2022

Federal Budget Submission

Presented to
The Standing Committee on Finance

Canadian Life and Health Insurance Association

August 2021

- *Work collaboratively with provincial and territorial governments and private insurers to **support workplace and individual drug plans that currently provide millions of Canadians with comprehensive access to medicines.***

- ***Expeditiously move ahead with Bill C-11**, with the appropriate amendments, and pass it into law in order to ensure a modernized and coherent regulatory framework across all Canadian jurisdictions.*

- ***Collaborate with the industry on the issue of lack of supply of sustainable assets for investment**, such as infrastructure, low-carbon electricity generation, and climate transition projects.*

- *Develop government policies and bring forward regulations to **encourage private sector investment in infrastructure**.*

- *Create more secure retirement income by broadening the scope of Variable Payment Life Annuities (VPLAs) and Advanced Life Annuities (ALDAs) to allow Canadians in and approaching retirement to **obtain lifetime incomes through more flexible annuity options** funded from **registered pensions, RRSPs, RRIFs and TFSAs.***

- ***Eliminate capital tax on Canadian life insurance companies** to enhance their international competitiveness and lower insurance costs for Canadians.*

The Canadian Life and Health Insurance Association (CLHIA) is pleased to provide its recommendations for the upcoming 2022 Federal Budget.

Providing 157,000 jobs for Canadians

58,600 managerial and administrative staff

98,800 agents

99 life and health insurers operating across Canada

78 Life insurance companies

13 Fraternal benefit societies

8 Not-for-profit health care providers

\$8.3 billion in tax contributions

\$1.5 billion in corporate income tax

\$1.3 billion in payroll and other taxes

\$1.6 billion in premium tax

\$3.9 billion in retail sales and payroll taxes collected

Investing in Canada

\$950 billion in total invested assets

92% held in long-term investments

Canada's life and health insurers have been proud to work with all levels of government to help protect Canadians throughout the COVID-19 pandemic. For example, the industry helped employers keep their employees connected to workplace health benefit plans, worked through a myriad of travel insurance issues, and strongly supported the Canada Emergency Wage Subsidy as it kept the employer and employee link. As the challenges of COVID-19 are far from over, the industry would like to continue to work with governments to help Canadians recover, including by moving forward with a rare disease strategy, bringing regulatory changes that would allow greater investment in infrastructure projects by life and health insurers, and increasing the supply of sustainable investments. We have provided further details on these points and other key policy issues in our submission.

SUPPORTING ACCESS TO AFFORDABLE PRESCRIPTION DRUGS

All Canadians should have access to affordable prescription medicines regardless of where they live. Currently, over 26 million Canadians have access to a wide range of prescription drugs and other health supports through extended health care plans. However, some Canadians have inadequate access to prescription medicines.

Our industry was pleased that the federal government indicated it would take steps to reduce the high cost of medications in *Budget 2019* (and recommitted in *Budget 2021*), including through the Canadian Drug Agency. We look forward to further details from the government on these measures.

The industry believes that there are three key elements that any reform to 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. Canadians value their benefit plans, which provide access to a wide range of health services including prescription medicines, vision care, dental care and mental health supports. Any reforms must ensure the continued viability of the health benefit plans that the majority of Canadians rely upon and value today.

Providing drug coverage for everyone

Patients want access to the same standard coverage no matter where they live and no matter what kind of plan they have. Federal, provincial and territorial governments and private insurers should work together to jointly develop a standard list of medicines that all Canadians can access. It is important that private payers are able to participate in this process to ensure the list meets the needs of Canadians covered through private plans.

Ensuring affordability for consumers and taxpayers

Canadians pay among the highest prescription drug costs in the world—our drug prices are third highest among the Organization for Economic Co-operation and Development (OECD) countries. The high cost of prescription drugs in Canada must be addressed.

The Canadian life and health insurance industry strongly supports the federal Patented Medicine Prices Review Board (PMPRB) reforms. These changes are essential to assist with ensuring affordability of prescription drugs in Canada. We believe the proposed framework strikes an appropriate balance of paying fair prices that contribute to an environment conducive to innovation in the pharmaceutical industry. We encourage the federal government to implement the proposed changes to the PMPRB on the amended date of January 1, 2022 with no further delays.

We commend the federal government for committing $500 million in funding for high-cost drugs for rare diseases in Budget 2019 and we look forward to continuing to engage on this file in the coming months. While a strategy for high-cost drugs for rare diseases is an important first step, it is critical that the Government develop a strategy which deals with all catastrophic drug costs, including biologics, gene therapies and other specialty drugs used to treat health conditions and encourage the government to make funding available to all Canadians regardless of whether they access medicines through a public or private plan.

We recommend that the federal government work collaboratively with provincial and territorial governments and private insurers to support workplace and individual drug plans that currently provide millions of Canadians with comprehensive access to medicines. We are supportive of the government's current initiatives including its commitment to:

- ***Develop a comprehensive strategy to ensure Canadians have access to high-cost medicines for chronic and rare diseases when needed; and***
- ***Establish a standard list of medicines that all Canadians will be covered for, regardless of whether they are enrolled in a private or public plan.***

ENHANCING THE PRIVACY OF CONSUMERS' INFORMATION

Every day, millions of Canadians entrust their most sensitive personal information to life and health insurers. Protecting the confidentiality of this information is crucial to maintaining public confidence in our industry. The CLHIA and its members are keen to work with the government to put in place a robust, coherent regulatory framework that will protect consumers while promoting innovation and a dynamic insurance market in Canada.

The life and health insurance industry commends the government's willingness to modernize privacy legislation within Canada. While the *Personal Information Protection and Electronic Documents Act* (PIPEDA) has served Canadians well for the past 20 years, it is important that the new legal framework reflects best practices and new ways of protecting personal information.

The life and health insurance industry is generally supportive of the provisions in Bill C-11: *An Act to enact the Consumer Privacy Protection Act and Personal Information and Data Protection Tribunal Act and to make consequential and related amendments to other Acts*. We believe that there are some technical amendments to Bill C-11 that are required in order to provide clarity to certain provisions in the Bill.

The CLHIA would also like to stress the importance of moving forward with the amended legislation as soon as possible in order for Canadians organizations doing business in Europe to be in compliance with the European General Data Protection Regulation (GDPR).

We recommend that the federal government expeditiously move ahead with Bill C-11, with appropriate changes, and pass it into law in order to facilitate a modernized and coherent regulatory framework across all Canadian jurisdictions.

1. ENCOURAGING PRIVATE SECTOR INVESTMENT IN SUSTAINABLE INFRASTRUCTURE

The CLHIA commends the federal Government's investments to date to provide much needed long-term support for public infrastructure. Economic recovery in the wake of COVID-19 hinges on building infrastructure that integrates environmental, social and governance (ESG) or sustainability factors.

As a substantial investor in the Canadian economy, the life and health insurance industry is well positioned to support the transition to a lower carbon economy through investment in sustainable financial products and assets, including infrastructure. Canadian life and health insurers already have more than $75 billion invested in products or assets that integrate ESG.

However, the industry is able and wants to do more. Currently, insurers' capacity to invest more is not matched by sustainable assets available for investment.

The industry is available to collaborate with the government on the issue of lack of supply of sustainable assets for investment, such as sustainable infrastructure, clean electricity generation, and climate transition projects.

Budget 2018 made important changes to the *Insurance Companies Act* that were intended to give Canada's life insurers greater ability to invest in infrastructure and adopt technology to better serve consumers. The regulations required to bring these changes into force have been pending for nearly three years. Bringing forward these regulations would encourage greater private sector investments in infrastructure and FinTech.

We would encourage the Government to develop government policies and bring forward regulations to encourage private investment in infrastructure.

2. MORE SECURE RETIREMENT INCOME FOR CANADIANS

The CLHIA commends the federal government for enacting legislation in 2021 to enable Advanced Life Deferred Annuities (ALDAs) and Variable Payment Life Annuities (VPLAs). These initiatives will provide Canadians with more opportunities to achieve retirement income security. However, the federal government can ensure more Canadians have secure, guaranteed lifetime income in their retirement by broadening the scope of the recently enacted rules.

VPLAs as enacted will only be available to members of very large DC pension plans, excluding the millions of Canadians who work for smaller employers with DC plans or save for their retirement through group RRSPs, TFSAs, etc. While the government also enabled VPLAs within the pooled registered pension plans (PRPPs), this by itself will not allow Canadians to access VPLAs more broadly, as the accumulation levels in these plans do not have the necessary scale. We believe that standalone VPLAs should be permitted to pool participants from all registered retirement plans to provide the broadest possible access for Canadians.

In addition, as balances in TFSAs grow, they will become an increasingly useful source of retirement income, but the liquidity requirement of the TFSA rules prevents holding life annuities within TFSAs. Consumers should be permitted to waive this liquidity requirement, at least at older ages. Many Canadians are using TFSAs to supplement retirement savings. These individuals should have the flexibility to secure their retirement through a guaranteed lifetime income from that plan.

We recommend the government work with the industry to broaden the existing framework of retirement solutions to allow Canadians in and approaching retirement to obtain more secure lifetime incomes through more flexible annuity options within registered pensions, RRSPs, RRIFs and TFSAs. We recommend that:

- ***Standalone VPLAs be permitted to pool participants from all registered retirement plans; and***
- ***The liquidity requirements in TFSA rules be waived to allow Canadians to use TFSAs to supplement retirement savings.***

3. ELIMINATE CAPITAL TAX ON LIFE INSURANCE CORPORATIONS

In 2019, life insurers paid over $170 million in federal capital taxes in addition to the $1.3 billion in income taxes paid on corporate profits. Capital tax perversely increases life insurers' cost of capital, limiting their ability to strengthen capital levels, to underwrite additional risks, and to provide greater protection for Canadians.

In Canada and internationally, governments and regulators continue to strengthen regulatory capital requirements of financial institutions (FIs) to protect consumers and prevent the need for costly taxpayer-funded bail-outs. However, Canada is the only major country to also levy a tax on the very same regulatory capital held to protect consumers. Consumers are most protected when companies are strongly capitalized, yet this tax significantly increases the cost burden to companies for holding onto capital.

As the only nation in the G20 to impose such a tax, it is time for the Government to eliminate capital tax on Canadian financial institutions to enhance their international competitiveness and reduce the cost of insurance for Canadians. If complete elimination is not possible in the short-term, the CLHIA recommends that the capital tax be phased out over a reasonable period.

CONCLUSION

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