



Frank Swedlove
President and CEO

September 14, 2015

The Honourable Joe Ceci
President of Treasury Board and
Minister of Finance
Government of Alberta
Ministry of Finance and Enterprise
224 Legislature Building
10800 - 97th Avenue
Edmonton, AB T5K 2B6

Dear Minister:

Please find enclosed a submission from the Canadian Life and Health Insurance Association (CLHIA) on your 2015 and 2016 Budgets.

Established in 1894, CLHIA represents life and health insurance providers accounting for 99% of the business in Canada. The life and health insurance industry is a major contributor to Alberta's economy. The industry directly employs over 15,000 Albertans and has investments of more than \$81 billion in the province. The industry pays almost \$9 billion in benefits each year – or about \$24 million each day – to Albertans through life and health insurance products including annuities, RRSPs, disability insurance and supplementary health plans. The industry is an important contributor to public finances in Alberta, in 2014 the industry paid more than \$179 million in taxes to the province.

In supporting the Government's commitment to work towards sustainable and diversified growth for Alberta's economy, we recommend that Alberta:

- ***incent and encourage Albertans to take responsibility for their long-term care needs by providing tax assistance on qualifying long-term care insurance products***

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- ***expand and accelerate the use of Private Public Partnerships (P3) for long-term infrastructure projects, allowing Alberta to modernize its infrastructure, and***
- ***refrain from increasing the tax on life and health insurance premiums.***

CLHIA appreciates the opportunity to contribute to Alberta'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

FS: 215



**2015 and 2016
Alberta
BUDGET SUBMISSION**

to

**The Honourable Joe Ceci
President of Treasury Board
and Minister of Finance
Government of Alberta**

by the

**Canadian Life and Health
Insurance Association**

September 2015

2015 and 2016 ALBERTA BUDGET

EXECUTIVE SUMMARY

The Canadian life and health insurance industry supports the new Government's commitment to create the conditions in the province for a sustainable, diversified and prosperous economy – an economy that will provide Albertans with good jobs.

Life and health insurers contribute significantly to Alberta's economic and social environment. The head offices of five life and health insurance providers are located in Alberta; in total, 77 life and health insurance providers do business in the province. The industry directly employs over 15,000 Albertans and has more than \$81 billion invested in the province. The industry protects the financial future of some 2.9 million Albertans and paid benefits to Albertans amounting to almost \$9 billion in 2014.

The life and health insurance industry has the following recommendations for the Government as it prepares to introduce a new budget and a new legislative program:

- ***incent and encourage Albertans 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 Private Public Partnerships (P3) for long-term infrastructure projects.*** Modernization of the provincial infrastructure will result in a more diversified and prosperous Alberta economy, and
- ***refrain from increasing the tax on life and health insurance premiums.***

A detailed submission on each of these issues is set out below. The industry greatly appreciates this opportunity to contribute to Alberta's budget-making process and stands ready to make available any further information which may be required.

I. ENCOURAGING ALBERTANS TO TAKE RESPONSIBILITY FOR THEIR LONG-TERM CARE NEEDS

The demand for long-term care in Alberta will grow as the baby boomers age. Government programs aimed at assisting Albertans with long-term care expenses are not adequate to cover the full costs of providing long-term care to them. CLHIA conservatively estimates that Canada's baby boomers have an unfunded long-term care liability of almost \$600 billion. The longer individuals and Government wait to take action, the more difficult it will be to close this gap.

Unfortunately, many may hold the mistaken belief that all of their long-term care expenses will be covered by governments. According to a poll by Leger Marketing on behalf of the CLHIA, three quarters of Canadians (74 per cent) 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. The vast majority of Canadians are financially unprepared for these potentially debilitating costs.

It is important that the 2015 and 2016 Alberta budgets take steps to:

- a. inform Albertans about their personal/family responsibility for their long-term care needs, and
- b. incent and encourage Albertans to take prompt action to prepare for those potential costs.

Pooling of risks through long-term care insurance is a cost-effective way to protect individuals and families against the potentially debilitating costs of long-term care, shifting the risk away from both families and cash-strapped governments. In order to incent and provide financial assistance to Albertans 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 qualified long-term care insurance. Such a tax credit would act as an important and powerful signal from the Government for Albertans to take steps to ensure their potential need for long-term care is met.*** CLHIA has also recommended a similar non-refundable tax credit (15%) at the federal level.

The Canadian Medical Association estimates that around 7,500¹ acute care beds are used for long-term care purposes on any day in Canada. Shifting from acute care to institutional long-term care would save approximately 85 per cent of the current daily cost of care², so funding of this tax credit could easily occur by rebalancing governments' resource allocation between acute care and long-term care services, and ensuring that the appropriate level of long-term care is provided.

As noted in the June 15, 2015 Speech from the Throne, "the time has come to meet our society's growing need for community services like long-term care and home care". A targeted tax credit supporting personal/family needs for long-term care coverage will encourage individuals and families to ensure their own long-term care needs are met and will help optimize use of Alberta's scarce resources.

¹ Dr. Jeffrey Turnbull, President, Canadian Medical Association, February 2011, OECD Health Data 2011 and CLHIA calculations.

² North East LHIN. (2011) HOME First Shifts care of Seniors to Home. LHInfo Minute, Northeastern Ontario Health Care Update. <http://www.nelhin.on.ca/WorkArea/showcontent.aspx?id=11258>

II. INFRASTRUCTURE INVESTMENT

Building modern, world class, infrastructure is vitally important to maximizing economic development and prosperity as Alberta competes to grow under challenging economic circumstances. As noted in the recent Throne Speech, there are important investments to be made in Alberta's infrastructure such as public transit, roads, hospitals and schools.

Given the bulk of the infrastructure deficit is at the municipal level, which tend to be smaller projects, a more nuanced approach is needed to address this specific segment of the province's infrastructure deficit. Active collaboration and a targeted action plan between all levels of government and the private sector is necessary to overcome the challenges smaller jurisdictions have in bringing projects to market.

Expanding the use of public-private partnerships (P3s) would allow Alberta to invest in projects that would make the provincial economy more productive and competitive, while putting less pressure on the provincial fiscal situation. The evidence is clear that P3s deliver projects on time and on budget. Alberta Infrastructure notes that Alberta's successful P3 model has saved taxpayers an estimated \$2.2 billion over the cost of delivering public infrastructure projects through more traditional methods. In addition, P3s are an attractive funding option for governments because they limit the upfront investment required by governments to build public infrastructure. With long-term interest rates at historically low levels, there is a real opportunity to leverage the private sector in financing this work.

Canadian life insurers are a leading source of long-term financing for infrastructure (re)development through P3s. The nature of Canadian life and health insurance products – routinely lasting more than 50 years – results in predictable, long-term, liabilities. Long-term infrastructure development is well suited to support such liabilities. As a result, life insurers can commit to long-term financing staying in place throughout the entire "design, build, maintain and operate" lifecycle of infrastructure projects. This inherent structural advantage of the industry enables it to be an important and stable investor in long-term assets.

Private sector sources of capital are also subject to substantial oversight and financial control by lenders and investors. Using P3s to develop infrastructure means that the public sector typically only pays when the project is complete and performing, rather than during the development process, with costs essentially spread over the life of the asset. To date, Canadian life insurers have participated in projects ranging from roadways and public transit to public buildings and wastewater systems. These investments provide a good match for insurers' long-term liabilities for the life and health insurance, retirement savings and pension plans upon which Albertans depend.

We recommend that Alberta expand and accelerate the use of P3s to fund long-term infrastructure projects. In particular, the Government should coordinate or pool similar municipal level projects to ensure efficient facilitation and funding of infrastructure projects by private sources of capital, including life insurance companies.

III. TAX DISINCENTIVES ON INSURANCE

Canada's life and health insurance companies oppose any form of consumption tax on insurance premiums that increases the cost of insurance for consumers and business and consequently makes it more difficult for Albertans to adequately protect themselves, their families, and their employees. Such taxes discourage individuals and businesses from purchasing life, disability, and supplementary health and dental insurance for themselves, their dependents, and their employees and increase Albertans' reliance on publicly-funded social services in the event of illness, injury and death.

Alberta imposes a 2% tax on health, disability and life insurance premiums which increased consumers' costs by nearly \$108 million in 2014 since premium tax is included in the price of insurance. The premium tax is outdated – it predates corporate income taxes, and imposes a supplemental tax burden more than 3 times the \$30 million in corporate income taxes levied on life and health insurance companies in Alberta in 2014.

While Canada's life and health insurance companies believe that the existing tax on insurance premiums should be eliminated, we realize that this may be difficult at this time, given the current fiscal situation in Alberta. However, at the very least, we strongly recommend that the Government **not increase the existing tax on life and health insurance premiums nor introduce any other form of premium-based tax.**

The previous government's March 2015 budget proposed a 50% increase in the premium tax rate (from 2% to 3%) which would have substantially increased consumers' cost of insurance. As noted above, the premium tax is counterproductive to ensuring Albertans have affordable insurance coverage. We are concerned that, if followed, the March 2015 proposal would encourage individual Albertans and employers to reduce their essential insurance coverage, placing Alberta families in financial risk, and increasing costs to the public system. **This issue is of particular concern for long-term contracts for life and health insurance, where any premium tax rate increase would effectively apply retrospectively.**

Consequently, ***we strongly urge the Government not to proceed with the previous government's proposal to increase the premium tax rate on life and health insurance premiums, thereby ensuring Albertans have the fullest possible access to affordable life and health protection, and avoiding unnecessary demands on public services.***

APPENDIX – LIFE AND HEALTH INSURANCE INDUSTRY IN ALBERTA

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

- provides Albertans 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 Albertans amounted to more than \$8.8 billion in 2014.**
- provides **1.7 million workers in Alberta with disability income protection, 2.8 million Albertans with extended health care insurance** covering prescription drugs and other medical expenses not covered by Alberta's public health insurance plan, and **2.6 million individuals with private dental insurance. Benefits under these plans totaled over \$3.8 billion in 2014.**
- insures about **2 million Albertans with over \$599 billion of life insurance**, providing their dependents with financial protection upon their death. During 2014, **our industry paid more than \$1.4 billion under Alberta life insurance policies.**
- plays a vital role in protecting the financial future of Albertans through the provision of annuity products such as employer sponsored private pension plans, RRSPs, RRIFs, DPSPs and payout annuities with **benefit payments under annuity contracts totaling almost \$3.3 billion** in 2014. Our industry also administers about two-thirds of Canada's private-sector pension plans.
- is a **major investor in Alberta's** economy with investments in the province of **more than \$81 billion** at the end of 2014, including **\$35 billion** in corporate securities, **\$14 billion** in real estate and mortgages and **\$2 billion** in provincial and municipal bonds.
- is a **significant employer.** In total, 77 insurers are licensed to conduct life and health business in the province. They directly **employ over 15,000 Albertans.** 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 Alberta's economy.**
- is an important contributor to public finances in Alberta, paying more than **\$179 million in taxes in 2014.**
- has an independent OmbudService for consumers. The **OmbudService for Life and Health Insurance (OLHI)** is an 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 insurance investment products such as annuities and segregated funds.