Frank Swedlove
President and CEO

October 27, 2015

The Honourable Greg Dewar
Minister of Finance
Room 103 Legislative Bldg.
450 Broadway
Winnipeg, MB R3C 0V8

Dear Minister:

Please find enclosed a submission from the Canadian Life and Health Insurance Association (CLHIA) regarding your forthcoming Budget.

Established in 1894, 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 Manitoba's economy. The head offices of four life and health insurers are located in Manitoba, including one ranked in the top 10 in the world. The industry employs some 6,900 Manitobans and has over $21 billion invested in the province. In 2014, the industry paid almost $3.2 billion in benefits to Manitobans through life and health insurance products including life insurance, annuities, RRSPs, disability insurance and supplementary health plans. In addition, the life and health insurance industry paid nearly $68 million in corporate income tax, premium tax and other taxes in 2014.

This submission recommends that Manitoba:

- ***expand and accelerate long-term infrastructure projects through the use of Public-Private Partnerships (P3s) that would make Manitoba's economy more productive and competitive with minimal impact on public finances,***

- ***enact measures to facilitate the provision of Pooled Registered Pension Plans (PRPPs), which are prudently-managed, low-cost, workplace pension plans, that would be available to Manitoba workers, particularly within smaller businesses and the self-employed, thus vastly improving access to pension plans for Manitobans,***

- ***incent and educate Manitobans to take responsibility for their long-term care needs to meet the challenges of an aging population by providing a non-refundable tax credit on qualifying long-term care insurance premiums, and***

- ***withdraw the Retail Sales Tax on insurance premiums as soon as Manitoba's budget deficit is eliminated; further, as fiscal circumstances permit, reduce and eventually eliminate the existing premium tax on life and health insurance premiums.***

CLHIA appreciates the opportunity to contribute to Manitoba's 2016 pre-budget consultation process. If you or your staff require any further information on these matters, my colleagues and I are available at your convenience.

Yours sincerely,

Original signed by

Frank Swedlove

Enclosure

FS215

2016 Manitoba
BUDGET SUBMISSION

to

The Honourable Greg Dewar
Minister of Finance
Government of Manitoba

by the

Canadian Life and Health
Insurance Association Inc.

October 2015

2016 MANITOBA BUDGET

EXECUTIVE SUMMARY

We support Manitoba's balanced approach for delivering services and investment in the province while moderating spending, recognizing the uncertainty in the global economy.

Established in 1894, CLHIA is a voluntary trade association representing life and health insurers accounting for 99% of the business across Canada. The life and health industry is a major contributor to Manitoba's economy, with some 6,900 of its residents directly employed by the industry and investments in the province of over $21 billion. In 2014, the industry protected 970,000 Manitobans and paid almost $3.2 billion in benefits to them through health plans, life insurance, annuities, and disability insurance. In addition, the life and health insurance industry paid nearly $68 million in corporate income tax, premium tax and other taxes in 2014.

The life and health insurance industry urges that, in its forthcoming Budget, Manitoba:

- ***expand and accelerate the use of Public Private Partnerships (P3s) for long-term infrastructure projects that would make the provincial economy more productive and competitive,***

- ***enact measures to introduce the provision of Pooled Registered Pension Plans (PRPPs)*** which are prudently-managed, low-cost, workplace pension plans, that would be available to Manitoba workers, particularly within smaller businesses and for the self- employed,

- ***incent and educate Manitobans to take responsibility for their long-term care needs by providing a non-refundable tax credit on the cost of qualifying long-term care insurance premiums, and***

- ***withdraw the Retail Sales Tax on insurance premiums as soon as Manitoba's budget deficit is eliminated (as per the previously announced intention), and, further, as fiscal circumstances permit, reduce and eventually eliminate the existing premium tax on life and health insurance premiums.***

Detailed comments on each of these recommendations are set out below. The industry greatly appreciates this opportunity to contribute to Manitoba's budget-making process and stands ready to make available any further information that may be required.

I. INCREASING INFRASTRUCTURE INVESTMENT

We fully support Manitoba's commitment to invest in modern public infrastructure. Safeguarding communities through improvements to essential infrastructure will ensure healthy families, underpin productive employment, and enable people and goods to get to market quickly and efficiently. This is vital for economic growth, especially as Manitoba and Canada compete to grow in a global economy.

The bulk of Manitoba'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 area where the Manitoba Government could work with, for instance, PPP Canada, is to develop standard project documentation for smaller local projects to improve how they are brought to market and to make them more attractive to investors. A targeted action plan will help reduce the infrastructure deficit at the local level and contribute to more prosperous and secure communities across Manitoba.

Public-private partnerships (P3s) are an attractive funding mechanism for long-term infrastructure projects such as hospitals, airports, roads, bridges, water supply and waste water treatment. The life insurance industry is ideally positioned to not only invest in such long-term projects to match their long-term liabilities but also to bring their expertise in terms of governance and execution to deliver projects on time and within budget. Using P3s to develop infrastructure means that the public sector only pays when the project is complete and performing, with costs essentially spread over the life of the asset.

Recent studies have shown that P3s provide greater value for money, and more opportunities for innovation, than projects funded exclusively from tax revenue. P3s motivate positive performance since the private-sector partners have their own money at risk.

We recommend that Manitoba 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 also encourage the Manitoba Government to work with the federal government's PPP Canada to streamline P3 governance through standard project documentation and enabling the bundling of similar municipal level projects as they are brought to market as a means to improving efficiency and economies of scale.

II. PENSION INNOVATION

In December 2012, the federal government adopted Bill C-25, "The Pooled Registered Pension Plans (PRPP) Act", a legislative template to provide an accessible, simple, consistent and cost-effective PRPP regime throughout Canada. Since then, British Columbia, Alberta, Saskatchewan, Ontario, Quebec, and Nova Scotia have all joined the federal government in enacting PRPP legislation. Manitoba is one of only four provinces (and the only western province) not to have introduced legislation or stated their intention to introduce PRPPs.

It is estimated that 30% of middle-income Canadians are not saving enough for their retirement[1]. Many of these people simply do not have access to a workplace retirement plan. Statistics Canada data indicates that about 82% of workers with very large employers (500+ employees) have registered pension plans; that percentage falls to 26% for employers with 100 - 499 employees, and dwindles to 2% in workplaces with fewer than 50 employees. PRPPs will make a difference for them, ensuring greater fairness in terms of access and affordable workplace retirement pension plans.
As service providers to about two-thirds of Canada's pension plans, and with a particular focus on small and medium-size workplaces, CLHIA members strongly support the implementation of PRPPs in Manitoba as a meaningful contribution to closing this pension gap. Allowing regulated financial institutions to provide professionally-managed, universally-available, PRPPs to Manitobans is in line with the balanced public-private basis of Canada's "three pillar" retirement income system, which has earned considerable respect internationally.

PRPPs build on existing expertise and capacity, and will encourage simple yet prudent retirement savings strategies, even among those who have not otherwise turned their minds to that goal.

PRPPs will be offered at the workplace, where saving is easiest through payroll deduction. As true pension plans, funds will be locked-in until retirement, except under very specific circumstances, thus ensuring they will be there when needed. Simple, low-cost plans offered at wholesale management fees will provide professional investment expertise and prudent management. Built-in features, such as automatic enrolment of employees (with an opt-out feature preserving the individual right to defer saving for retirement) and automatic escalation of contribution rates over time, counter consumer inaction. Together, these features have been extremely effective in increasing participation in and adequacy of workplace pension plans internationally. We believe that PRPPs can make a profound impact on the future retirement savings of Manitobans and urge the province to act quickly to facilitate PRPPs.

To maximize participation and best meet the public policy objectives of ensuring access to low-cost saving for retirement, ***we recommend that Manitoba adopt the recent Quebec approach, requiring all employers above a certain size (5 employees, in the case of Quebec) to offer some form of workplace retirement plan. We applaud this approach, and estimate that over 90% of Manitoba workers would have access to a workplace retirement plan, ensuring a profoundly positive impact on their future retirement savings, at essentially no cost to their employers***.

III. ENCOURAGING INDIVIDUAL RESPONSIBILITY FOR LONG-TERM CARE NEEDS

The demand for long-term care in Manitoba will grow dramatically as the baby boomers age. Unfortunately, many Manitobans continue to hold the mistaken belief that all of their long-term care expenses will be covered by governments; the result is that those individuals are financially unprepared for these potential costs. According to a poll by Leger Marketing on behalf of CLHIA, three quarters of

[1] Federal-Provincial-Territorial Finance Ministers' Research Working Group on Retirement Income Adequacy, 2009.

Canadians (74%) admit they have no financial plan to pay for long-term care if they need it and two-thirds of them believe government will cover half or more of the cost of their long-term care needs.

Statistics Canada projects that by 2030 24% of Canada's population will be over 65 years of age (compared to 15% in 2014), of which 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 2014, with most of them covered through group arrangements where coverage ends upon retirement.

Government programs aimed at assisting Canadians with long-term care expenses are not adequate to cover the full costs of providing long-term care to Canadians. The CLHIA conservatively estimates providing long-term care for Canada's baby boomers over 35 years may exceed $170 billion in current dollars, with the unfunded component of the costs estimated at almost $100 billion. The longer Canadians and governments wait to take action, the more difficult it will be to close this gap.

At the end of 2014, only about 10,000 Manitobans were covered under long-term care insurance plans, with most of them covered through group arrangements where coverage ends upon retirement. It is important that the 2016 budget take steps to:

- inform and educate Manitobans about their personal/family responsibility for their long-term care needs and

- financially incent Manitobans to take prompt action to prepare for those potential costs.

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 families. In order to incent and provide financial assistance to Manitobans to prepare financially for their potential long-term care expenses, ***the CLHIA recommends that the Government introduce a non-refundable 10.8% tax credit on qualified long-term care insurance premiums (we have requested a similar 15% tax credit be provided by the Federal Government). Such a tax credit would also act as an important and powerful signal from government about the need for Manitobans to take financial responsibility for their potential long-term care expenses.***

IV. TAX DISINCENTIVES ON LIFE & HEALTH INSURANCE

Canadian Life and health insurers continue to be concerned over the sales tax levied on group life insurance premiums introduced in the 2012 budget and increased in 2013. Coupled with an existing premium tax, this makes it increasingly difficult for individuals to afford socially responsible protection of their property, their health and, indeed, their very lives.

Imposing Retail Sales Tax on employer-funded group life and disability insurance for their employees significantly increases costs and is not, in our view, an effective means of building strong, healthy workplaces and communities. 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 measures that discourage the fullest possible availability of workplace life, disability and supplementary health protections that do not rely on public funding.

We appreciate the flexibility shown by the Government to reduce the impact of the Retail Sales Tax on life and health insurance. However, we continue to believe that any form of tax on premiums is problematic since it discourages employers and individuals from obtaining much-needed life and health insurance protection.

We urge Manitoba to confirm its previously expressed intention to withdraw the Retail Sales Tax on life and health insurance as soon as the province returns to a surplus. In addition, we recommend that Manitoba ***reduce and eventually eliminate the existing premium tax on life and health insurance premiums.*** These measures would encourage employers and individual Manitobans to maintain or expand life and health insurance protection for their employees and families.

APPENDIX – LIFE AND HEALTH INSURANCE INDUSTRY IN MANITOBA

The life and health insurance industry makes a significant and constructive contribution to Manitoba's economic and social environment. Specifically, the industry:

- provides Manitobans with a wide range of products that protect their financial security and enable them to meet their health care needs – including life and disability insurance, supplementary health insurance, annuities, RRSPs and pensions. **In total, life and health insurance benefit payments to Manitobans amounted to almost $3.2 billion in 2014.**

- **provides 380,000 workers in Manitoba with disability income protection, 840,000 Manitobans with extended health care insurance** covering prescription drugs and other medical expenses not covered by Manitoba's public health insurance plan, and **810,000 individuals with private dental insurance. Benefits under these plans totalled $890 million in 2014.**

- **insures about 730,000 Manitobans with almost $146 billion of life insurance**, providing their dependents with financial protection in the event of their death. During 2014, **our industry paid out $390 million under Manitoba life insurance policies.**

- plays a vital role in protecting the financial future of Manitobans through the provision of annuity products such as employer sponsored workplace pension plans, RRSPs, RRIFs, DPSPs and payout annuities with **benefit payments under annuity contracts totalling almost $1.8 billion** in 2014. Our industry also administers about two-thirds of Canada's private-sector pension plans.

- is a **major investor in Manitoba's** economy with assets in **Manitoba** of **over $21 billion** at the end of 2014 including **$5.8 billion** in corporate securities**, $2.1 billion** in real estate and mortgages and **$5.1 billion** in provincial and municipal bonds.

- **is a significant employer:** In total, 78 insurers are licensed to conduct life and health business in the province. They **directly employ some 6,900 Manitobans**. Typically, these jobs have above average salaries, involve above average skill levels, and have a high degree of stability. In general, the life insurance industry and its employment base have been resistant to the effects of economic downturns. In addition to direct employment, **our industry creates a significant number of indirect jobs in Manitoba's economy.**

- **is an important contributor to public finances in Manitoba, paying nearly $68 million in taxes in 2014.**

- Has an independent OmbudService for consumers. **The OmbudService for Life and Health Insurance (OLHI)** is a national independent complaint resolution and information service for consumers of Canadian life and health insurance products and services, including life, disability, employee health benefits, travel, and investment products such as annuities and segregated funds.