2022

Provincial Budget Submission

Presented to
Peter Bethlenfalvy
Minister of Finance

Canadian Life and Health Insurance Association
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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 comments to the Ontario government in advance of the 2022 budget.

Protecting 11 million Ontarians

10.2 million with drug, dental and other health benefits

8.4 million with life insurance averaging $242,000 per insured

4.9 million with disability income protection

$43.5 billion in payments to Ontarians

$22.5 billion in annuities

$14.8 billion in health and disability claims

$6.2 billion in life insurance policies

Canada's life and health insurers play a key role in providing financial security to Ontarians. Additionally, the industry makes a significant contribution to the province's economy. Nearly 73,000 Ontario residents work within the sector in high value, professional jobs (as employees or independent agents). The industry is also a major investor in the province and contributes significant revenue through provincial taxes to the government.

$2.7billion in provincial tax contributions

$197 million in corporate income tax

$348 million in payroll and other taxes

$590 million in premium tax

$1.61 billion in retail sales tax collected

Investing in Ontarians

$357 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. Working together with all levels of government we will continue to help maintain benefits for workers in Ontario and 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.

The life and health insurance industry knows 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 recent announcement by the Ontario government to work towards expanding health and wellness benefits to those individuals who do not have them. We look forward to engaging with the advisory panel that will undertake this initiative.

In 2020 the industry added 1,300 jobs across the country, including 200 in Ontario. 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.

The industry remains financially stable, with capital reserves above regulators' expectations and our industry will continue to work closely with all levels of government as we move towards recovery from the economic impacts of the COVID-19 pandemic.

We recommend that Ontario:

1. Support workplace and individual health benefits plans which currently provide millions of Ontarians with access to affordable prescription drugs and mental health supports. Working with our industry to bring down costs and enhance access to high-cost and rare disease medicines is also imperative.

2. Amend the *Employment Standards Act* to enable automatic plan enrollment and annual contribution escalation. These reforms will make it easier for Ontarians to achieve lifetime financial security through higher retirement income. They will also improve Ontario 's productivity, competitiveness and health outcomes.

3. 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 in order to provide sustainable, affordable retirement income arrangements for older Ontario residents.

4. Leverage our industry's investment capacity in order to expand and accelerate long-term infrastructure projects by structuring projects to attract long-term investors, allowing Ontario to modernize its infrastructure and make the economy more productive and competitive.
    a. Collaborate with our industry on the issue of lack of supply of sustainable assets for investment, such as infrastructure, low-carbon electricity generation and climate transition projects.

5. Develop a tangible plan to reduce, and eventually eliminate, tax on life and health insurance premiums.

More details on each recommendation can be found below.

1. SUPPORTING WORKPLACE HEALTH 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 10 million Ontarians had supplementary health insurance and $11.5 billion in health insurance benefits were paid.

Ontarians 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 $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.

As we move forward with economic recovery it will be crucial for public and private sectors to work together to create psychologically safe and healthy workplaces. For example, small and medium-sized businesses have been disproportionately impacted by COVID-19 and would benefit from support that enables them to further invest in a comprehensive workplace mental health strategy.

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 encourage all governments to explore similar initiatives in this area.

Participation in the development of a federal rare disease strategy

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. The federal government is developing the national strategy by collaborating with provinces, territories and other stakeholder groups. We look forward to working with the Government of Ontario as it considers the strategy from its own perspective.

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 and we would encourage the Government of Ontario to advocate with the federal government to move ahead with these reforms, which would save taxpayer dollars.

We recommend that the government ensure that Ontarians 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.

2. PENSION INNOVATION

Enhancing accumulations

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 who have difficulty deciding whether to participate in their workplace pension plan. Even when employees do opt to join their workplace plans, many struggle with selecting the appropriate contribution level and investments for their needs. However, about 40 per cent of employees across Canada do not take full advantage of them, leaving as much as $3 billion on the table 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 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.

We recommend that Ontario amend the Employment Standards Act (ESA) and the Pensions Benefits Act (PBA) to enable automatic plan enrollment and annual contribution escalation (see appendix). These reforms will make it easier for Ontarians to achieve lifetime financial security through higher retirement income. They will also improve Ontario's productivity, competitiveness and health outcomes. As COVID-19 continues to impact Ontarians, this change would support employees in their retirement planning and enable employers to help their employees save for a secure retirement.

<u>Enhancing Decumulation Solutions</u>

We also support enhanced retirement income security for all Ontarians, including access to widely available, effective and innovative retirement income solutions. Individuals saving for retirement seldom know either the amount of retirement income they can draw from those savings or how long those savings must last.

To help address this, the federal government enacted in 2021 – 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 Registered 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 Group RRSPs 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 Ontario residents, we encourage the government to monitor and parallel federal measures to introduce ALDAs and VPLAs as new retirement income options and encourage the federal government to permit standalone VPLAs.

3. SUPPORT PRIVATE SECTOR INVESTMENT IN SUSTAINABLE INFRASTRUCTURE PROJECTS

We support the Government of Ontario 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 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 Ontario and 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 resilient, 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.

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

The industry is seeking opportunities to collaborate with the government on the issue of lack of supply of sustainable assets for investment, such as low-carbon electricity generation and climate transition and resilience-enhancing infrastructure projects.

4. SUPPORTING A DYNAMIC AND INNOVATIVE BUSINESS CLIMATE

Ontario imposes a two per cent tax on life, health and disability insurance premiums. Life insurers − and consequently insured Ontarians − paid close to $590 million in premium taxes in 2020. The premium tax is outdated – it predates corporate income taxes and imposes a supplemental tax burden nearly three times the $197 in corporate income taxes levied on life and health insurance companies in Ontario in 2020.

These taxes directly increase the cost of purchasing insurance for individual policyholders and employers offering group benefits plans, making it more difficult for Ontarians to adequately protect themselves, their families and employees. This is problematic given that an aging population and escalating health care costs are increasing Ontario residents' need for income security and supplementary health care. We believe that discouraging individual responsibility for these benefits by taxing the purchase of insurance coverage is not sound public policy.

We recommend that Ontario develop a tangible plan to reduce, and eventually eliminate, tax on life and health insurance premiums.

CONCLUSION

The industry greatly appreciates the opportunity to provide comments on Ontario 's 2022 Budget. Should you have any questions, you may contact Susan Murray, Vice President, Government Relations and Policy at **smurray@clhia.ca.**

APPENDIX – RECOMMENDED CHANGES TO THE EMPLOYMENT STANDARDS ACT AND PENSIONS BENEFITS ACT TO ENABLE AUTOMATIC FEATURES

The CLHIA recommends the following amendments to the ESA and PBA to enable automatic features:

Amendments

PBA	ESA
To enable automatic enrollment add section 31.1: Notwithstanding ss. 33(2) to (4), an employee who meets the eligibility criteria for membership in the plan may automatically be enrolled in the plan provided that the plan text includes the employee's right to opt-out at any time. *To enable automatic contribution escalation add section 14 (3):* Notwithstanding subsection (1), a plan that provides for automatic contribution increases is deemed not to reduce benefits or otherwise adversely affect the rights or obligations of a member or former member or of any other person entitled to payment from the pension fund.	*To enable automatic contributions add section 13 (5) (d):* The deduction from an employee's wages is a contribution towards a group pension or savings plan in which membership is required as a term of employment for new or existing employees, where the plan text allows employees to opt-out, and where the employee has received advanced notice of the deduction.

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