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

Submission to the

STANDING COMMITTEE ON FINANCE ON THE 2025 FEDERAL BUDGET

August 2, 2024

RECOMMENDATIONS

1. Amend Bill C-64 (Pharmacare Act) to ensure that the framework reflects the Minister of Health's commitment that Canadians who access medications through workplace health benefit plans can continue to do so without disruption and that the federal government will support **provinces and territories in implementing an approach that fills any gaps in their jurisdictions to provide Canadians with universal coverage.**

2. Provide provinces and territories the ability to maintain employer-funded virtual care services to protect access to care for Canadians.

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

4. Create more secure retirement income by broadening the scope of variable payment life annuities (VPLAs) to allow retiring Canadians 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 governance documents by financial institutions as soon as possible and include voting policyholders and shareholders in the amendments.

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

INTRODUCTION

The Canadian Life and Health Insurance Association (CLHIA) is pleased to provide its recommendations to the Standing Committee of Finance on the 2025 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 $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

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 nearly $44 billion in total health claims – up 7.7% from previous years.

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.

Bill C-64: Canada Pharmacare Act

Life and health insurers believe that everyone should have access to the drugs they've been prescribed – but how we achieve this matters. 27 million Canadians have supplementary health insurance plans, including prescription drug coverage, largely through their workplace. This coverage provides much-needed financial relief, especially during an affordability crisis.

The government should focus on ensuring Canadians have access to prescription drugs by focusing scarce federal dollars on those without coverage. Bill C-64 risks:

- Disrupting existing prescription drug coverage paid for by employers;
- Limiting choice for Canadians;

- Using scarce fiscal resources to replace existing coverage; and
- Failing to provide coverage for uninsured Canadians who rely on other medications beyond a short list of diabetes medications and contraceptives.

The language in Bill C-64 is not clear. There is also a lack of transparency and clarity in the government's intentions and overall plan, which may disrupt coverage for Canadians with health benefit plans.

We recommend that Bill C-64 be amended to ensure Canadians can continue to access their medications through their health benefit plans and focus on addressing any gaps that currently exist.

Continued access to virtual care services

In 2023, over 10 million Canadians were covered by employer funded virtual care, amounting to 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.

The inclusion of virtual care in workplace benefit plans illustrates the long-standing role of Canadian employers in supporting the health of Canadians alongside the public system. Employers are a key funding partner in the healthcare system, along with governments. This was exemplified during the COVID-19 pandemic and remains true today. Critically important is that the complementary access to care we provide comes at no cost to governments and with no charges to individual Canadians.

We believe that it is critical to ensure that all people in Canada have access to virtual care consultations paid for by their employer and that patients should not have to pay out of pocket for them.

We ask that the government continue to allow flexibility for provinces and territories to maintain virtual care services, including employer funded virtual care for Canadians. Continued access to employer funded virtual care will ensure no charges are incurred to individual Canadians, including to millions without a primary care provider.

REDUCE ANTI-COMPETITIVE TAXATION ON LIFE INSURERS

Life and health insurers provide financial protection to over 29 million Canadians and makes significant tax contributions to government revenue ($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:

Starting 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 taxpayers. We believe that Canada is the only country to levy a tax on the projected future profits of insurance companies.

Further the policy to tax the unearned profit of insurers is also inconsistent compared to taxation of such profits within other sectors in Canada. It is unfair to require any taxpayer to pay income taxes on expected future income. 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.

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 currently facing. The corporate tax system in Canada now includes a reduced rate for small business corporations higher corporate tax rate on banks and insurers as well as the regular corporate tax rates. This is inequitable.

The government's rationale for continuing to impose a heavier tax burden, considering the vital financial services we provide to Canadians, especially in uncertain economic times, ultimately hurts Canadians and their financial security.

We urge the government to re-evaluate the tax burden on life and health insurers to ensure 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. Reducing this burden would increase the financial security of Canadians.

MORE SECURE RETIREMENT INCOME FOR CANADIANS

We commend the federal government for enacting legislation in 2021 to enable advanced life deferred annuities (ALDAs) and VPLAs. Also, in 2023, amendments were made to enable variable life benefits (VLBs) and variable life payments (VLPs) in the pension legislation. These initiatives will provide Canadians with more opportunities to achieve retirement income security. However, more Canadians can have secure lifetime income in their retirement by broadening the scope of these initiatives.

We believe the VPLA legislation 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, group and individual RRSPs, RRIFs, etc., would not be eligible to participate.

The government should expand the ITA to enable "standalone VPLAs" and/or expand the PRPP Act to include a "decumulation only PRPP" to ensure the broadest access to VPLAs (or VLPs) for all Canadians. Allowing Canadians 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, TFSAs 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. Individuals using TFSAs to supplement retirement savings 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 existing retirement solutions to allow Canadians to obtain more secure lifetime incomes through more flexible annuity options for 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.***

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 communication between companies and policyholders.

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.

SUPPORT PRIVATE SECTOR INVESTMENT IN SUSTAINABLE INFRASTRUCTURE

Managing climate-related risks is an area of growing concern to our industry and there is interest in helping governments build a more resilient Canada.

Canadian life and health insurance products routinely last more than 50 years resulting in predictable, long-term, liabilities. This makes life insurers ideal partners for long-term infrastructure projects, including public-private partnerships as they can commit to long-term financing.

The 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, 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 and that the government develop policies to encourage private investment in infrastructure.

CONCLUSION

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

Canadian Life & Health
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