

2020

Provincial Budget Submission

**Presented to
The Honourable Rod Phillips
Minister of Finance
Government of Ontario**

Canadian Life and Health Insurance Association
October 2020



Ontario 2020 Fall Budget

The Canadian Life and Health Insurance Association (CLHIA) is pleased to provide its comments to the Minister of Finance in advance of Ontario's Fall 2020 Budget. The CLHIA is a voluntary association with member companies which account for 99 per cent of Canada's life and health insurance business.

The industry plays a key role in providing financial security for Ontarians and makes significant contributions to the economy.



Protecting 11 million Ontarians

10.2 million with drug, dental and other health benefits

8.4 million with life insurance averaging \$234,000 per insured

4.9 million with disability income protection



\$46.8 billion in payments to Ontarians

\$25.7 billion in annuities

\$16 billion in health and disability claims

\$5.1 billion in life insurance claims paid



\$2.8 billion in provincial tax contributions

\$210 million in corporate income tax

\$351 million in payroll and other taxes

\$592 million in premium tax

\$1.64 billion in retail sales tax collected



Investing in Ontario

\$337 billion in total invested assets

98% held in long-term investments

Ontarians are experiencing unusual and difficult times from both a health and economic perspective as a result of the COVID-19 pandemic. Canada's life and health insurers have been proud to work with all levels of government to help protect Canadians through health benefit plans, travel insurance and other financial security products.

For example, the life and health insurance industry has provided support in a number of areas, including:

1. Supporting Canadian employers, workers and their families
 - Many insurers have proactively provided premium reductions and other forms of relief, including premium deferrals to reduce costs for employers to help them and their employees get through this unprecedented economic crisis
 - Waived the standard waiting period to qualify for short-term disability benefits so that COVID-19 patients could access needed income supports from day one
 - Made it as easy as possible for patients to access their benefits – waiving requirements for doctor's notes and lab tests in favour of self-declarations

2. Helping Canadians return home

- Assisted an unprecedented number of Canadians activate travel insurance to get home following the Government of Canada's unprecedented global travel order
- Worked closely with Global Affairs Canada to encourage Canadians overseas, including "snowbirds" with travel medical insurance in the southern United States, to return home

3. Protecting essential services

- Introduced new measures so commercial truckers can count on continued medical coverage in the United States
- Worked with pharmacists to prevent prescription drug shortages;
- Worked with governments to have life and health insurers designated an essential service so that benefits and benefit support could continue to flow without interruption to Canadians

Our industry will continue to work closely with all levels of government to offer assistance to all Canadians. However, as the Province looks to formulate plans to recover the economy and create schemes to return to a balanced budget state post COVID, the life and health insurance sector should not be seen to be a source of additional revenue. We are the only sector that is currently subject to premium tax, retail sales tax, corporate income tax and capital tax providing over \$2.8 billion to the Ontario economy. Any additional tax burdens will put significant pressure on our members to continue to fulfil their current mandate of providing for the health and financial well-being of all Ontarians.

In this submission, we recommend the following initiatives:

1. SUPPORTING ACCESS TO AFFORDABLE PRESCRIPTION DRUGS

All Canadians should have access to affordable prescription medicines regardless of where they live. Currently, 10.2 million Ontarians have access to a wide range of prescription medicines and other health supports through extended health care plans.

All Canadians should have affordable access to their needed medications, and we must address the high cost of prescription drugs in Canada. The Canadian life and health insurance industry strongly supports the federal Patented Medicine Prices Review Board (PMPRB) reforms which were to be implemented on July 1, 2020 but which have been delayed until January 2021 due to COVID-19. It is crucial that the federal government move ahead with these reforms to achieve affordability for consumers.

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 treat illness and contribute to overall wellness for the residents of Ontario.

With COVID-19, employers have faced increasing pressure and life and health insurers have stepped up to help them maintain, and in some cases augment, their health benefit programs through premium reductions and deferrals. Working together with all levels of government we will continue to help maintain benefits for workers in Ontario and across the country. Workplace plans have shown remarkable resilience, with industry-wide data collected by the CLHIA showing that 98.5 per cent of the 26 million Canadians who had extended health benefits at the beginning of March continued to have coverage in mid-September.

Drug coverage for everyone

Federal, provincial and territorial governments and private insurers should work together to develop a standard list of medicines that all Canadians can access regardless of where they live or whether they have workplace benefits. Private insurers want to work with governments to ensure access across the country not only to this standard list of medicines but also to high cost medicines used to treat chronic and rare diseases.

Governments should work together to make sure anyone who needs coverage can get it while ensuring that out-of-pocket costs are not a barrier. Canadians need to be better able to navigate existing public plans so that they can access the coverage they are entitled to. One approach might be to ensure all Canadians are covered through a plan offered either by an employer or the government.

Ensuring affordability for consumers and taxpayers

We know Canadians pay some of the highest prescription drug costs in the world. We believe that meaningful reductions in prescription drug prices and improving access for all Ontarians can be achieved today by working within our current system. For instance, specialty drugs, including those used to treat chronic and rare diseases, accounted for just two per cent of total prescription claims in 2019 but made up 33 per cent of the costs. High-cost drugs are a challenging and evolving class of prescription drugs. Their unique characteristics and high costs may require a separate strategy around coverage in order to ensure that Canadians have access – for example, by harmonizing catastrophic drug coverage across the country.

Federal, provincial, and territorial governments need to work together, along with private insurers, to find the best way to increase access to high cost medications in a fiscally sustainable way.

We recommend that the government ensure the residents of Ontario continue to have access to affordable prescription drugs by supporting workplace and individual drug plans that currently provide millions of Ontarians with comprehensive access to medicine and by working with our industry to bring down costs through bulk-buying and enhanced access to high cost medicines.

2. SUPPORTING A DYNAMIC AND INNOVATIVE BUSINESS CLIMATE

Ontario imposes a two per cent tax on life, health and disability insurance premiums and corresponding contributions to uninsured benefit plans resulting in nearly \$600 million in premium taxes. In addition, Ontario applies its eight per cent retail sales tax to group insurance premiums and uninsured benefit plan contributions, costing employers over \$1.6 billion annually. Ontario is one of only three jurisdictions in North America that applies a retail sales tax to life and health insurance premiums, thus placing Ontario employers at a competitive disadvantage both within Canada and globally. Premium and retail sales taxes directly increase the cost of insurance, causing employers to provide fewer benefits to their employees and driving individual consumers to purchase less protection than they would in the absence of these taxes. This is problematic given an aging population and escalating health care costs increase Ontarians' need for income security and supplementary health care. We believe that discouraging individual responsibility for these benefits by taxing the purchase of insurance coverage is not sound public policy.

We recommend that Ontario develop a tangible plan to reduce, and eventually eliminate, the retail sales and premium taxes on life and health insurance premiums.

3. PENSION INNOVATION

New types of annuities

Individuals saving for retirement seldom know either the amount of retirement income they can draw from those savings or how long those savings must last. Typically, Canadians reduce spending to preserve their savings for future needs, adversely impacting the quality of their retirement years.

A better approach would pool individuals' longevity risk, to provide an enhanced and secure source of earnings in retirement for Canadians. Current income tax rules prevent new plans from adopting this strategy.

The 2019 federal budget proposed two measures – Variable Payment Life Annuities (VPLAs) and Advanced Life Deferred Annuities (ALDAs) – to meet these objectives. Our industry supports these measures; however, those steps restricted access to VPLAs to members of large Defined Contribution pension plans, disadvantaging those who save through other types of retirement plans. Standalone VPLAs should be permitted to provide the broadest possible access for Canadians.

In order to provide sustainable, affordable retirement income arrangements for older Ontarians, we encourage the government to monitor and parallel forthcoming federal measures to introduce ALDAs and VPLAs as new income options.

Automatic enrolment and escalation

Universal access to workplace savings plans can help Ontarians achieve greater financial security in retirement. There is a significant savings shortfall and declining pension coverage for individuals at or near retirement in Ontario due to multiple factors, including employees who have difficulty deciding whether to participate in their workplace pension plan. Even when employees do opt to join their workplace savings plans, many struggle with selecting the appropriate contribution level and investments for their needs. Many employees do not take full advantage of these plans, missing out on billions of dollars of potential matching contributions by their employers.

Increasingly, employers are concerned about the ability of their employees to retire 'on time'. Employees work longer because they believe they cannot afford to retire, which has health and economic impacts including:

- Higher premium costs for benefit programs that have more uptake from older workers;
- Increased disability claims;
- Higher operating costs (heightened risk of on the job injuries, impacting Workers' Compensation premiums; and higher salaries for older vs. younger workers); and
- Succession challenge and ability to hire and train younger workers to optimize costs and productivity.

Automatic solutions – which include automatic plan participation at a pre-set (or starter) contribution rate, automatic annual contribution increases, and automatic investment in a default investment option – have proven to be highly effective in increasing participation in workplace savings plans and the rate of savings in several countries. Such solutions remain rare in Canada, however, due mainly to legislative restrictions.

We recommend that Ontario enable automatic plan participation to make it easier for Ontarians to achieve lifetime financial security through higher retirement income, improving Ontario's productivity, competitiveness and health outcomes.

4. TITLING FOR FINANCIAL PROFESSIONALS

The life and health insurance industry believes that a title should reflect the type of financial service being offered. Titles should also be commensurate with both training and expertise of someone offering financial services, creating an environment where consumers can be confident in the advice that they receive. While we support how the *Financial Professionals Title Protection Act, 2019* fills certain gaps, we are concerned that it adds an unnecessary regulatory burden on those who hold life licenses. These licensees are already subject to regulatory educational requirements and oversight. The introductory training that advisors receive include the Harmonized Life License Qualification Program (HLLQP) that includes a standard curriculum, and criteria that course providers must meet, that were both created by the Canadian Insurance Services Regulatory Organizations (CISRO). The HLLQP requires advisors to first complete a course that then certifies them to complete a series of four LLQP comprehensive exams. Topics covered include: financial services knowledge, ethics, client outcomes, and technical knowledge as outlined in the proposed rule subsequent to the *Act*. As such, completing the HLLQP and maintaining a life license indicates a level of knowledge that meets or exceeds the baseline competency of someone who calls themselves a “financial advisor”. Further, licensees are also held to account for the advice they give by their licensing body (FSRA), and the insurers whose products that they sell. ***We would encourage continued collaboration with key stakeholders to ensure that changes protect Ontarians, while not leading to unnecessary regulatory burden.***

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