



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

# 2023 PROVINCIAL BUDGET SUBMISSION

Presented to the  
**HONOURABLE PETER BETHLENFALVY**  
MINISTER OF FINANCE

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February 10, 2023





## INTRODUCTION

The Canadian Life and Health Insurance Association (CLHIA) is pleased to provide its comments to the Ontario government in advance of the 2023 budget.

Canada's life and health insurers play a key role in providing financial security to Ontarians.



### Protecting 11.1 million Ontarians

10.2 million with drug, dental and other health benefits

8.4 million with life insurance averaging \$252,000 per insured

5 million with disability income protection



### \$50.4 billion in payments to Ontarians

\$27.8 billion in annuities

\$16.6 billion in health and disability claims

\$6 billion in life insurance policies

The industry is a significant contributor to the province's economy by way of:

1. Supporting economic recovery by **employing nearly 77,000 Ontario residents** in high value, professional jobs (as employees or independent agents).
2. Driving economic growth through **\$380 billion of industry investments in Ontario**, as well as **\$60 billion in infrastructure** investments across Canada.
3. Contributing **\$3 billion** in provincial tax revenue to the Ontario government.



### \$3 billion in provincial tax contributions

\$279 million in corporate income tax

\$341 million in payroll and other taxes

\$635 million in premium tax

\$1.73 billion in retail sales tax collected



### Investing in Ontarians

\$382 billion in total invested assets

97% held in long-term investments

We have been proud to work with all levels of government throughout the COVID-19 pandemic to protect and support Canadians through health benefit plans, travel insurance and other financial security products.

Our industry showed remarkable resilience during the COVID-19 pandemic, stepping up to help employers maintain, and in some cases augment, their health benefit programs through premium reductions and deferrals.

We believe that working together with all levels of government to help maintain benefits for workers in Ontario and across the country will be crucial as Ontarians struggle with affordability challenges and inflation continues to rise. In 2021, over 10 million Ontarians had coverage for supplementary health insurance, which provided access to medications and other healthcare services.

The life and health insurance industry knows how much Ontarians value their workplace benefit plans. However, we know that not all Ontarians have access to these types of benefits. CLHIA members support the recent announcement by the Ontario government to work towards expanding health and



wellness benefits to those individuals who do not have them. We look forward to continuing to engage with the advisory panel that has undertaken this initiative.

The industry remains financially stable, with capital reserves above regulators' expectations and our industry will continue to work closely with all levels of government to support economic recovery in Ontario.

We recommend that Ontario:

1. Commit to enabling automatic features (automatic plan enrolment and annual contribution escalation). These reforms will make it easier for Ontarians to achieve lifetime financial security through higher retirement income. They will also improve Ontario's productivity, competitiveness and health outcomes.
2. Monitor and parallel federal measures to introduce Advanced Life Deferred Annuities (ALDAs) and Variable Payment Life Annuities (VPLAs) as new retirement income options and encourage the federal government to permit standalone VPLAs in order to provide sustainable, affordable retirement income arrangements for older Ontario residents.
3. Support workplace and individual health benefits plans which currently provide millions of Ontarians with access to affordable dental care and prescription drugs.
4. Ensure that the portable benefits strategy does not create an incentive for employers to drop or reduce plans.
5. Ensure that Ontarians continue to be able to access virtual care services through public health care and private health benefit plans.
6. Leverage our industry's investment capacity in order to expand and accelerate long-term infrastructure projects by structuring projects to attract long-term investors, allowing Ontario to modernize its infrastructure and make the economy more productive and competitive.
7. Develop a tangible plan to reduce, and eventually eliminate, tax on life and health insurance premiums.

More details on each recommendation can be found below.



## PENSION INNOVATION

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### Automatic features

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

Increasingly, employees are also 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 expected reductions in disability claims (higher risk of on-the-job injuries for older employees) and decreased financial stress or anxiety and other cost savings. The turnover through timely retirements better enables employers to plan for younger talent to train and succeed retiring employees.

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. We are supportive of enabling automatic features for both existing and new employees while offering employees the opportunity to opt out of the automatic features. Automatic features are voluntary, meaning employers would have the option to decide whether to include them in the workplace pension and savings plans they offer, and employees retain the right to opt-out.

***We recommend as a first step that Ontario commit to enabling automatic plan enrolment and annual contribution escalation for new and existing employees. We are committed to supporting the Ontario government in the policy development to make the necessary legislative amendments to the Employment Standards Act (ESA) and the Pensions Benefits Act (PBA). These reforms will make it easier for Ontarians to achieve lifetime financial security through higher retirement income by enabling Ontarians to receive employer matching dollars. With rising inflation impacting Ontarians' ability to save for retirement, this change would support employees in their retirement planning and enable employers to help their employees 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 can 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 later life but could also minimize their spending contributions back into the economy, reducing the economic growth in the province.

We support enhanced retirement income security for all Ontarians, 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 legislation to enable Variable Payment Life Annuities (VPLAs) and Advanced Life Deferred Annuities (ALDAs), two decumulation solutions intended to help Canadian retirees.

The CLHIA continues to believe the VPLA legislation, as enacted, would only enable a select minority



of Canadians participating in Defined Contribution Pension Plans (DC plans) or Pooled Registered Pension Plans (PRPPs), as we estimate it requires at least 10,000 plus active members to provide the scale for a stable VPLA solution. The current measures do not take into consideration many other retirees who are members of smaller DC or PRPP plans that lack scale for a standalone VPLA solution. The CLHIA believes in standalone VPLAs that can pool funds from across DC plans, PRPPs, as well as Group Registered Retired Savings Plans (RRSPs) to maximize participation and provide a potentially stable income for the many hundreds of thousands of Canadians expected to retire each year.

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

## SUPPORTING WORKPLACE HEALTH BENEFITS PLANS

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### Overview

Life and health insurers work together with employers to offer access to a wide variety of health services through employer sponsored benefit plans. Ontarians value their benefit plans that provide them with access to prescription medicines, vision care, dental care, and mental health supports. For example, in 2021, over 10 million Ontarians had supplementary health insurance and \$12.4 billion in health insurance benefits were paid.

### Support for dental care

Millions of Canadians rely on workplace benefits plans to access dental services and in 2021 the industry paid over \$9 billion in dental claims. Eighty-eight per cent of Canadians with access to an employer sponsored benefits plan say that they find it helpful with access and affordability for a variety of health services, including dental care.

While the current system works well for many, there are gaps that leave some with limited or no coverage for dental care. Canada's life and health insurers support the federal government's efforts to provide access to those without dental coverage. We were pleased that in the work on the dental benefit for children, the federal government noted the program was only available to those without access to existing coverage. We believe that providing targeted supports to those who do not have coverage helps fill the gaps and is fiscally responsible.

However, we must ensure that as the federal program is expanded to more individuals, that the program does not put existing benefit plans at risk.

***We recommend that the government ensure that Ontarians continue to have access to affordable dental care supports. We would encourage all levels of government to work together to support workplace and individual health benefits plans that currently provide Ontarians with comprehensive access to a wide range of dental care services.***

### Portable benefits strategy in Ontario

Canadians value their workplace benefit plans. Not only do these plans provide employees with affordable access to prescription medicines, vision care, dental care, paramedical services, and mental health supports, but they are also viewed by employees as a recruitment and retention tool.

It is important that the government's efforts do not create an incentive for employers to drop or reduce the benefits currently offered. By doing so, the government would be hurting Ontario's competitive position to recruit and retain workers, while ensuring that government efforts are targeted to where its



needed the most.

***As the government considers portable benefits in Ontario, we recommend that the portable benefits strategy does not create an incentive for employers to drop or reduce plans. We look forward to working with the Ontario government and the Portable Benefits Advisory Panel in support of a portable benefits program.***

#### Continued access to virtual care services

During the COVID 19 pandemic, the life and health insurance industry provided access to virtual care services, including access to physician services, through group and individual plans. These services have been widely embraced by millions of Canadians and many Canadians still rely on these services today. It is important that these services continue to exist to help meet the health care needs of millions of Canadians.

***We would encourage the Ontario government ensure that Ontarians continue to be able to access virtual care services through public health care and private health benefit plans.***

### **SUPPORT PRIVATE SECTOR INVESTMENT IN INFRASTRUCTURE PROJECTS**

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.

Insurers remain a leading source of long-term infrastructure financing and have participated in various infrastructure projects ranging from roads to wastewater systems. In 2021 alone, the industry invested \$60 billion in infrastructure.

However, the industry is able and wants to do more. The industry is well positioned to remain a partner in Ontario’s P3 projects and has the capacity to make more investments in Ontario’s infrastructure. Our industry recognizes the importance of infrastructure investment in driving economic growth, supporting economic recovery and in delivering much needed assets that serve Ontarians on a daily basis. In addition to the economic benefits, we also recognize the role sustainable infrastructure plays in mitigating disaster related consequences, such as flooding and severe storms and negative implications to Ontarians’ mortality and health. The industry is supportive of investments in Ontario’s sustainable and resilient infrastructure.

***We recommend the government continue to leverage our industry’s investment capacity in order to expand and accelerate long-term infrastructure projects by structuring projects to attract P3 partners, allowing Ontario to modernize its infrastructure and make the economy more productive and competitive.***

### **REDUCE AND ULTIMATELY ELIMINATE TAXES ON INSURANCE PREMIUMS**

Ontario imposes a two per cent tax on life, health and disability insurance premiums. Life insurers – and consequently insured Ontarians – paid \$635 million in premium taxes in 2021. The premium tax is outdated – it predates corporate income taxes and imposes a supplemental tax burden over twice the \$279 million in corporate income taxes levied on life and health insurance companies in Ontario in 2021.

In addition, Ontario applies its 8% retail sales tax to group insurance premiums and uninsured benefit plan contributions, costing employers almost \$1.7 billion annually. Ontario is one of only three jurisdictions in North America that apply retail sales tax to life and health insurance premiums, thus

placing Ontario employers at a competitive disadvantage both within Canada and globally, discouraging new employers from establishing operations in Ontario and incenting existing employers to relocate to lower-tax jurisdictions.

Premium and retail sales taxes directly increase the cost of insurance, causing existing employers in Ontario 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 Ontario's general economic growth rate), and increase Ontarians' 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. For example, the retail sales tax on group insurance premiums applies to insurance for dental services, prescription drugs, eyeglasses, etc., while these goods and services are not subject to sales tax if purchased directly. As well, Ontario eliminated the retail sales tax on auto insurance and warranty premiums in 2005 but kept it for life and health insurance. Premium taxes reduce savings efficiency within life insurance products with no comparable impediment to savings in competing 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 Ontario unwinds the inequitable application of premium and retail sales tax on life and health insurance premiums, especially in light of Ontario also imposing a 1.5% Special Additional Tax on the taxable income of Life & Health insurers.

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

## CONCLUSION

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The industry greatly appreciates the opportunity to provide comments on Ontario's 2023 Budget. Should you have any questions, you may contact Susan Murray, Vice President, Government Relations and Policy at [smurray@clhia.ca](mailto:smurray@clhia.ca).



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Insurance Association  
Association canadienne des  
compagnies d'assurances  
de personnes

79 Wellington St. West, Suite 2300  
P.O. Box 99, TD South Tower  
Toronto, Ontario M5K 1G8  
416.777.2221  
info@clhia.ca