CLHIA ACCAP

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

Submission for the

2024 FEDERAL PRE-BUDGET CONSULTATION

August 4, 2023

RECOMMENDATION

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

2. Expeditiously move ahead with Bill C-27 after making key technical amendments.

3. Leverage our industry's investment capacity to expand and accelerate infrastructure projects.

4. Offer more secure retirement income solutions for Canadians retiring without adequate guaranteed retirement income through Variable Payment Life Annuities.

5. Re-think the introduction of sector-specific tax measures 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 in advance of the 2024 Federal Budget.

Our industry plays 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 $236,000 per insured

12 million with disability income protection

$113 billion in payments to Canadians

$58 billion in annuities

$41 billion in health and disability claims

$14 billion in life insurance policies

$8.8 billion in tax contributions

$1.6 billion in corporate income tax

$1.4 billion in payroll and other taxes

$1.7 billion in premium tax

$4.1 billion in retail sales and payroll taxes collected

Investing in Canadians

$1.1 trillion in total invested assets

91% held in long-term investments

1. WORKPLACE HEALTH BENEFITS PLANS

Our industry works with employers to offer a wide variety of health services through employer sponsored benefit plans. In 2021, insurers paid a record $40.8 billion in total health claims – up 11% from 2020. Canadians value their benefit plans, which provide them with access to prescription medicines, virtual care, dental care, and mental health supports.

Pharmacare Act

Our industry, working with employers, provides drug coverage for 27 million Canadians through workplace benefit plans. 90% of Canadians place a high value on their benefit plans and drug coverage. They do not want to lose access to the prescription drugs that they receive through their plans.

The government has announced an intention to introduce a Canada Pharmacare Act this fall. A single payer pharmacare plan would cause many Canadians to lose existing coverage for the medications they need for conditions like diabetes, heart disease and mental health conditions. Even the most generous public plan covers less than half the medications available through workplace benefit plans. Canadian families will also be impacted by thousands of job losses in the insurance and pharmacy sectors.

A single payer pharmacare plan would also overlook the unique needs of different provinces and territories. A one-size fits all approach would not account for the robust pharmacare models that already exist in some provinces and would impose additional administrative and reporting burdens on already strained provincial health systems.

The government should implement universal pharmacare by taking an approach that would target support to those without coverage. This will prevent the loss of existing coverage for millions of Canadians. Ensuring coverage for the small portion of Canadians who do not currently have a drug plan is administratively and financially prudent.

The government should also introduce a minimum national drug formulary to ensure all Canadians have access to necessary medications regardless of where they live. Additionally, the government should ensure that Canadians have access to affordable prescription drugs by supporting workplace drug plans that currently provide millions of Canadians with comprehensive access to essential medicines and by working with our industry to coordinate efforts to bring down costs through bulk-buying and enhanced access to high-cost medicines when needed.

The government should target support to those without coverage and the Pharmacare Act should include provisions that would avoid creating incentives for employers to reduce or eliminate coverage in workplace benefit plans.

Virtual care

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 operate in complement to the public health care system when individuals are unable to access their family physician. Canadians need to continue to be able to access virtual care services in the same manner that they have for many years.

The federal government should provide flexibility to provinces and territories to maintain virtual care services which enable complementary access to care for millions of Canadians in every region, including millions without a primary care provider.

Patented Medicines Pricing Review Board (PMPRB)

Our industry strongly supports the work of the PMPRB to ensure that prescription drug prices are not excessive. This work has become more urgent as inflation has eroded Canadians' ability to afford basic necessities. We support the implementation of interim guidelines in order to continue the work of addressing excessive drug pricing, which includes post-implementation reviews of pricing, but do not support pausing collection activity of excessive prices from pharmaceutical manufacturers.

Dental care

Millions of Canadians rely on workplace benefits plans to access dental services. Nearly 90% 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. It is important that the new dental program does not incentivize employers to drop or reduce dental coverage – ultimately, reducing access for Canadians.

The federal government should ensure that the new dental program does not incentivize employers to drop plans or reduce coverage through policy instruments such as a tax credit for small businesses.

2. ENHANCING CONSUMER PRIVACY

The industry is supportive of the new privacy legislative framework as set out in Bill C-27. 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 eventually the EU-U.S. Data Privacy Framework.

However, Bill C-27 can be enhanced with some key technical changes. CLHIA will provide a submission to the federal government detailing these recommended changes.

The federal government should expeditiously move ahead with Bill C-27 with some key technical amendments.

3. CLIMATE CHANGE AND INFRASTRUCTURE

In 2021 alone, the industry invested $60 billion in infrastructure. The industry is well positioned to continue as a partner in Canadian infrastructure projects and has the capacity and desire to invest more. We recognize the role sustainable infrastructure plays in mitigating climate change and adapting to it. This is an area of significant and growing concern to the public and our industry.

Budget 2018 made changes to the *Insurance Companies Act* that were intended to give Canada's life insurers greater ability to invest in infrastructure and adopt technology to better serve consumers. The regulations required to bring these changes into force have been pending for nearly five years.

We urge the government to bring forward the infrastructure regulations to implement the 2018 Budget measures that will enable greater private sector investment in infrastructure.

4. SECURE RETIREMENT INCOME FOR CANADIANS

We commend the federal government for enacting legislation in 2021 to enable Advanced Life Deferred Annuities (ALDAs) and Variable Payment Life Annuities (VPLAs). These initiatives will provide Canadians with more opportunities to achieve retirement income security. We look forward to legislative and regulatory changes that would fully enable VPLAs as a retirement tool for Canadians.

We remain of the strong view that a standalone VPLA issued by life insurers (or another similarly regulated provider) is the most dynamic model to serve Canadian retirees at large. This model can pool funds from members of defined contribution pension plans and from group or individual RRSP accumulations and deliver the benefits of scale in terms of enhanced income. The government's position, as we understand it, is that the VPLA should only be enabled through a Pooled Retirement Pension Plan (PRPP). The requirement for Canadians who hold their retirement savings in RRSPs to join an accumulation PRPP prior to electing a VPLA will add unnecessary costs and confusion for Canadians. There are virtually no active PRPPs, outside of the Quebec VRSP, in the marketplace. Setting up an accumulation PRPP and the related costs of ongoing regulatory reporting and compliance costs will be prohibitive to insurers and other providers.

The CLHIA has proposed that Canadians be allowed to access a PRPP for the sole purpose of purchasing a VPLA, under the supervision of a single regulator with market-based pricing which will be necessary for a successful and dynamic VPLA solution for Canadians.

Additionally, as balances in TFSAs have grown, they 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 by purchasing an annuity that provides guaranteed lifetime income within their TFSA.

We recommend the government work with the industry to ensure the success of the VPLA through amendments to legislation and regulations. Further, we recommend that the liquidity requirements in TFSA rules be waived to allow Canadians to use TFSAs to supplement retirement savings.

5. ANTI-COMPETITIVE SECTOR-SPECIFIC TAXATION ON LIFE INSURERS

The life and heath insurance industry provides financial protection to over 29 million Canadians and makes significant tax contributions to the federal and provincial governments ($8.8 billion in 2021). Despite the already high level of taxes paid by the industry, the following revenue measures announced in the 2022 and 2023 Federal Budget unfairly target life insurers:

- 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. This two-tiered tax is not a good policy. Profits made by Canadian corporations (other than small business corporations) should be taxed at the same rate irrespective of the sector of the corporation.

- 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.

- Commencing in 2023, the government will tax the contractual service margin (CSM) of life insurers immediately, instead of over the term of the contract. The CSM represents unearned, expected future profits on long-term insurance contracts that can span several decades. It is fundamentally wrong to require any taxpayer to pay income taxes on expected future income that has not yet been earned. We urge the government to make changes so that taxes are only payable when a life insurer earns income and not on income it is expected to earn in future.

The federal government should review the level of (federal and provincial) 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.

Canadian Life & Health 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