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

Submission to the

# HONOURABLE CHRYSTIA FREELAND DEPUTY PRIME MINISTER AND MINISTER OF FINANCE CANADA

February 9, 2024

## RECOMMENDATIONS

1. Support health benefit plans that currently provide tens of millions of Canadians with access to prescription drugs, dental care and health benefits by:
   a. Taking an approach to the Pharmacare Act that targets support to those without coverage; and,
   b. Providing flexibility to provinces and territories to maintain virtual care services.

2. Expeditiously move ahead with Bill C-27 after making key technical amendments in order to facilitate a modernized and coherent privacy framework across all Canadian jurisdictions.

3. Leverage our industry's investment capacity in order to expand and accelerate infrastructure projects, including sustainable and resilience-building infrastructure.

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

## INTRODUCTION

The Canadian Life and Health Insurance Association (CLHIA) is pleased to provide its recommendations to the Minister of Finance in advance of the 2024 Federal 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. Life and health insurers play a key role in providing financial security to Canadians.

**Protecting 29 million Canadians**

**27 million**
with drug, dental and other health benefits

**22 million**
with life insurance averaging $246,000 per insured

**12 million**
with disability income protection

**$114 billion in payments to Canadians**

**$44 billion**
in health and disability claims

**$16 billion**
in life insurance claims paid

**$54 billion**
in annuities

**$9.3 billion in tax contributions**

**$1.5 billion**
in corporate income tax

**$1.4 billion**
in payroll and other taxes

**$1.9 billion**
in premium tax

**$4.5 billion**
in retail sales and payroll taxes collected

**Investing in Canada**

**$1 trillion**
in total assets

**90%**
held in long-term investments

Below are our detailed recommendations for Budget 2024.

## SUPPORTING WORKPLACE HEALTH BENEFIT PLANS

Life and health insurers work together with employers to offer a wide variety of health services through employer sponsored benefit plans. In 2022, insurers paid a record $44 billion in total health claims – up 7.7 percent from previous years.

Canada's blend of public and private group health insurance means more Canadians can receive the health care they need more quickly. The current public-private approach ensures that governments and employers work together to provide affordable and accessible healthcare for Canadians.

Canadians value their benefit plans, which provide them with access to prescription medicines, vision care, dental care, and mental health supports, along with other health benefits. In the current economic climate, both large and small employers use benefit plans as a recruitment and retention tool. In 2022, $32.5 billion in supplementary health benefits was paid out to 27 million Canadians.

## Canada Pharmacare Act

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 a public formulary. Even the best government plan covers far fewer medications than workplace plans. Forcing working Canadians onto a public drug plan could mean almost 8 million 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 support to those without coverage through:

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

***We recommend that the federal government target support to those without coverage and avoid creating incentives for employers to reduce or eliminate coverage in workplace benefit plans. Insurers believe that drug prices are too high in Canada and are supportive of initiatives to lower drug prices. We support sustainable funding to the provinces and territories as they work to deliver and improve health care services in their respective jurisdictions.***

## Continued access to virtual care services

Thousands of employer-provided benefit plans – offered by Canadian businesses of all sectors and sizes – include services 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, which in turn eases pressure on hospitals. Canadians need to be able to access virtual care services in the same manner that they have for many years.

***We ask that the federal government ensure flexibility for provinces and territories to maintain virtual care services that are enabling complementary access to care for millions of Canadians in every region, including millions without a primary care provider.***

## ENHANCING THE PRIVACY OF CONSUMERS' INFORMATION

Every day, millions of Canadians entrust their most sensitive personal information to life and health insurers. Protecting the confidentiality of this information is crucial to maintaining public confidence in our industry. The CLHIA and its members are keen to work with the government towards an even more robust and coherent regulatory framework to protect consumers while promoting innovation, and a dynamic insurance market in Canada.

Our industry commends the government's willingness to modernize privacy legislation within Canada. While the *Personal Information Protection and Electronic Documents Act* has served Canadians well for over 20 years, it is important that the updated legal framework reflect the growing data-driven economy and new ways of protecting personal information. Furthermore, in the absence of a modernized federal framework, there is a potential for additional provinces to adopt their own frameworks, adding to a fragmented privacy regime across the country.

Generally, the industry is supportive of the new privacy legislative framework as set out in Bill C-27 and we have been tracking the progress of the Bill. Modernized private sector privacy legislation is crucial in order to keep current with new technologies and innovations in the marketplace and to retain adequacy with the European General Data Protection Regulation and the EU-U.S. Data Privacy Framework, and to ensure a harmonized privacy regime across Canada.

***We strongly recommend that the federal government expeditiously move ahead with Bill C-27. If passage of the privacy-focused Parts I and II of Bill C-27 is being held up due to concerns over Part III – Artificial Intelligence and Data Act, we recommend that the federal government consider separating Part III from the Bill and focus on passing Parts I and II, while continuing to consult on and strengthen Part III to ensure a strong and robust AI legislation in Canada.***

## SUPPORT PRIVATE SECTOR INVESTMENT IN SUSTAINABLE 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 and expertise in funding the construction of sustainable infrastructure projects. This can be achieved by structuring projects to attract long-term investors, allowing Canada to modernize its infrastructure and make the economy more productive and competitive. We recommend that the government develop policies to encourage private investment in infrastructure.***

## MORE SECURE RETIREMENT INCOME FOR CANADIANS

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.

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 participate. The CLHIA believes that the government should expand the ITA to enable "standalone VPLAs" and/or expand PRPP Act to include a "decumulation only PRPP" to ensure the broadest access point to VPLAs (or VLPs) for all Canadians. 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 addition, balances in TFSAs continue to grow and have become an increasingly useful source of retirement income, but the liquidity requirement of the TFSA rules prevents holding life annuities within TFSAs. Consumers should be permitted to waive this liquidity requirement, at least at older ages. Many Canadians are using TFSAs to supplement retirement savings. These individuals should have the flexibility to secure their retirement through a guaranteed lifetime income from that plan.

***We recommend the government work with the industry to broaden the existing framework of retirement solutions to allow Canadians in and approaching retirement to obtain more secure lifetime incomes through more flexible annuity options within registered pensions, RRSPs, RRIFs and TFSAs. We recommend that:***

- ***Standalone VPLAs and/or decumulation only PRPPs be permitted to pool participants from all registered retirement plans, including RRSPs, RRIFs, etc.; and***
- ***The liquidity requirements in TFSA rules be waived to allow Canadians to use TFSAs to supplement retirement savings.***

## REDUCE ANTI-COMPETITIVE TAXATION ON LIFE INSURERS

As noted above, the life and health insurance industry provides financial protection to over 29 million Canadians and makes significant tax contributions to the federal and provincial governments ($9.3 billion in 2022). However, the following revenue measures announced in the 2022 and 2023 federal budgets unfairly target financial institutions (FI), including life insurers:

1. The 2023 Budget announced changes to deny dividend received deductions (DRDs) to FIs on their portfolio shares. This proposal to reverse a longstanding tax policy of not taxing dividends paid out of after-tax earnings of the issuer again specifically targets banks and insurers. Life insurers buy and hold these portfolio shares to support expected and guaranteed contractual obligations to policyholders. Insurers and their policyholders bear the risks and rewards from the economic ownership of these shares. Denying DRDs on shares held by life insurers is unwarranted and will hurt Canadians through reduced death benefits or higher premiums. It is also a disincentive for life insurers to invest in Canadian companies by lowering the return on Canadian equities.

   The federal government's 2023 Fall Economic Statement introduced an exception for dividends on preferred shares, and while this provided some relief, the remaining tax cost from denied DRDs is still material to life insurers and their policyholders.

2. Commencing in 2023, the government taxed 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 tax payers which seek to align the tax payable to the period when income is actually earned. We believe that Canada is the only country to levy a tax on the projected future profits of insurance companies. It is highly unfair to require any taxpayer to pay income taxes on expected future income that has not yet been earned. We urge the government to reconsider this so that taxes are only payable when a life insurer actually earns income and not on income that is projected to be earned in future years.

3. The 2022 Budget measure to charge an additional 1.5% tax on taxable income greater than $100 million earned by Canadian banks and insurers has created an inequitable sector-specific two-tier corporate tax system in Canada. Ultimately, higher taxes increase the price of products and services these FIs provide to Canadians further adding to the affordability challenges Canadians are facing in the current inflationary environment.

While the corporate tax system in Canada already includes a reduced rate for small business corporations (SBCs), we believe this higher corporate tax on banks and insurers is unfair, inequitable and is not good tax policy. Aside from the SBC context, profits made by corporations should be taxed at the same rate as profit from any other business, whether that be oil and gas, grocery chains, pharmaceuticals, telecommunications, or big box retail chains.

The government's rationale for continuing to impose a heavier tax burden on life and health insurance companies considering the vital financial services we provide to Canadians, especially in uncertain economic times, is not a good policy.

***The CLHIA urges the government to re-evaluate the tax burden on FIs, particularly on life and health insurers, to ensure that the industry is not paying significantly more taxes than other sectors or being unfairly assessed on income tax for income that is not yet earned.***

## CONCLUSION

Should you have any questions, you may contact Susan Murray, Vice President, Government Relations and Policy at smurray@clhia.ca.

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