities (ALDAs), two decumulation solutions intended to help Canadian retirees. 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.

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 Defined Contribution Pension Plans (DC plans) or Pooled Registered Pension Plans (PRPPs). This means that those who save for their retirement through smaller group pension plans and individual RRSPs, RRIFs, etc., would not be eligible to participate. The CLHIA believes that the government should expand the ITA to enable “standalone VPLAs” or expand the PRPP Act to include a “decumulation only PRPP” to ensure the broadest access point to VPLAs (or VLPs) for all Canadians. We know that simplifying the process will make it more likely that people will acquire these decumulation solutions. Allowing people to use their retirement savings directly to acquire a “standalone VPLA” or transfer funds to a “decumulation only PRPP” to acquire a VLP will improve the client experience and maximize use and value of this decumulation solution to Canadians.

In order to provide sustainable, affordable retirement income arrangements for older residents, we encourage the government to monitor and parallel federal measures to introduce ALDAs and VLBs and VLPAs as new retirement income options. We also ask that the provincial government encourage the federal government to permit standalone VPLAs.

SUPPORT PRIVATE SECTOR INVESTMENT IN INFRASTRUCTURE PROJECTS

Managing climate-related risks is an area of growing concern to the life and health insurance 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 long-term assets.

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 more than $75 billion invested in products or assets that integrate ESG or sustainability factors.

However, the industry is able and wants to do more. Our industry recognizes that sustainable infrastructure is crucial for adapting to and mitigating the risks of climate change but insurers' capacity to invest more is not matched by available and bankable sustainable assets.

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 Manitoba to modernize its infrastructure and make the economy more productive and competitive.

REDUCE AND ULTIMATELY ELIMINATE TAXES ON INSURANCE PREMIUMS

Manitoba imposes a two per cent tax on life, health and disability insurance premiums. Life insurers − and consequently insured Manitobans − paid $34 million in premium taxes in 2022. The premium tax is outdated – it predates corporate income taxes and imposes a supplemental tax burden over twice the $14 million in corporate income taxes levied on life and health insurance companies in Manitoba in 2022.

In addition, Manitoba applies its seven per cent retail sales tax to most group insurance premiums, costing employers nearly $50 million annually. This puts Manitoba employers at a competitive disadvantage, discouraging new employers from establishing operations in Manitoba, incenting existing employers to relocate to lower-tax jurisdictions and dampening job creation.

Premium and retail sales taxes directly increase the cost of insurance, causing existing employers in Manitoba to provide fewer life, health, and disability insurance benefits to their employees and driving individual consumers to purchase less protection than they would in the absence of these taxes. Population aging and health care cost increases above core-inflation rates (or Manitoba's general economic growth rate), and increase Manitobans' needs for income security and supplementary health care; discouraging individual responsibility for these benefits by taxing the purchase of insurance coverage is not good public policy.

Furthermore, the premium and retail sales taxes on insurance are clearly inequitable. Premium taxes reduce savings efficiency within life insurance products that have a saving component with no comparable impediment to competing savings products offered by banks, credit unions, trust companies or the securities industry. Taxes on premiums have been widely acknowledged to be in lieu of capital taxes that previously applied to other financial institutions. Currently, not only are the deposits held by banks and trust companies not subject to either retail sales tax or premium tax, but these institutions are also no longer subject to capital tax. From a public policy perspective, it is important and timely that Manitoba unwinds the inequitable application of premium and retail sales tax on life and health insurance premiums.

We recommend that Manitoba develop a tangible plan to reduce and eventually eliminate premium-based taxes as fiscal circumstances permit. Such a move would encourage employers and individual Manitobans to maintain or expand employment in Manitoba, in line with the government's plans for making Manitoba an attractive place for business and jobs for prospective employers.

CONCLUSION

The industry greatly appreciates the opportunity to provide comments on Manitoba's 2024 Budget. Should you have any questions, you may contact Susan Murray, Vice President, Government Relations and Policy at **smurray@clhia.ca.**

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