2022
Federal Budget Submission

Presented to
The Department of Finance Canada

February 25, 2022

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

The Canadian Life and Health Insurance Association (CLHIA) is pleased to provide its recommendations to the Department of Finance Canada in advance of the 2022 Federal Budget.

Protecting 29 million Canadians

26 million with drug, dental and other health benefits

22 million with life insurance averaging $228,000 per insured

12 million with disability income protection

$97 billion in payments to Canadians

$46 billion in annuities

$37 billion in health and disability claims

$14 billion in life insurance policies

Life and health insurers play a key role in providing financial security to Canadians. Additionally, the industry makes a significant contribution to the economy, employing over 158,000 Canadians in high value, professional jobs (as employees or independent agents). The industry is also a major investor in domestic assets and contributes significant revenue through taxes to the federal and provincial governments.

$8.2 billion in tax contributions

$1.3 billion in corporate income tax

$1.3 billion in payroll and other taxes

$1.7 billion in premium tax

$3.9 billion in retail sales tax

Investing in Canadians

$1 trillion in total invested assets

91% 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. Working together with all levels of government we will continue to help maintain benefits for workers across the country. Over 26 million Canadians ended 2020 with supplementary health insurance that provided access to medications and other health care services, which is approximately the same number of Canadians who had coverage at the start of the year. The industry also paid out an additional $150 million in disability claims above what was projected for 2020 to support workers while they recovered.

In 2020 the industry added 1,300 jobs across the country. These jobs were a result of our members' needs to add staff as we shifted to working remotely and Canadians made increased use of their health benefits, including increased virtual care options.

1. SUPPORTING WORKPLACE BENEFITS PLANS

Life and health insurers work together with employers to offer access to a wide variety of health services through employer sponsored benefit plans. In 2020, over 26 million Canadians had supplementary health insurance and $37 billion in health and disability insurance benefits were paid.

Canadians value their benefit plans that provide them with access to prescription medicines, vision care, dental care, and mental health supports. For example, in 2020 the industry paid out over $12 billion in prescription medication claims to Canadians—representing 35 per cent of national drug spending.

Support for mental health

We believe that all levels of government and the private sector have a role to play in helping curb Canada's mental health crisis, which has been further challenged by the pandemic. We will continue to monitor health and disability claims across employers, but it may be several years before we understand the real impacts of the pandemic.

Supporting employees' physical and mental well-being makes good economic sense. Half a million Canadians miss work each week due to mental health reasons, and absenteeism and presenteeism results in nearly $6 billion in lost productivity costs (Centre for Addiction and Mental Health, 2020). Group benefit plans provide much needed coverage that enables Canadians to access mental health services on both a short and long-term basis, helping them to remain healthy and productive.

In 2020, our industry paid out $420 million in psychology-related claims to support mental health—representing a nearly 25 per cent increase from 2019. We have been working to improve access for Canadians who have been negatively impacted by the pandemic by supporting alternative options for care, including virtual care. We recommend continued collaboration between public and private payers to help ensure mental health care is accessible, high quality and patient focused.

In our submission to Employment and Social Development Canada (ESDC) on the *Disability Inclusion Action Plan* we noted that as ESDC considers the implementation of measures it is an opportunity to consider mandating that new programs be developed through a lens of mental health, including defining disability to include reference to mental health.

In addition, each jurisdiction in Canada has its own occupational health and safety (OH&S) legislation, which outlines the general rights and responsibilities of the employer, the supervisor and the worker through an Act or statute and related regulations. The federal government has a mandate to amend the Canada Labour Code to include mental health as a specific element of OH&S and to require federally regulated employers to take preventative steps to address workplace stress and injury. We are interested in engaging on and supporting this exercise, including by sharing industry data and experience

Employment Insurance (EI) reform consultations

In our submission to the federal government on the consultation "Reforming Canada's Employment Insurance Program", the industry provided comments with regard to the implementation of a 26-week EI sickness program and asked that the Premium Reduction Program (PRP) be transformed. Employees have access to income supports and rehabilitation when they are unable to carry out the requirements of their employment due to sickness. Employees may also have access to sick days and other programs at the provincial level such as Workers Compensation Boards, auto insurance programs, provincial social development or disability programs. To successfully implement a 26-week EI Sickness program that meets the requirements of employers and employees, it is important the government consider the processes that private disability insurers must go through in order to return the employee to recovery and the workplace.

The PRP program requires modernization and significant updating to make it attractive to employers. The program as it exists today is cumbersome, with a lengthy application program and assessment period by Service Canada. We do ask that as the government considers implementing changes to EI, that a foundational element be that of "stability". Employers and their employees continue to absorb unexpected shocks due to new variants of COVID-19 – moving too quickly will negatively affect Canadians. A staged approach to the changes is preferred. We believe that our industry can serve as a strong partner in this work given our members' close relationships with employers.

Participation in the development of a federal rare disease strategy and pan-Canadian formulary

Canadians pay some of the highest prescription drug costs in the world—our drug prices are third highest among the Organization for Economic Co-operation and development (OECD) countries. in 2020 insurers paid out more than $650 million in coverage for rare disease drugs to over 15,000 Canadians. From 2012 to 2019, expenditures on rare disease drugs grew by 32 per cent—more than six times the rate for all prescription medicines.

Federal, provincial, and territorial governments need to work together, along with private insurers, to find the best way to increase access to high-cost medications in a fiscally sustainable way. For example, federal, provincial and territorial governments and private insurers should work together to develop a standard list of medicines that all Canadians can access regardless of where they live or whether they have workplace benefits. Private insurers want to work with governments to ensure access across the country not only to this standard formulary of medicines but also to high-cost medicines used to treat chronic and rare diseases.

The life and health insurance industry is actively participating in the federal government's consultations on a rare disease strategy and the development of a pan-Canadian formulary.

Support for affordable prescription medicines

The Canadian life and health insurance industry strongly supports the federal Patented Medicine Prices Review Board (PMPRB) reforms which have been delayed until July 2022. It is crucial that the federal government move ahead with these reforms to achieve affordability for consumers.

We recommend that the government modernize and update the Premium Reduction Program (PRP) as part of Employment Insurance reform to make it attractive to employers. Our industry can be a strong partner in this work.

We recommend that the government ensure that Canadians continue to have access to affordable prescription drugs and mental health supports. This can be achieved by supporting workplace and individual health benefits plans that currently provide millions of residents with comprehensive access to a wide range of health services.

Working with our industry to bring down costs and enhance access to high-cost and rare disease medicines is also imperative. We strongly support the federal government implementing the PMPRB reforms, which are crucial for ensuring affordability for all Canadians

2. 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 to enhance the existing legislation by establishing an even more robust and coherent regulatory framework that will protect consumers while promoting innovation, and a dynamic insurance market in Canada.

The life and health insurance industry commends the government's willingness to modernize privacy legislation within Canada. While the *Personal Information Protection and Electronic Documents Act* (PIPEDA) has served Canadians well for almost 20 years, it is important that the new legal framework reflects the new data-driven economy and new ways of protecting personal information.

The CLHIA would also like to stress the importance of moving forward with modernized private sector privacy legislation as soon as possible in order to reflect new technologies and innovations in the marketplace and, for Canadian organizations doing business in Europe, to retain adequacy with the European General Data Protection Regulation (GDPR).

We recommend that the federal government expeditiously move ahead with modernized privacy legislation in order to facilitate a modernized and coherent regulatory framework across all Canadian jurisdictions.

3. SUPPORT PRIVATE SECTOR INVESTMENT IN SUSTAINABLE INFRASTRUCTURE PROJECTS

The CLHIA commends the federal Government's investments to date to provide much needed long-term support for public infrastructure. Economic recovery in the wake of COVID-19 hinges on building infrastructure that integrates environmental, social and governance (ESG) or sustainability factors.

We support all governments taking action to reduce, mitigate and adapt to the risks of climate change. While the immediate impact of climate change—more frequent and severe storms, flooding, drought and forest fires—is obvious to property and casualty insurers, climate change also presents a complex and long-term risk to public health, and consequently to life and health insurers (Health Canada, 2022). As such, while managing climate change is of interest to many it is an area of significant and growing concern to the life and health insurance industry and we see it as our responsibility to support a transition to a resilient, lower carbon future.

Infrastructure investment is a vitally important aspect of reducing, mitigating and adapting to the risks of climate change and it is also crucial to maximizing economic development and prosperity throughout Canada as we compete to grow in a challenging economy and recover from the economic impacts of COVID-19.

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 is well positioned to support the transition to a lower carbon economy through investment in sustainable financial products and assets, including infrastructure. Canadian life and health insurers already have $55 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 sustainable assets.

Budget 2018 made important 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 three years. Bringing forward these regulations would encourage greater private sector investments in infrastructure and FinTech.

We recommend the government leverage our industry's investment capacity in order to expand and accelerate long-term 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 would encourage the Government to develop government policies and bring forward regulations to encourage private investment in infrastructure.

4. 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). These initiatives will provide Canadians with more opportunities to achieve retirement income security. However, the federal government can ensure more Canadians have secure, guaranteed lifetime income in their retirement by broadening the scope of the recently enacted rules.

VPLAs as enacted will only be available to members of very large DC pension plans, excluding the millions of Canadians who work for smaller employers with DC plans or save for their retirement through group RRSPs, TFSAs, etc. While the government also enabled VPLAs within the pooled registered pension plans (PRPPs), this by itself will not allow Canadians to access VPLAs more broadly, as the accumulation levels in these plans do not have the necessary scale. We believe that standalone VPLAs should be permitted to pool participants from all registered retirement plans to provide the broadest possible access for Canadians.

In addition, as balances in TFSAs grow, they will 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 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.**

5. 2023 Accounting Changes for Life Insurers and Related Corporate Tax Implications

Canada along with number of our global trading partners will be implementing a new International Financial Reporting Standard (IFRS 17) for the measurement of insurance contracts in 2023. This is a major change for life and health insurers. CLHIA members have been working hard for a number of years to ensure a smooth implementation and transition to this new accounting regime.

CLHIA members are waiting for a comprehensive set of tax legislative changes required to address all aspects of IFRS 17 reporting. It is important that this set of changes is announced at the latest in Budget 2022 as companies will be required to produce comparative financials in 2022 in order to report under the new standard in the first quarter of 2023.

The CLHIA urges the federal government to release the full set of tax legislative changes that address IFRS 17 without delay.

CONCLUSION

The industry greatly appreciates the opportunity to share its views with the Department of Finance in advance of Budget 2022. 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