



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

2023 PROVINCIAL BUDGET SUBMISSION
Presented to
THE HONOURABLE CLIFF CULLEN
DEPUTY PREMIER AND MINISTER OF FINANCE

February 10, 2023





INTRODUCTION

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

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



Protecting **990,000** Manitobans

900,000 with drug, dental and other health benefits

720,000 with life insurance averaging \$251,000 per insured

410,000 with disability income protection



\$3.4 billion in payments to Manitobans

\$1.9 billion in annuities

\$1.1 billion in health and disability claims

\$0.4 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 over 7,500 Manitoban residents** in high value, professional jobs (as employees or independent agents).
2. Driving economic growth through **\$32 billion of industry investments in Manitoba**, as well as **\$60 billion in infrastructure** investments across Canada.
3. Contributing nearly **\$120 million** in provincial tax revenue to the Manitoba government.



\$118 million in provincial tax contributions

\$15 million in corporate income tax

\$23 million in payroll and other taxes

\$33 million in premium tax

\$47 million in retail sales tax collected



Investing in Manitoba

\$32 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 Manitoba and across the country will be crucial as Manitobans struggle with affordability challenges and inflation continues to rise.

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 Manitoba.



SUPPORTING WORKPLACE HEALTH BENEFITS PLANS

Overview

Life and health insurers work together with employers to offer access to a wide variety of health services through employer sponsored benefit plans. Manitobans value their benefit plans that provide them with access to prescription medicines, vision care, dental care, and mental health supports. For example, in 2021, about 900,000 Manitobans had supplementary health insurance and \$782 million in health insurance benefits were paid.

Eighty-eight per cent of Canadians with access to an employer sponsored benefits plans say that they find it helpful with access and affordability for a variety of health services. It is important that Manitobans continue to have access to these benefit plans and that any new programs do not disrupt existing coverage.

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.

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 Manitobans 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 Manitobans with comprehensive access to a wide range of dental care services.

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 Manitoba government ensure that Manitobans continue to be able to access virtual care services through public health care and private health benefit plans.

PENSION INNOVATION

Automatic features

Universal access to workplace pension and savings plans can help Manitobans achieve greater financial security in retirement. There is a significant savings shortfall and declining pension coverage for individuals at all age cohorts due to multiple factors, including employees who have difficulty deciding



whether 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 basis, 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 that Manitoba enable automatic features. This would make it easier for Manitobans to receive employer matching dollars, receive higher retirement income and achieve lifetime financial security. With rising inflation impacting Manitobans' 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 for how long those drawdowns are required. The inability to anticipate their length of retirement and associated financial needs (especially at later years) 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 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 Manitobans, 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 Registered Retired Savings Plans (RRSPs) and Registered Retirement Income Funds (RRIFs) 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 Manitoban 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.

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 across the country.

However, the industry is able and wants to do more. The industry is well positioned to make investments in Manitoba’s infrastructure. Our industry recognizes the importance of infrastructure investment in driving economic growth, creating local jobs and in delivering much needed assets that serve Manitobans 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 Manitobans’ mortality and health. The industry is supportive of investments in Manitoba’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 Manitoba to modernize its infrastructure and make the economy more productive and competitive.

REDUCE AND ULTIMATELY ELIMINATE TAXES ON INSURANCE PREMIUMS

Manitoba imposes a two per cent tax on life, health and disability insurance premiums. Life insurers – and consequently insured Manitobans – paid \$33 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 \$15 million in corporate income taxes levied on life and health insurance companies in Manitoba in 2021.

In addition, Manitoba applies its 7% retail sales tax to most group insurance premiums, costing employers nearly \$50 million annually. This puts Manitoba employers at a competitive disadvantage, discouraging new employers from establishing operations in Manitoba, inciting existing employers to relocate to lower-tax jurisdictions and dampening job creation.

Premium and retail sales taxes directly increase the cost of insurance, causing existing employers in Manitoba 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 Manitoba’s general economic growth rate), and increase Manitobans’ 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. 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 Manitoba unwinds the inequitable application of premium and retail sales tax on life and health insurance premiums.

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

CONCLUSION

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



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