2021
Federal Budget Submission

Presented to
The Honourable Chrystia Freeland
Minister of Finance
Parliament of Canada

Canadian Life and Health Insurance Association
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2021 Federal Budget

The Canadian Life and Health Insurance Association (CLHIA) is pleased to provide its recommendations for the upcoming 2021 Federal Budget. The industry plays a key role in the Canadian economy, by employing hundreds of thousands of Canadians and by providing an important source of stable capital for the federal government through investments and tax contributions.

Providing **157,000** jobs for Canadians

58,600 managerial and administrative staff

98,800 agents

99 life and health insurers operating across Canada

78 Life insurance companies

13 Fraternal benefit societies

8 Not-for-profit health care providers

The industry also plays a key role in providing financial security to Canadians, protecting millions of Canadians through a wide variety of life, health, and retirement income products.

Protecting **29 million Canadians**

26 million with drug, dental and other health benefits

22 million with life insurance averaging $222,000 per insured

12 million with disability income protection

$103 billion in payments to Canadians

$53 billion in annuities

$38 billion in health and disability claims

$12 billion in life insurance policies

$8.3 billion in tax contributions

$1.5 billion in corporate income tax

$1.3 billion in payroll and other taxes

$1.6 billion in premium tax

$3.9 billion in retail sales and payroll taxes collected

Investing in Canada

$950 billion in total invested assets

92% held in long-term investments

This submission makes seven recommendations which we believe will increase Canada's fiscal sustainability, competitiveness and prosperity. We recommend that the federal government:

1. *Work collaboratively with provincial and territorial governments and private insurers to **support workplace and individual drug plans that currently provide millions of Canadians with comprehensive access to medicines.***

2. *Work with the industry to find solutions to allow Canadians in and approaching retirement to **obtain more secure, guaranteed, lifetime incomes through more flexible annuity options within registered pensions, RRSPs, RRIFs and TFSAs** by expanding on the changes introduced in Budget 2019. As part of this, we recommend that:*

    a. *Standalone VPLAs be permitted to pool participants from all registered retirement plans; and*

    b. *The liquidity requirements in TFSA rules be waived to allow Canadians to use TFSAs to supplement retirement savings.*

3. ***Eliminate capital tax on Canadian financial institutions** to enhance their competitiveness.*

4. ***Establish a long-term federal debt instrument, particularly 20-year bonds**, conditional on the government issuing sufficient amounts to establish a benchmark at that tenure and that there be sufficient liquidity on that new tenure.*

5. ***Collaborate with the industry on the issue of lack of supply of sustainable assets for investment**, such as infrastructure, low-carbon electricity generation, and climate transition projects.*

6. ***Expeditiously move ahead with Bill C-11**, with the appropriate amendments, and pass it into law in order to ensure a modernized and coherent regulatory framework across all Canadian jurisdictions.*

7. *Develop government policies and bring forward regulations to **encourage private sector investment in infrastructure**.*

Canadians are experiencing unusual and difficult times from both a health and economic perspective as a result of the COVID-19 pandemic. Canada's life and health insurers have been proud to work with all levels of government to help protect Canadians through health benefit plans, travel insurance and other financial security products.

For example, the life and health insurance industry has provided support in a number of areas, including:

1. Supporting Canadian employers, workers and their families

    - Many insurers have proactively provided premium reductions and other forms of relief, including premium deferrals to reduce costs for employers to help them and their employees get through this unprecedented economic crisis;
    - Waived the standard waiting period to qualify for short-term disability benefits so that COVID-19 patients could access needed income supports from day one; and
    - Made it as easy as possible for patients to access their benefits – waiving requirements for doctor's notes and lab tests in favour of self-declarations.

2. Helping Canadians return home

   - Assisted an unprecedented number of Canadians activate travel insurance to get home following the Government of Canada's unprecedented global travel order; and
   - Worked closely with Global Affairs Canada to encourage Canadians overseas to return home, including "snowbirds" with travel medical insurance in the southern United States.

3. Protecting essential services

   - Introduced new measures so commercial truckers can count on continued medical coverage in the United States;
   - Worked with pharmacists to prevent prescription drug shortages; and
   - Worked with governments to have life and health insurers designated an essential service so that benefits and benefit support could continue to flow without interruption to Canadians while enabling employees to work from home wherever possible.

Our industry will continue to work closely with all levels of government to offer assistance to all Canadians. However, as the federal government looks to formulate plans to recover the economy and create schemes to return to a balanced budget state post COVID-19, it is important to note that the life and health insurance sector already makes significant tax contributions to the federal and provincial governments. We are the only sector that is currently subject to premium tax, corporate income tax and capital tax. Any additional tax burdens will put significant pressure on our members' ability to continue to fulfil their current mandate of providing for the health and financial well-being of all Canadians.

Please find below the CLHIA's detailed recommendations:

1. SUPPORTING ACCESS TO AFFORDABLE PRESCRIPTION DRUGS

All Canadians should have access to affordable prescription medicines regardless of where they live. Currently, over 26 million Canadians have access to a wide range of prescription drugs and other health supports through extended health care plans.

Our industry was pleased that the federal government indicated it would take steps to reduce the high cost of medications in *Budget 2019*, including through the proposed Canadian Drug Agency, which will have a mandate to reduce the cost of drugs for all Canadians and develop a national formulary to ensure a common level of coverage regardless of where Canadians live or work. We look forward to further details from the government on these measures. We also look forward to participating in the federal government's consultation on the development of a strategy for rare disease drugs and encourage the government to make funding available to all Canadians regardless of whether they access medicines through a public or private plan.

The industry believes that there are three key elements that any reform to the prescription drug system must embody. These include:

Protecting and enhancing existing benefit plans

Today, life and health insurers work together with employers to offer access to a wide variety of prescription drugs through employer sponsored benefit plans. Canadians value their benefit plans, which provide access to a wide range of health services including prescription medicines, vision care, dental care and mental health supports. These services both treat illness and contribute to overall wellness for Canadians. A reformed system must ensure the continued viability of the health benefit plans that the majority of Canadians rely upon and value today.

With COVID-19, employers have faced increasing pressure and life and health insurers have stepped up to help them 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. Workplace plans have shown remarkable resilience, with industry-wide data collected by the CLHIA showing that 98.5 per cent of the 26 million Canadians who had extended health benefits at the beginning of March 2020 continued to have coverage by end of December.

Providing drug coverage for everyone

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 list of medicines but also to high cost medicines used to treat chronic and rare diseases.

Governments should work together to make sure anyone who needs coverage can get it while ensuring that out-of-pocket costs are not a barrier. Canadians need to be better able to navigate existing public plans so that they can access the coverage they are entitled to. We recommend that all Canadians be covered through a plan offered either by an employer, union, or other professional organization or by the government. This would address access issues, ensure that Canadians with existing plans do not see their coverage reduced while also using public funds in the most efficient and effective way.

Ensuring affordability for consumers and taxpayers

Canadians pay among 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. The high cost of prescription drugs in Canada must be addressed.

The Canadian life and health insurance industry strongly supports the federal Patented Medicine Prices Review Board (PMPRB) reforms which have been delayed several times due to COVID-19. Most recently these changes were expected to be implemented on January 1, 2021 and have now been delayed until July 2021.

These changes are essential to assist with ensuring affordability of prescription drugs in Canada. We believe the proposed framework strikes an appropriate balance of paying fair prices that contribute to an environment conducive to innovation in the pharmaceutical industry, while ensuring Canadians no longer pay among the highest prices in the world for medication. We encourage the federal government to implement the proposed changes to the PMPRB July 1, 2021 with no further delays.

High-cost drugs for chronic and rare diseases are a challenging and evolving class of prescription drugs. Their unique characteristics and high costs may require a separate strategy around coverage in order to ensure that Canadians have access – for example, by harmonizing catastrophic drug coverage across the country. We commend the federal government for committing $500 million in funding for high-cost drugs for rare diseases in order to increase access to life changing treatment in Budget 2019. While a strategy for high-cost drugs for rare diseases is an important first step, it is critical that the Government develops a strategy which deals with all catastrophic drug costs, including biologics, gene therapies and other specialty drugs used to treat health conditions affecting a large number of Canadians.

Further meaningful reductions in prescription drug prices and improved access for all Canadians can be achieved today by working within our current system. Private insurers look forward to working with federal, provincial, and territorial governments to find the best way to increase access to high cost medications in a fiscally sustainable way.

We recommend that the federal government work collaboratively with provincial and territorial governments and private insurers to support workplace and individual drug plans that currently provide millions of Canadians with comprehensive access to medicines. We are supportive of the government's current initiatives including its commitment to:

- ***Develop a comprehensive strategy to ensure Canadians have access to high cost medicines for chronic and rare diseases when needed; and***
- ***Establish a standard list of medicines that all Canadians will be covered for, regardless of whether they are enrolled in a private or public plan.***

We look forward to working closely with the federal government on these important initiatives to ensure that Canadians have access to needed medicines.

2. ENHANCING RETIREMENT INCOME SECURITY

Secure, adequate, income for life is becoming less common for Canadian retirees. While Old Age Security (OAS) and the expanding the Canada and Quebec Pension Plans (CPP and QPP) provide some income certainty, the continuing shift away from Defined Benefit (DB) pensions to Money Purchase plans[1] places a growing onus on individuals to make sure they have sustainable retirement income. New measures are needed to help Canadians attain guaranteed retirement income security.

Being able to further defer the start of OAS and CPP/QPP benefits would allow Canadians to draw down private savings in the near-term, and transition to guaranteed public benefits at later ages. Similarly, allocating a portion of private savings within registered plans to provide life annuities starting at advanced ages would allow Canadians to better manage their assets, rather than over-saving and under-consuming, for fear of "living too long and running out of funds." Annuities are the best way to guarantee income for life, since they provide predictable income and longevity risk is transferred to insurers.

That is why we were pleased that the federal government introduced changes in *Budget 2019* to facilitate the use of Advanced Life Deferred Annuities (ADLAs) and the use of Variable Payment Life Annuities (VPLAs) in certain pension plans. We believe that these initiatives will provide Canadians with more opportunities to achieve retirement income security.

However, as proposed and in practical terms, VPLAs will only be available to members of large DC pension plans, disadvantaging those who work for small employers or save through other types of retirement plans. 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

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[1] Defined Contribution (DC) plans, Registered Retirement Savings Plans (RRSPs), Registered Retirement Income Funds (RRIFs), Pooled Registered Pension Plans (PRPPs) and Tax Free Savings Accounts (TFSAs)

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 find solutions to allow Canadians in and approaching retirement to obtain more secure, guaranteed, lifetime incomes through more flexible annuity options within registered pensions, RRSPs, RRIFs and TFSAs by expanding on the changes introduced in Budget 2019. We recommend that:

- ***Standalone VPLAs be permitted to pool participants from all registered retirement plans; and***
- ***The liquidity requirements in TFSA rules be waived to allow Canadians to use TFSAs to supplement retirement savings.***

3. ELIMINATE CAPITAL TAX ON FINANCIAL INSTITUTIONS

In 2019, life insurers paid over $170 million in federal capital taxes in addition to the $1.3 billion in income taxes paid on corporate profits. Capital tax perversely increases life insurers' cost of capital, limiting their ability to strengthen capital levels, to underwrite additional risks, and to provide greater protection for Canadians. Studies generally indicate that a 10 per cent increase in the cost of capital leads to a seven to 10 per cent reduction in investment in the long-run. This contrasts with the Government's continued policy to reduce the "hurdle rate" for new investments for manufacturers and other businesses by providing for accelerated capital cost allowance and other tax credits.

Internationally, governments continue to strengthen regulatory capital requirements of financial institutions (FIs) to protect consumers and prevent the need for costly taxpayer-funded bail-outs. Canada is no exception. However, Canada is the only major country to also levy a tax on the very same regulatory capital held to protect consumers. Consumers are most protected when companies are strongly capitalized, yet this tax significantly increases the cost burden to companies for holding onto capital.

As the only nation in the G20 to impose such a tax, it is time for the Government to eliminate capital tax on Canadian financial institutions to enhance their competitiveness*. *If complete elimination is not possible in the short-term, the CLHIA recommends that the capital tax be phased out over a reasonable period.

4. ESTABLISH A LONG-TERM FEDERAL DEBT INSTRUMENT

In 2019, Canada’s life and health insurers held more than 90 per cent of their total domestic assets—over $860 billion—for the long-term. When an individual purchases a life insurance or pension product, insurers often receive premiums for several decades—up to 50 years and in some cases much longer—before paying related claims. In exchange for premiums, the industry promises to compensate policyholders through a range of products. Insurers must invest the premiums they collect from policyholders to pay claims and benefits on their policies as well as cover their operating and capital costs. An insurer’s investment strategy is heavily influenced by the profile of its liabilities. To the greatest extent possible, insurers seek to match the term of their liability with their assets. As a result, the industry has a strong demand for very long-term investments.

The industry is one of the largest investors in a number of critical asset classes in the economy, such as corporate bonds, government bonds and commercial mortgages, and therefore plays a key role in supporting economic growth. In periods of market stress with significant market volatility—including through the COVID-19 pandemic—insurers receive a continual and steady flow of premiums. This, together with predictable liability outflows, enables insurers take a long-term view towards investing.

Insurers hold and continue to buy assets that are temporarily undervalued during a downturn and to sell or avoid assets that are temporarily overvalued during a boom. Insurers' stable demand for long-term assets, along with their long-term, conservative investment approach, plays an important counter-cyclical role in times of market stress. This helps temper the swings in the market over business cycles as was evidenced by the industry's role in providing stability during the 2008 financial crisis and offering policyholders support during COVID-19 pandemic.

To enable insurers to maximize their investment potential and contribute to economic growth, the right regulatory conditions and appropriate measures need to be in place. ***As the federal government looks to de-risk the large deficit financing it has taken on to respond to the COVID-19 pandemic and its economic impacts, the life and health insurance industry would see value in the establishment of a long-term federal debt instrument, particularly 20-year bonds, conditional on the government issuing sufficient amounts to establish a benchmark at that tenure and that there be sufficient liquidity on that new tenure.***

5. ACTIONS TO REDUCE, MITIGATE AND ADAPT TO THE RISKS OF CLIMATE CHANGE

Canadian life and health insurers are supportive of 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. 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 lower-carbon future.

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 more than $50 billion invested in products or assets that integrate environmental, social and governance (ESG) or sustainability factors.

Several Canadian life and health insurers have publicly supported the Financial Stability Board's (FSB) Task Force for Climate-related Financial Disclosure (TCFD) recommendations. These disclosures provide key data to help insurance companies manage climate related risks. In addition, some are also signatories of the United Nations-supported Principles for Responsible Investment (PRI) and the UN Environment Programme (UNEP) Principles for Sustainable Insurance (PSI). The CLHIA itself also recently became a supporting institution of the PSI alongside the Insurance Bureau of Canada (IBC) and the International Actuarial Association (IAA), which is headquartered in Canada.

However, the industry is able and wants to do more. Currently, insurers' capacity to invest more is not matched by available sustainable assets. Further there is a lack of simple and clear definitions for sustainable investments and green financial products.

The industry is available to collaborate with the government on the issue of lack of supply of sustainable assets for investment, such as infrastructure, low-carbon electricity generation, and climate transition projects. The industry is also available to support policymakers in developing clear language and definitions for the various investments and financial products that meet ESG criteria.

6. ENHANCING THE PRIVACY OF CONSUMERS' INFORMATION

Canadian life and health insurers applaud the Government's intention to reinforce the privacy of consumers. However, we believe privacy legislation needs to balance an individual's right to control how their personal information is used with the needs of insurers to access personal information to underwrite insurance policies and adjudicate claims for Canadians.

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 put in place a robust, 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 the past 20 years, it is important that the new legal framework reflects best practices and new ways of protecting personal information.

The life and health insurance industry is generally supportive of the provisions in Bill C-11: *An Act to enact the Consumer Privacy Protection Act and Personal Information and Data Protection Tribunal Act and to make consequential and related amendments to other Acts*. We believe that there are technical amendments to Bill C-11 that are required in order to provide clarity to certain provisions in the Bill. We would be pleased to provide more details on these technical amendments.

While we believe the technical amendments should be made to the bill, the CLHIA would also like to stress the importance of moving forward with the amended legislation as soon as possible. For one, Bill C-11 aligns with other international privacy legislation, including the European General Data Protection Regulation (GDPR), which will make it easier for Canadian organizations doing business in Europe to comply with international laws. Second, Bill C-11 will ensure harmonization across the country with respect to modernizing privacy legislation. There are a few provinces that are looking to modernize or introduce their own privacy legislation. Many companies in Canada operate across provincial borders. Having separate and potentially incompatible rules in each of the provinces can hinder an organization in their ability to offer products and services to all Canadians.

We recommend that the federal government expeditiously move ahead with Bill C-11, with appropriate changes, and pass it into law in order to ensure a modernized and coherent regulatory framework across all Canadian jurisdictions.

7. ENCOURAGING PRIVATE SECTOR INVESTMENT IN INFRASTRUCTURE

The CLHIA commends the 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 both for the economy we want and kick starting the economy we have right now, including through strategic investment in infrastructure assets such as public transit, hospitals and schools.

With over $860 billion in long-term investments, Canada's life and health insurance industry is already a significant investor in Canada's economy. Canadian life and health insurers have invested over $50 billion in domestic infrastructure and have a strong desire and capacity to invest more. In addition, the diversity in Canada's life and health insurance industry - both in terms of scale and regional vs national focus - means insurers are ready and able to invest in smaller, local, projects (e.g. $50 million), which large pension funds would not consider.

While we were encouraged by the creation of the Government's Canada Infrastructure Bank to attract and co-invest with the private sector in infrastructure projects that are in the public interest, we are disappointed that progress has been slow. Canada's life and health insurers are ready now to be a key partner with a government that gets infrastructure projects built across the country.

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 would encourage the Government to develop government policies and bring forward regulations to encourage private investment in infrastructure.

CONCLUSION

The industry greatly appreciates the opportunity to provide comments on Canada's 2021 Budget. Should you have any questions, you may contact Susan Murray, Vice President, Government Relations and Policy at smurray@clhia.ca.