



Frank Swedlove
President and CEO

October 14, 2016

The Honourable Wm. Scott Hamilton, MLA
Chair, Select Standing Committee on Finance and Government Services
Room 224, Parliament Buildings
Victoria, B.C. V8V 1X4

Email: FinanceCommittee@leg.bc.ca

Dear Mr. Hamilton:

Please find attached a submission from the Canadian Life and Health Insurance Association (CLHIA) providing input to your Committee's deliberations on British Columbia's 2017 Budget.

CLHIA represents life and health insurers accounting for 99% of the business in Canada. The life and health insurance industry is a major contributor to B.C.'s economy, with 16,000 British Columbians directly employed by the industry and with investments in the province of almost \$80 billion. In 2015, the industry paid \$9.7 billion in benefits to British Columbians through supplementary health plans, life insurance, annuities, RRSPs, and disability insurance. In addition, the life and health insurance industry paid \$170 million in corporate income tax, premium tax and other taxes in British Columbia.

We congratulate the B.C. Government for its disciplined approach and commitment to balanced budgets. The industry supports B.C.'s commitment to ensuring the tax system and program initiatives are competitive.

In this submission we strongly recommend the Government:

- ***incent and educate British Columbians to take responsibility for their long-term care needs by providing tax assistance on qualifying long-term care insurance products,***
- ***expand and accelerate the use of Public Private Partnerships (P3s) for long-term infrastructure projects that would make the economy more productive and competitive, and***
- ***refrain from increasing taxes on life and health insurance premiums that are ultimately borne by B.C. consumers.***

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CLHIA appreciates the opportunity to contribute to B.C.'s pre-budget consultation process. My colleagues and I stand ready to provide any additional information that would be helpful.

Yours sincerely,

Original signed by

Frank Swedlove

Enclosure

Copy: The Honourable Michael de Jong Q.C., MLA

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**2017 British Columbia
BUDGET SUBMISSION**

to

**The Select Standing Committee on
Finance and Government Services**

by the

**Canadian Life and Health
Insurance Association Inc.**

October 2016

INTRODUCTION

The Canadian Life and Health Insurance Association (CLHIA) commends the B.C. Government's commitment to balanced budgets despite the challenges of slow global growth and lower demands for resources. The industry supports B.C.'s commitment to strong expenditure management and to ensuring balanced budgets for the future while investing in infrastructure, housing affordability and lower taxes to enhance social and economic growth, job creation and productivity.

CLHIA is a voluntary trade association, representing life and health insurers accounting for 99% of the business across Canada. The life and health insurance industry is a major contributor to B.C.'s economy, with 16,000 British Columbians directly employed by the industry and with investments in the province of almost \$80 billion. In 2015, the industry paid \$9.7 billion in benefits to British Columbians through products such as supplementary health plans, life insurance, annuities, RRSPs, and disability insurance. In addition, the life and health insurance industry paid \$170 million in corporate income tax, premium tax and other taxes in British Columbia.

As the Government prepares its 2017 budget, the Canadian life and health insurance industry recommends the Government:

- ***incent and educate British Columbians to take responsibility for their long-term care needs by providing tax assistance on qualifying long-term care insurance products,***
- ***expand and accelerate the use of Public-Private Partnerships (P3s) for long-term infrastructure projects. Modernization of the provincial infrastructure will result in a more productive and competitive B.C. economy, and***
- ***refrain from increasing taxes on life and health insurance premiums that are ultimately borne by B.C. consumers.***

A detailed rationale for each of these recommendations is set out below. The industry greatly appreciates this opportunity to contribute to B.C.'s budget-making process and stands ready to make available any further information required.

1. Encouraging Canadians to take responsibility for their long-term care needs

The demand for long-term care in British Columbia will grow dramatically as the baby boomers age. Unfortunately, many Canadians continue to hold the mistaken belief that all of their long-term care expenses will be covered by governments; those individuals are financially unprepared for these potential costs. According to a poll by Leger Marketing on behalf of the CLHIA, three quarters of Canadians (74%) admit they have no financial plan to pay for long-term care if they need it and over 50% of them believe government will cover half or more of the cost of their long-term care needs.

Statistics Canada projects that 24% of Canada's population will be over 65 years of age by 2030 (compared to 15% in 2014). Seniors aged 80 and over will balloon from around 4% in 2014 to 10% by 2045. Despite this dramatic aging of Canada's population, only about 350,000 Canadians were covered under long-term care insurance plans at the end of 2015, with most of them covered through group arrangements where coverage ends upon retirement.

Through the Seniors Home Renovation tax credit, British Columbia has already taken steps to assist seniors in adapting to changing needs as they age. Government programs aimed at assisting British Columbians with long-term care expenses such as in-home nursing and paramedical care are not adequate to cover the full costs of providing long-term care. CLHIA conservatively estimates that British Columbia's baby boomers continue to have an unfunded long-term care liability of almost \$100 billion. ***The longer the Government and British Columbians wait to take action, the more difficult it will be to close this gap.***

Pooling of risks through long-term care insurance is an effective way to protect against the potentially debilitating costs of long-term care, shifting the risk away from governments and individual families. In order to incent British Columbians to prepare financially for their potential long-term care expenses, ***the CLHIA recommends that the Government introduce a non-refundable tax credit on policy premiums paid for qualifying long-term care insurance.*** The cost of the tax credit can be covered by the fact long-term care insurance will provide Canadians with the means to afford home care instead of being forced into higher cost institutional care. Such a tax credit would also act as an important and powerful signal from government about the need for British Columbians to take financial responsibility for their potential long-term care expenses.

It is important that the 2017 budget take steps to:

- ***inform and educate British Columbians about their personal/family responsibility for their long-term care needs and***
- ***financially incent them to take prompt action to prepare for those potential costs.***

This recommendation builds upon the B.C. Government's existing initiatives to encourage its residents to be financially responsible. ***Such targeted and specific support for long-term care will encourage individuals and families to provide for their long-term care needs and will help maximize personal responsibility for long-term care needs by those who can afford to do so.***

2. Public-Private Partnerships

The CLHIA supports the B.C. Government's intention to modernize aging infrastructure in partnership with the federal government. While the Government is consulting on debt reduction, borrowing, and investing in provincial infrastructure like schools, roads and health facilities, the CLHIA believes that public-private partnerships (P3s) provide an efficient and proven approach for infrastructure investments. These investments create jobs and support economic growth for the province, making it an even more desirable place to live and work. B.C. can meet those identified needs and other important long-term infrastructure investments through expanded use of P3s.

P3s limit the upfront investment required from governments by using private capital to build public infrastructure. Private sector capital is subject to substantial oversight and financial controls by lenders and investors. The public sector typically pays only when the infrastructure is ready, with costs spread over the life of the asset. Further, governments are not usually responsible for cost overruns, delays or performance issues.

The bulk of B.C.'s infrastructure deficit is at the municipal level, and tends to involve smaller projects. Active collaboration between all levels of government and the private sector is necessary to overcome the challenges smaller jurisdictions have in bringing projects to market.

A key challenge to further development of the P3 market is to facilitate P3 structures for smaller sized deals given their complexity and the lack of standardized project documentation. The B.C. Government should work with PPP Canada to standardize project documentation for smaller municipal projects, improving how they are brought to market and making them more attractive to investors. A targeted initiative will help reduce the infrastructure deficit at the municipal level and contribute to more prosperous and secure communities across British Columbia.

Infrastructure projects are an ideal investment for life insurers since the resulting assets match insurers' long-term liabilities under life and health insurance and retirement income plans, like pensions and annuities, upon which B.C. residents depend. Canadian life insurers have participated in projects ranging from roadways and public transit to public buildings and wastewater systems across Canada.

We recommend that B.C. expand the use of P3s to fund long-term infrastructure projects. This would promote investment in projects that would make the provincial economy more productive and competitive, with minimal pressure on public finances. We encourage the B.C. Government to work with the federal government's PPP Canada to simplify P3 documentation and governance to make smaller projects more viable. This will also enable the bundling of similar smaller municipal level projects and help achieve economies of scale.

3. Eliminating or Reducing Tax Disincentives on Life and Health Insurance

The CLHIA supports the B.C. Government's view that it is essential to keep business taxes low to ensure a competitive tax environment that attracts investment, creates jobs and moves B.C.'s economy forward.

B.C.'s insurance premium tax dates back to the early years of the last century, before the introduction of corporate income taxes. With public health care costs and the need for disability insurance protection rising significantly, there are serious adverse implications from the continued application of premium taxes in the 21st century. Privately provided employee health and disability insurance programs provide an important "relief valve" for the pressures facing public health care programs, but the premium tax impedes employers' capacity to obtain private insurance by directly increasing its cost. In 2015, the industry paid \$101 million in premium taxes to British Columbia, an amount that otherwise could have provided enhanced coverage and benefits to insured workers and their families.

High taxes on insurance premiums, however structured, cause employers to curtail employee health, disability and life insurance benefits and individual consumers to purchase less protection than they would in the absence of premium-based taxes. In line with the B.C. Government's initiative to remove barriers to economic growth and given the realities of the 21st century needs for supplementary health, disability and other insurance, the policy rationale for continuing insurance premium tax should be revisited.

In addition, the premium tax on life insurance creates competitive inequities in the B.C. marketplace for financial protection and retirement savings products. Many Canadians save for retirement through the build-up of cash values in permanent life insurance policies that are subject to premium tax. Other financial services, such as deposits held by banks and trust companies, are not subject to any comparable tax. With inevitable pressures on the public income security system due to the ageing of the baby boom generation, it makes good sense for the Government to remove or reduce taxes which currently discourage the fullest possible use of savings and investment products that provide long-term retirement security. As the province's Budget 2017 Consultation Paper notes, "Low taxes support affordability and stimulate economic growth".

Finally, provinces that have imposed Retail Sales Tax on insurance premiums for workplace life and health insurance benefit plans have seen a marked reduction in employers' ability to provide such benefits, transferring costs to the public purse by increasing income support and health care expenditures.

Canada's life and health insurance companies strongly recommend that the province resist any suggestions to impose a provincial Retail Sales Tax on insurance premiums. In addition, we recommend that, B.C. should reduce and eventually eliminate the premium tax on life and health insurance premiums. This would encourage employers and individual B.C. residents to maintain or expand life and health insurance protection for their employees and families.

Life and Health Insurers Working for British Columbians

Did you know?

The industry employs 16,000 British Columbians with 2,300 managerial and administrative staff and 13,700 agents, working from offices and agencies located throughout the province.



Operations snapshot



Life insurance companies



Fraternal benefit societies



Not for profit health care providers



Protecting 3.3 million British Columbians

- 2.9 million - With supplementary health benefits
- 2.2 million - With life insurance averaging \$247,000 per insured
- 1.3 million - With disability income protection



\$170 million in taxes paid and collected

- \$ 31 million - Corporate income tax
- \$ 38 million - Payroll and other taxes
- \$101 million - Premium tax



Over \$9.6 billion in payments to British Columbians

- \$ 4.5 billion - Annuities
- \$ 3.9 billion - Health and disability claims
- \$ 1.2 billion - Life insurance policies



Investing in British Columbia

- \$80 billion - Total invested assets
- 97% - Held in long-term investments

For more information on Canada's life and health insurers visit www.clhia.ca

