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

2025-26 PROVINCIAL BUDGET SUBMISSION
Presented to
HONOURABLE PETER BETHLENFALVY
MINISTER OF FINANCE

January 31, 2025

INTRODUCTION

The Canadian Life and Health Insurance Association (CLHIA) is pleased to provide its recommendations to the Ontario government on the 2025-2026 Budget.

The CLHIA is the national trade association for life and health insurers in Canada. Our members account for 99 per cent of Canada's life and health insurance business. The industry provides a wide range of financial security products such as life insurance, annuities, and supplementary health insurance. Our industry also plays a key role in providing financial security to Canadians.

$3.7 billion in provincial tax contributions

$424 million
in corporate income tax

$452 million
in payroll and other taxes

$746 million
in premium tax

$2.09 billion
in retail sales tax collected

Investing in Ontario

$378 billion
in total invested assets

97%
held in long-term investments

Protecting **11.1 million Ontarians**

10.4 million
with drug, dental and other health benefits

8.5 million
with life insurance averaging $273,000 per insured

5 million
with disability income protection

$56.7 billion in payments to Ontarians

$19.7 billion
in health and disability claims

$7.5 billion
in life insurance claims paid

$29.5 billion
in annuities

Canada's life and health insurers play a key role in providing financial security to Ontarians. The industry is also a significant contributor to the province's economic growth and productivity by way of:

1. Supporting economic recovery by **employing over 81,000 Ontario residents** in high value, professional jobs (as employees or independent agents).
2. Driving economic growth through **over $378 billion of industry investments in Ontario**.
3. Contributing **$3.7 billion** in provincial tax revenue to the Ontario government.

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 2023, over 10 million Ontarians had coverage for supplementary health insurance, which provided access to medications and other healthcare services.

The industry remains financially stable, with capital reserves above regulators' expectations. 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. Support workplace health benefit plans by:
    a. Advocating to the federal government to support universal access to medication through a mixed-payer system and work towards a framework that focuses tax dollars on those without access to prescription drug coverage;
    b. Ensuring that Ontarians continue to be able to access virtual care services through public health care and workplace health benefit plans;
    c. Supporting workplace health benefits by protecting employers' and patients' ability to manage drug costs and maximize coverage, while enabling patients access to enhanced and personalized care.
2. Work with life and health insurers to reduce administrative burden on physicians.
3. Pension innovation, including:
    a. Making legislative amendments to enable automatic enrollment and automatic contributions in workplace pension and savings plans.
    b. Monitoring and matching the federal measures related to Advanced Life Deferred Annuities (ALDA), Variable Life Benefits (VLB) and Variable Payment Life Annuities (VLPA) as new retirement income options.
    c. Encouraging the federal government to permit “decumulation only PRPPs”.
4. Leverage our industry’s investment capacity to expand and accelerate long-term infrastructure projects by structuring projects to attract long-term investors.
5. Develop a tangible plan to reduce and eventually eliminate premium-based taxes as fiscal circumstances permit.

1. SUPPORTING WORKPLACE HEALTH BENEFIT 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 2023, $15.4 billion in health insurance benefits were paid to over 10 million Ontarians with supplementary health insurance.

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

27 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 an affordability crisis.

The federal government recently passed bill C-64 – *An Act respecting pharmacare*. Our industry is concerned about the risks posed by this legislation in widening the gaps in prescription drug coverage.

The legislation itself is unclear. These concerns are further compounded by the Minister's recent letter to Senators, clarifying that this bill establishes a Canadian pharmacare plan for diabetes and contraceptive medications paid for and administered exclusively through a public plan, rather than through a mix of public and private payers. This eliminates Canadians' existing private coverage for these medications and creates significant uncertainty for their remaining drug benefits. Canadians could lose coverage for some or all of their medications. Even the best government plan covers far fewer medications than workplace plans.

Not only does the federal approach limit Ontario's authority to negotiate a system that works best for them, the legislation risks:

- Disrupting or prohibiting existing prescription drug coverage paid for by employers;
- Limiting choice for Canadians;
- Using scarce fiscal resources to replace existing coverage paid for by the private sector; and,
- Failing to provide coverage for uninsured Canadians who rely on other medications beyond a short list of diabetes medications and contraceptives.

Over 1.4 million Ontarians with existing private coverage for their diabetes medication or contraceptives could be disrupted, with over 807,000 Ontarians that could be pushed off their existing plan and over 607,000 Ontarians that could be forced to switch medications or pay out-of-pocket for their current medications. A better approach is to target scarce public resources to those who do not have existing drug coverage.

Instead of spending scarce public resources on those who already have good prescription drug coverage, this funding could be better spent expanding prescription drug coverage of Ontarians without existing access or other healthcare priorities of the province. Further, the federal government has not adequately costed or allocated the necessary funds to run the proposed program. This creates a risk for provinces to make up for the shortfall at a time when provincial governments are already facing healthcare funding challenges.

Standing together, provincial and territorial governments are the strongest possible advocates for the healthcare needs of their residents. ***We recommend that the provincial government:***

- ***Work with our industry to develop mechanisms to ensure continued coverage through workplace health benefit plans for all medications; and,***

- ***Advocate to the federal government to support universal access to medication through a mixed-payer system and work towards a framework that focuses tax dollars on those without access to prescription drug coverage.***

Continued access to virtual care services

In 2023, over 10 million Canadians, including over 3.8 million Ontarians, had access to employer funded virtual care through their workplace benefit plans, amounting to more than half a million virtual care visits. Employer funded virtual care offers benefits to employers, Canadians, and the healthcare system. Canadians, especially those living in rural and remote areas, have grown appreciative and reliant on employer-funded virtual care. Employer funded virtual care is not paid for by Canadians out of pocket, but rather delivered as an add on, complementary service to health benefit plans.

This is a critical service for Canadians and helps provide access to needed medical care for the over 6 million Canadians without a family doctor. Taking away access over 3.8 million Ontarians without a plan for how to provide access for these individuals will just make things worse.

As you may know, the federal Minister of Health sent the Canda Health Act interpretation letter to the provincial and territorial Health Ministers on January 10, 2025. The letter does not help address the primary care crisis in Canada nor does it provide reassurance to the 10 million Canadians who rely on employer-funded virtual care.

Provinces should continue to have the flexibility to offer their residents the choice of virtual care options. It is a critical component of Canada's health care system and should be supported by all governments as an important model to support access to care in Canada.

Policy and decision makers should be focused on the real problem of Canadians paying out of pocket for care. Insurers have called on the federal government to provide flexibility to address out of pocket payment for care without removing employer funded virtual care for 10 million Canadians who already have access to it through their workplace benefit plans. ***We encourage the province to advocate to the federal government to ensure the continuation of employer funded virtual care. Further, we encourage Ontario to protect access to virtual care currently afforded to almost 4 million Ontarians by permitting and encouraging employer funded virtual care through regulation. CLHIA would be happy to work with Ontario on a regulation that would achieve these health objectives.***

Preferred Provider Networks help Employers manage the costs of Specialty Medications

Most, if not all of employer health insurance plans in Ontario include coverage for specialty medicines, which recognizes the growing need for access to high-cost, life-saving treatments. Many specialty medications are not covered by public drug plans.

Employers and their employees use specialty PPNs to help manage their drug costs through reduced markups at in-network pharmacies. These savings give patients access to specialty drugs that may otherwise be too costly for an employer to include in their coverage.

PPNs are also a critical tool for delivering a patient-centered model of care. They can support access to additional health services and programs, such as one-on-one education and adherence support from nurses, pharmacist clinical management to support the management of a patient's condition, and monitoring for medication utilization. Patients with complex, specialty drug needs may rely on these resources to ensure effective and positive treatment outcomes. Restricting PPNs restricts the ability to access these services and could put Ontarians' access to health services at risk.

Additionally, establishing a PPN is a competitive process that may include various competitive activities such as procurement, marketing, and negotiations. Restricting PPNs would be anti-competitive and would run counter to common business practices employed by many organizations and governments on a daily basis.

We believe that regulating PPNs can negatively impact patient access or experience. In our experience, PPNs:

- Help manage drug costs for both employers and Ontarians,
- Provide additional health services for patients, and
- Promote competition in the market.

Based on these benefits, **we recommend that the Ontario government ensure Ontario's businesses and consumers continue to benefit from the cost savings and improved health outcomes PPNs offer**.

2. ADMINISTRATIVE BURDEN REDUCTION FOR PHYSICIANS

Canada's life and health insurers know that efforts to reduce the administrative burden on physicians will improve efficiency in Canada's health care systems and allow physicians to spend more time with their patients and less time on paperwork.

We welcomed the steps announced by the Ontario government earlier this year to help family doctors and other primary care providers spend more time with their patients and less time on paperwork. We have previously worked with the Ontario Medical Association, Canadian Medical Association and others to leverage technology to reduce the number of insurance related forms doctors need to complete.

Our industry can be key partners in efforts to reduce the administrative burden on physicians. For example, the CLHIA has already undertaken two key initiatives:

- Reducing and eliminating physician referrals: By leveraging innovative technology to support claims for many paramedical services, insurers, working with employers, have been able to reduce and eliminate the need for doctor referrals for these services.
- Standard insurance disability forms: Insurers are working on an easier digital way to complete the standard form within all Electronic Medical Records, accessible to all physicians.

Less paperwork means physicians can invest more time on direct patient care. ***We recommend working with our industry to continue to reduce administrative burden on physicians.***

3. PENSION INNOVATION

Enhancing Accumulations

Universal access to workplace pension and savings plans can help Ontarians achieve greater financial security and be more financially prepared for retirement. There is a significant savings shortfall and declining pension coverage for individuals at all age cohorts in Ontario. About **40 per cent of employees** across Canada do not take full advantage of these workplace plans, **leaving as much as <u>$3 billion on the table</u> annually in free money in the form of matching employer contributions.**

Automatic features – which include automatic enrolment, contributions, and escalation – are an effective way of helping employees take full advantage of their workplace and retirement savings plans and to optimize their future income. Under our proposal, employees are free to knowingly decide not to participate, should they believe it to be in their interest.

Increasingly, employees are working longer because they believe they cannot afford to retire. Automatic features make it easier for employees to save more effectively and seamlessly, leading to higher savings rates and better financial outcomes for their future.

We recommend that the Ontario government move ahead with legislative amendments to permit employers to use automatic features within their voluntary workplace pension and savings plans.

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

We are pleased that Ontario Finance has recently issued a consultation document to explore the option to offer Variable Life Benefits (VLBs). This would enable members of PRPPs and DC plans to offer VLBs as a decumulation solution based on the federal *Income Tax Act* and regulations. It is important that this decumulation solution be available to a broad group of Canadians in retirement with accumulations within pension plans (DC or PRPP) but also RRSPs/RRIFs/LIFs/DPSPs/LIRAs, etc., in the absence of a "standalone" VLB. CLHIA looks forward to working with Ontario Finance and FRSA to achieve a more inclusive and successful outcome.

4. SUPPORT PRIVATE SECTOR INVESTMENT IN INFRASTRUCTURE PROJECTS

Managing climate-related risks is an area of growing concern to our 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 over $75 billion invested in products or assets that integrate ESG or sustainability factors.

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 Building Ontario Fund (BOF) is a welcome 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 BOF's capacity will complement, not displace, the private sector's infrastructure investment capacity. We look forward to hearing more details as the fund is developed and would be interested in understanding how the industry can play a role in supporting closing the infrastructure gap.

We also welcome the OSC's announced Ontario Long-Term Asset Fund (OLTF) and its potential to both provide retail investors with greater capacity to access investment in long-term assets like infrastructure and open up additional capital for these long-term assets. We hope that the OSC will continue to consult industry as the parameters of the OLTF are further refined.

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.

5. 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 $746 million in premium taxes in 2023. The premium tax is outdated – it predates corporate income taxes and imposes a supplemental tax burden almost double the $424 million in corporate income taxes levied on life and health insurance companies in Ontario in 2023.

In addition, Ontario applies its 8% retail sales tax to group insurance premiums and uninsured benefit plan contributions, costing employers $2.09 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.

CONCLUSION

The industry greatly appreciates the opportunity to provide comments on the Ontario 2025-2026 Budget. Should you have any questions, you may contact Sarah Hobbs, Vice President, Policy at Shobbs@clhia.ca.

Canadian Life & Health Insurance Association

Association canadienne des compagnies d'assurances de personnes

120 Bremner Boulevard, Suite 1520
P.O. Box 4
Toronto, Ontario M5J 0A8
416.777.2221
info@clhia.ca