2019
Provincial Budget Submission

Presented to
The Honourable Victor Fedeli
Minister of Finance
Government of Ontario

Canadian Life and Health Insurance Association
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CLHIA
ACCAP

Executive Summary

The Canadian Life and Health Insurance Association (CLHIA) is supportive of the province's efforts to reduce red tape and save taxpayers' dollars.

Canada's life and health insurers play a strong role in supporting the province's economy. Over 70,000 Ontarians work within the sector (as employees or independent agents). Two-thirds of Canada's life and health insurance companies are headquartered in the province. This includes two ranked among the top 15 in the world. The industry is also a major investor in the province and contributes significant income through provincial taxes to the government.

Contributed $2.5 billion in Ontario taxes

$ 163 million - Corporate income tax
$ 318 million - Payroll and other taxes
$ 539 million - Premium tax
$1,489 million - Retail sales tax collected

Investing in Ontario

$308 billion - Total invested assets
97% - Held in long-term investments

The industry also plays a key role in providing a social safety net to Ontarians.

Protecting 10.9 million Ontarians

9.8 million - With supplementary health benefits
8.3 million - With life insurance averaging $221,000 per insured
4.9 million - With disability income protection

$41.3 billion in payments to Ontarians

$21.8 billion - Annuities
$14.4 billion - Health and disability claims
$ 5.1 billion - Life insurance policies

In this submission, we recommend the following initiatives:

- ***Ensure the people of Ontario have access to affordable prescription drugs by supporting workplace drug plans that currently provide millions of Ontarians with comprehensive access to essential medicines and by working with our industry to coordinate efforts to bring down costs through bulk-buying and enhancing access to high cost medicines when needed;***

- ***Leverage our industry's investment capacity in order to expand and accelerate long-term infrastructure projects, allowing Ontario to modernize its infrastructure and make the economy more productive and competitive;***

- ***Reduce and ultimately eliminate the existing counterproductive retail sales tax and premium tax on life, health and disability insurance premiums as fiscal circumstances permit and phase out Ontario's special capital tax on life and health insurers;***

- ***Respect the nature of life and health insurance products in Ontario as well as any impacts to existing standards for any new harmonized regulation framework for financial planning and financial advice; and***

- ***Take measures to protect disabled workers whose income replacement benefits are not insured.***
- ***Consider streamlining life insurance licensing requirements and only require each agent to hold one license in order to reduce red tape and support small businesses.***
- ***Support investment in mitigating climate change and working with the life and health insurance industry on this issue.***

The adoption of these recommendations will help achieve the province’s policy goals of reducing red tape and saving taxpayers’ dollars.

2019 Ontario Budget

1. SUPPORTING ACCESS TO AFFORDABLE PRESCRIPTION DRUGS

All Canadians should have access to affordable prescription medicines regardless of where they live. Canada's life and health insurers play an important role in providing prescription drug coverage to Canadians. Life and health insurers provide more than 25 million Canadians with access to a wide range of prescription drugs and other health supports through extended health care plans.

However, the industry recognizes that real problems exist in our prescription drug system today and that the time has come to take meaningful steps to make improvements for the benefit of all Canadians.

Improving the system requires more than simply "filling the gaps". Rather, improvements must address access issues as well as the cost and financial sustainability of the system. In order to achieve this, it is important that federal, provincial, and territorial governments work collaboratively and with private insurers to meet the objectives of ensuring everyone has access to their needed medications and to address the relatively high costs faced by Canadians.

The industry believes that there are three key elements that any reform of the prescription drug system must embody. These include:

Protecting and enhancing existing benefit plans

Today, life and health insurers work together with employers to offer access to a wide variety of prescription drugs through employer sponsored benefit plans. Ontarians value their benefit plans that provide them with access to a wide variety of health services, including prescription medicines, vision care, dental care, and mental health supports. These services both help prevent illness and contribute to overall wellness for the residents of Ontario.

Providing drug coverage for everyone

Governments should ensure that all Canadians can access and afford the medicines they need so that no one is excluded from coverage and all are able to take their needed medications as prescribed. To achieve this, governments should establish a shared list of the medicines that everyone should be covered for through workplace plans for those who have one, individual plans for those who choose them, and by government for those who don't. This list of drugs would be based on scientific evidence and include expensive drugs when needed and drugs for rare disorders. Current government "formularies" differ between jurisdictions, and exclude many medically appropriate drugs.

Ensuring affordability for consumers and taxpayers

Meaningful reductions in prescription drug prices and improving access for all Ontarians can be achieved today by working within our current system. For instance, negotiations through the pan-Canadian Pharmaceutical Alliance (pCPA) have helped to bring down costs for public plans. However, the current approach only leverages half the buying power of the Canadian market in any negotiation and leaves those Canadians with private insurance, or paying out of pocket, to fend for themselves. We therefore recommend that private plans be included in the pCPA. This would allow governments and insurers to negotiate the best prices possible using the entire Canadian market volume while ensuring that all Canadians are treated fairly and pay the same price for the same drug.

We recommend that the Government ensure the residents of Ontario have access to affordable prescription drugs by supporting workplace and individual drug plans that currently provide

millions of Ontarians with comprehensive access to essential medicines and by working with our industry to coordinate efforts to bring down costs through bulk-buying and enhanced access to high cost medicines when needed.

2. INFRASTRUCTURE INVESTMENT

The CLHIA is pleased that the Government recognizes the need to make long-term investments in infrastructure for the province. World-class infrastructure is vitally important to maximizing economic growth as Ontario and Canada compete to grow in an increasingly global economy.

Canadian life insurers are a leading source of long-term financing for infrastructure (re)development. The nature of Canadian life insurance products − routinely lasting more than 50 years − results in predictable long-term liabilities. Life insurers can commit to long-term financing throughout the "design, build, operate and maintain" stages of infrastructure projects. This inherent structural advantage makes the industry an important and stable investor in long-term assets.

Canadian life insurers have participated in projects ranging from roadways and public transit to public buildings and wastewater systems. These investments efficiently match insurers' long-term liabilities for life coverage, retirement savings and pension plans upon which Ontarians depend, and thereby increase the cost effectiveness of insurance for consumers. The industry has a strong desire to invest further in infrastructure projects.

Given that the bulk of Canada's $400 billion infrastructure deficit is at the smaller municipal government level, a more nuanced approach is needed to address this specific segment of the country's infrastructure deficit. Active collaboration between all levels of government and the private sector to develop a comprehensive long-term plan to fund and facilitate identified needs at the local level will help speed projects to market and reduce the infrastructure deficit.

We recommend the Government leverage our industry’s investment capacity in order to expand and accelerate long-term infrastructure projects, allowing Ontario to modernize its infrastructure and make the economy more productive and competitive.

3. SUPPORTING A DYNAMIC AND INNOVATIVE BUSINESS CLIMATE

Ontario has taken significant steps to improve the competitiveness of its corporate tax system. In particular, we note the reduction of the general corporate income tax rate from 14% to 11.5% and the elimination of capital tax that applied to all corporations other than life and health insurers. Ontario should take additional measures to improve the fairness and competitiveness of its tax system as it applies to life insurance corporations.

Refrain from increasing retail sales tax and premium tax on insurance premiums

Ontario imposes a 2% tax on life, health and disability insurance premiums and corresponding contributions to uninsured benefit plans. Life insurers − and consequently insured Ontarians − pay more than $500 million in premium taxes each year.

In addition, Ontario applies its 8% retail sales tax to group insurance premiums and uninsured benefit plan contributions, costing employers almost $1.5 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) 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 unwind the inequitable application of premium and retail sales tax on life and health insurance premiums.

Finally, property and casualty insurance contracts are short term and can be repriced annually to accommodate changing tax rates. In contrast, many life insurance policies provide guaranteed, long-term pricing, where higher premium taxes cannot be passed on to existing policyholders. Increasing premium-based tax rates mean that new policyholders subsidize the tax costs of existing consumers. The industry believes that such intergenerational tax subsidies are inappropriate and inequitable public policy.

We believe premium-based taxes should be eliminated; however, given the present fiscal situation, we realize that may be difficult. We strongly recommend that the Government not consider increasing these taxes to make an already misdirected tax even worse. As fiscal circumstances permit, Ontario should reduce and eventually eliminate the retail sales and premium taxes on life and health insurance premiums. Such a move would encourage employers and individual Ontarians to maintain or expand employment in Ontario, as well as life and health insurance protection for their employees and families, promoting economic security for all Ontarians and reducing strains on the public health care system.

Phase out Ontario's capital tax on life and health insurers

Ontario should continue to improve the competitiveness of its tax system by taking steps to phase out the province's capital tax on life and health insurers.

Canada is the only major country in the world to levy capital taxes on its financial sector. Ontario imposes a special additional tax (SAT) on life and health insurers and Quebec is the only other province to impose capital taxes on life and health insurers.

Capital taxes on financial institutions are widely recognized as inconsistent with the overarching goal of promoting soundness in the financial services sector. The increase to the cost of capital for life and health insurers resulting from this SAT may encourage insurers conducting business in Ontario to minimize capital they would otherwise have held for prudential reasons, thus subverting sound prudential management.

Recognizing that capital taxes are "a tax on investment and job creation," Ontario eliminated the capital tax that applied to corporations other than life and health insurers. However, SAT on life insurers continues to apply despite its similarly perverse effects and the imposition of both premium and retail sales taxes as noted above.

We strongly urge Ontario to phase out the SAT on life and health insurers' capital and, as a first step, to reduce the tax rate consistent with the recent reductions in the corporate income tax rate.

4. FINANCIAL ADVISORY AND FINANCIAL PLANNING OVERSIGHT

The life and health insurance industry appreciates the importance of customer protection, and in recent years has focused on managing conflict of interest risk, providing appropriate disclosures to customers and treating customers fairly.

That is why we are supportive of the Government's plan to review financial planning activities within the province to ensure customers are protected. It should be noted that financial advice within the life insurance industry is rigorously and thoroughly regulated in the province. Advice about life insurance products is provided by advisors who are licensed in Ontario as life agents. Provincial statutes establish standards for advisors as well as ongoing requirements for continuing education.

We recommend that any consideration of a new regulation framework takes into account the nature of life and health insurance products in Ontario as well as any impacts to existing standards for financial planning and financial advice.

5. UNINSURED LONG-TERM DISABILITY BENEFITS

Ensuring all Ontario employees covered by a long term disability (LTD) plan continue to receive their benefits in the event of their plan sponsor's bankruptcy is an important objective.

Currently, employers in Ontario can choose to provide disability income replacement benefits to employees on an insured or uninsured basis. When a plan is insured, an insurer will continue to pay contracted disability benefits even if the employer becomes insolvent. But when those benefits are paid directly by the employer or under an "administrative services only" contract, such benefits typically cease if the employer becomes insolvent. Uninsured plans have no insurance contract to protect injured or sick workers if the employer fails.

In 2010, following Nortel's bankruptcy, concerns were raised with how to protect disabled individuals covered through uninsured plans. In 2014, the Ontario government introduced Bill 14, *Building Opportunity and Securing Our Future Act,* which would amend the *Insurance Act* to prohibit the provision of long-term disability benefits unless they were provided through an insured arrangement with a licensed insurer. By only permitting insured long-term disability policies, payments made to the disabled would continue regardless of the financial situation of the company.

The Bill received Royal Assent on July 24, 2014. However, the section pertaining to the *Insurance Act* has not been brought into force and is awaiting proclamation.

We recommend that the government bring this section into force in order to protect disabled workers.

6. REDUCING RED TAPE BY STREAMLINING LICENSING REQUIREMENTS

Ontario Regulation 347/04 requires that no individual, partnership or corporation shall act as a life insurance agent unless the individual, partnership or corporation is licensed. In some instances, agents may hold multiple licenses as the regulation requires agents in Ontario to hold a license in their individual capacity as well as hold a separate license in their corporate capacity if they are incorporated.

Life Insurance agents' licenses are renewed every two years. Agents must renew their license within 60 days prior to the expiry date on their existing license. For those holding multiple licenses, renewal dates do not align, creating cumbersome renewal processes, and potentially resulting in some agents operating with an expired license because they are unaware of the different renewal dates.

Other provinces, including Manitoba, New Brunswick, Prince Edward Island, and the Territories, require only one license. In these jurisdictions, agent-owned corporations/agencies are required to register their business name and the corporation's name must be added to the agent's personal license.

We recommend that the Ontario government consider streamlining life insurance licensing requirements and only require each agent to hold one license. This recommendation is in line with the province's priorities to reduce red tape and support small businesses.

7. SUPPORT ACTIONS TO MITIGATE CLIMATE CHANGE

Canadian life and health insurers are supportive of action to address climate change, and managing risks associated with such change. The industry encourages the Government to make investments to reduce emissions, reduce air pollution, and protect land and water.

While the immediate impact of anthropogenic climate change – increased frequency and severity of violent storms, flooding, drought, forest fires, etc. - may be more obvious, climate change presents a unique risk to public health, and consequently to life and health insurers. Increasing planetary temperature, driven by air pollution and emissions of greenhouse gases, leads to negative health outcomes, including respiratory illness, cardiovascular disease and death. Climate change also increases the risks of the spread of vector borne diseases, not only for travel insurers, as Canadians often vacation in warmer areas that are particularly susceptible, but as normal ranges for insects and their hosts shift northward. While managing climate change is of interest to many, it is of particular concern to the life and health insurance industry.

We support investment in mitigating climate change and look forward to working with the Government on this issue.

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