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

2024 PROVINCIAL BUDGET SUBMISSION

Presented to the

HONOURABLE PETER BETHLENFALVY MINISTER OF FINANCE

January 31, 2024

INTRODUCTION

The Canadian Life and Health Insurance Association (CLHIA) is pleased to provide its comments to the Ontario government in advance of the 2024 budget.

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

Protecting 11 million Ontarians

10.4 million
with drug, dental and other health benefits

8.4 million
with life insurance averaging $264,000 per insured

5 million
with disability income protection

$49 billion in payments to Ontarians

$17.8 billion
in health and disability claims

$6.9 billion
in life insurance claims paid

$24.3 billion
in annuities

The industry is also a significant contributor to the province's economic growth and productivity by way of:

1. Supporting economic recovery by **employing 80,000 Ontario residents** in high value, professional jobs (as employees or independent agents).

2. Driving economic growth through **over $350 billion of industry investments in Ontario**.

3. Contributing **$3.2 billion** in provincial tax revenue to the Ontario government.

$3.2 billion in provincial tax contributions

$267 million
in corporate income tax

$359 million
in payroll and other taxes

$693 million
in premium tax

$1.91 billion
in retail sales tax collected

Investing in Ontario

$353 billion
in total invested assets

97%
held in long-term investments

We have been proud to work with all levels of government to protect and support Canadians through health benefit plans, travel insurance and other financial security products.

We believe that working together with all levels of government to help maintain benefits for workers in Ontario and across the country will be crucial as Ontarians struggle with affordability challenges. In 2022, over 10 million Ontarians had coverage for supplementary health insurance, which provided access to medications and other healthcare services.

Based on survey data, we know how much Ontarians value their workplace benefit plans. However, we know that not all Ontarians have access to these types of benefits. CLHIA members support the Ontario government as they work towards expanding health and wellness benefits to those individuals who do not have them. We look forward to continuing to engage with the advisory panel that has undertaken this initiative.

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 advance economic growth and drive productivity in Ontario.

We recommend that Ontario:

1. Advocate to the federal government to protect workplace benefit plans and to target support to those without access to prescription drug coverage.

2. Ensure that the Ontario portable benefits strategy does not create an incentive for employers to drop or reduce plans.

3. Call on the federal government to continue to permit virtual primary care services through benefit plans.

4. Commit to enabling automatic features (automatic enrolment and automatic contributions). These reforms will make it easier for Ontarians to achieve lifetime financial security through higher retirement income. They will also reduce the administrative burden on employers.

5. Monitor and parallel federal measures to introduce Advanced Life Deferred Annuities (ALDAs) and Variable Payment Life Annuities (VPLAs) as new retirement income options and encourage the federal government to permit standalone VPLAs.

6. Leverage our industry's investment capacity to expand and accelerate long-term sustainable infrastructure projects by structuring projects to attract P3 partners, allowing Ontario to modernize its infrastructure while driving productivity and economic growth.

7. Develop a tangible plan to reduce, and eventually eliminate, tax on life and health insurance premiums to advance Ontario's competitiveness.

8. Ensure that regulatory requirements regarding the role and obligations of insurers, Managing General Agents (MGAs) and advisors are clarified to support a stronger distribution system.

More details on each recommendation can be found below.

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. Ontarians value their benefit plans that provide them with access to prescription medicines, vision care, dental care, and mental health support. For example, in 2022, over 10 million Ontarians had supplementary health insurance and $13.3 billion in health insurance benefits were paid.

Collaboration with our sector and the province is essential. Provinces and territories already provide programs to many citizens and have infrastructure to deliver these services. It is important that provinces and territories continue to coordinate with workplace benefit plans and ensure policies and programs do not have unintended consequences on workplace benefit plans that can negatively impact the health of Ontarians. Additionally, as our sector is a key partner in the healthcare system, we can provide valuable insights that can benefit the province as the government considers health priorities and solutions.

Support for prescription drugs

Budget 2022 committed the federal government to introduce a Canada Pharmacare Act. Canada's life and health insurers believe that everyone should have access to the drugs they've been prescribed – but how we achieve this matters for working people's health and pocketbooks. Twenty-seven million Canadians have supplementary health insurance plans, including prescription drug coverage, largely through their workplace. We know that Canadians value their health benefit plans and do not want to put those at risk. This coverage provides much-needed financial relief, especially during times of soaring living costs, and provides Canadians with peace of mind.

A federal single-payer pharmacare model would cause disruption as employers drop plans or reduce coverage. Canadians could lose coverage for some or all of their medications. Even the best government plan covers far fewer medications than workplace plans. Forcing working Canadians onto a public drug plan could mean over seven million Canadians could lose or experience disruption to their access of much-needed medications. A federal single-payer pharmacare program would not only hurt the health outcomes of Ontarians but could disrupt productivity in Ontario as millions of Canadians are forced to switch from private to public plans. A federal single-payer pharmacare program would also cost $40 billion and will shift costs from private payers to taxpayers.

The CLHIA has been advocating for the federal government to target supports to those without coverage by:

- Working with provinces and territories to provide much needed coverage to a small portion of Canadians who do not have access to prescription drug coverage;
- Ensuring that the majority of individuals and families continue to maintain their prescription drug coverage; and,
- Keeping government costs manageable to fund an effective and sustainable pharmacare plan.

Standing together, provincial and territorial governments are the strongest possible advocates for the healthcare needs of their residents. ***We recommend that the provincial government advocate to the federal government to target support to those without access to prescription drug coverage. Our industry supports a national formulary for all private and public plans and is open to working with all Governments toward lower drug prices. We encourage Ontario to advocate to the federal government to protect workplace benefit plans that are working well today.***

Portable benefits strategy in Ontario

Canadians value their workplace benefit plans. Not only do these plans provide employees with affordable access to prescription medicines, vision care, dental care, paramedical services, and mental health support, but they are also viewed by employees as a recruitment and retention tool.

We applaud government efforts to expand access to health benefit plans. We look forward to seeing the work done by the Ontario Portable Benefits Advisory Panel on this issue.

However, it is important that the government's efforts do not create an incentive for employers to drop or reduce the benefits currently offered. By doing so, the government would be hurting Ontario's competitiveness and productivity by disrupting employers' advantage when recruiting and retaining workers.

As the government considers portable benefits in Ontario, we recommend that the portable benefits strategy does not create an incentive for employers to drop plans or reduce coverage. We look forward to working with the Ontario government and the Portable Benefits Advisory Panel in support of a portable benefits program.

Continued access to virtual care services

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 a family physician. Canadians need to be able to access virtual care services in the same manner that they have for many years.

Insurers have called on the federal government to provide flexibility to provinces and territories to ***maintain virtual care services that are enabling complementary access to care*** for the millions of Canadians in every region, including millions without a primary care provider. ***We encourage Ontario to advocate to the federal government to continue to permit virtual primary care services (including doctors and nurse practitioners) through benefit plans.***

PENSION INNOVATION

Automatic Features

Universal access to workplace pension and savings plans can help Ontarians achieve greater financial security in retirement. There is a significant savings shortfall and declining pension coverage for individuals at all age cohorts in Ontario due to multiple factors, including employees' indecision about whether to participate in their workplace pension plan. In fact, about **40 per cent of employees** across Canada do not take full advantage of them, **leaving as much as <u>$3 billion on the table</u> annually in free company matching money.**

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. Increasingly, employees are 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 decreased financial stress and anxiety about being prepared for retirement. Further turnover through timely retirements better enables employers to plan for younger talent to train and succeed retiring employees with reductions in disability claims (higher risk of on-the-job injuries for older employees).

However, legislation prohibits an employer from enrolling an employee into a workplace pension or savings plan. Legislation also prohibits employers from deducting or withholding amounts from an employee's pay unless authorized by statute or explicitly by the employee.

It should be noted that employers will always maintain the right to decide whether to include automatic features in the workplace savings plans they offer. Employees will also always maintain the right to opt-out or to change their savings rate as they desire. By making legislative amendments to enable automatic features, the provincial government would help reduce the administrative burden on employers that aim to enhance the financial security of their employees.

We recommend that Ontario amend the Pension Benefits Act (PBA) and the Employment Standards Act (ESA) to enable automatic plan enrollment and automatic contributions. We are committed to supporting the Ontario government in any legislative amendments to the ESA and PBA. These reforms will make it easier for Ontarians to achieve lifetime financial security through higher retirement income by enabling Ontarians to receive employer matching dollars.

Enhancing decumulation solutions

Individuals saving for retirement seldom know either the amount of retirement income they can draw from those savings or how long those savings need to last. The inability to anticipate their length of retirement and associated financial needs 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 also minimize their spending contributions back into the economy, reducing the economic growth in the province.

We support enhanced retirement income security for all Ontarians, 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 tax legislation to enable Variable Payment Life Annuities (VPLAs) and Advanced Life Deferred Annuities (ALDAs), two decumulation solutions intended to help Canadian retirees. In 2023, amendments were introduced to the Pension Benefits Standards Act and Pooled Registered Pension Plans Act to enable variable life benefits (VLBs) and variable life payments (VLPs) respectively in the pension legislation.

The CLHIA continues to believe the VPLA legislation, as enacted in the Income Tax Act (ITA), would only benefit a select minority of Canadians participating in Defined Contribution Pension Plans (DC plans) or Pooled Registered Pension Plans (PRPPs). This means that those who save for their retirement through smaller group pension plans and individual RRSPs, RRIFs, etc., would not be eligible to participate. The CLHIA believes that the federal government should expand the ITA to enable “standalone VPLAs” or expand the PRPP Act to include a “decumulation only PRPP” to ensure the broadest access point to VPLAs (or VLPs) for all Canadians. We know that simplifying the process will make it more likely that people will acquire these decumulation solutions. Allowing people to use their retirement savings directly to acquire a “standalone VPLA” or transfer funds to a “decumulation only PRPP” to acquire a VLPs will improve the client experience and maximize use and value of this decumulation solution to Canadians.

In order to provide sustainable, affordable retirement income arrangements for older residents, we encourage the government to monitor and parallel federal measures to introduce ALDAs and VLBs and VLPAs as new retirement income options.

We also ask that the provincial government encourage the federal government to permit standalone VPLAs or expand the PRPP Act to include a "decumulation only PRPPs".

SUPPORT PRIVATE SECTOR INVESTMENT IN INFRASTRUCTURE PROJECTS

Managing climate-related risks is an area of growing concern to the life and health insurance industry and we want to help governments build a more resilient Canada. Sustainable infrastructure plays a critical role in mitigating and adapting to climate change, which includes building climate-resilient infrastructure projects that mitigate climate change, as well as assets that support adaptation.

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 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 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 and bankable sustainable assets.

The recently announced Ontario Infrastructure Bank is a welcome new addition to Ontario's efforts to close its infrastructure gap and ensure the province has the infrastructure needed to support a growing, prosperous economy. We hope that the Government of Ontario will work closely with long-term investors, including life and health insurers, to ensure that the Bank's capacity will complement, not displace, the private sector's infrastructure investment capacity. We look forward to hearing more details as the bank is developed and would be interested in understanding how the industry can play a role in supporting closing the infrastructure gap.

We recommend the government leverage our industry's investment capacity to expand and accelerate long-term sustainable infrastructure projects by structuring projects to attract long-term investors, allowing Ontario to modernize its infrastructure and make the economy more productive and competitive.

REDUCE AND ULTIMATELY ELIMINATE TAXES ON INSURANCE PREMIUMS

Ontario imposes a two per cent tax on life, health and disability insurance premiums. Life insurers − and consequently insured Ontarians − paid $693 million in premium taxes in 2022. The premium tax is outdated – it predates corporate income taxes and imposes a supplemental tax burden over twice the $267 million in corporate income taxes levied on life and health insurance companies in Ontario in 2022.

In addition, Ontario applies its 8% retail sales tax to group insurance premiums and uninsured benefit plan contributions, costing employers $1.9 billion annually. Ontario is one of only three jurisdictions in North America that apply retail sales tax to life and health insurance premiums, thus placing Ontario employers at a competitive disadvantage both within Canada and globally, discouraging new employers from establishing operations in Ontario and incenting existing employers to relocate to lower-tax jurisdictions.

Premium and retail sales taxes directly increase the cost of insurance, causing existing employers in Ontario 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 Ontario's general economic growth rate), and increase Ontarians' 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. As well, Ontario eliminated the retail sales tax on auto insurance and warranty premiums in 2005 but kept it for life and health insurance. 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 Ontario unwinds the inequitable application of premium and retail sales tax on life and health insurance premiums, especially in light of Ontario also imposing a 1.5% Special Additional Tax on the taxable income of Life & Health insurers.

We recommend that Ontario develop a tangible plan to reduce and eventually eliminate premium-based taxes as fiscal circumstances permit. Such a move would make Ontario employers more competitive, both nationally and globally. This would also encourage employers and individual Ontarians to maintain or expand employment in Ontario, in line with the government’s plans for making Ontario an attractive place for business for prospective employers.

STRENGTHENING THE MGA REGULATORY FRAMEWORK

The industry is currently working on its feedback to FSRA’s new Life Insurance Agent and MGA Licensing Suitability Guidance. We are also eager to share our thoughts on FRSA’s new MGA rule, expected early this year.

As FRSA continues its work to evolve the MGA regulatory framework, **it is important that regulatory requirements regarding the roles and obligations of insurers, MGAs and advisors are clarified**. Existing regulation reflects a period when insurers sold products through a career salesforce. As the distribution market has changed significantly over the last years, a modernization of this framework, involving regulation and legislative change is needed. These changes should clearly define the distinct responsibilities of each participant involved in distributing life and health insurance products. This will result in a stronger distribution system which, in turn, ensures that consumers continue to be well served and protected.

CONCLUSION

The industry greatly appreciates the opportunity to provide comments on Ontario's 2024 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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