CLHIA ACCAP

Canadian Life & Health Insurance Association
Association canadienne des compagnies d'assurances de personnes

Submission to the

HONOURABLE CHRYSTIA FREELAND DEPUTY PRIME MINISTER AND MINISTER OF FINANCE CANADA

February 10, 2023

1. RECOMMENDATION

1. Support workplace and individual health benefit plans that currently provide millions of Canadians with access to prescription drugs, dental care and health benefits by:
    a. Targeting dental care supports to those without access to existing dental coverage and offer a tax credit to small businesses to avoid putting coverage from workplace benefits plans at risk;
    b. Including all Canadians in the strategy for high cost drugs for rare disease regardless of whether they access medication through a public or private plan; and
    c. Ensuring that the new Canada Pharmacare Act recognizes the strengths of Canada's prescription drug system that is working well for millions of Canadians and focuses on those without coverage across the country.

2. Modernize and update the Premium Reduction Program (PRP) as part of the second phase of Employment Insurance reform to make it attractive to employers.

3. Expeditiously move ahead with Bill C-27 after making key technical amendments in order to facilitate a modernized and coherent regulatory framework across all Canadian jurisdictions.

4. Leverage our industry's investment capacity in order to expand and accelerate infrastructure projects, including sustainable and resiliency-building infrastructure.

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

6. Continue to issue Real Return Bonds (RRBs) at more regular intervals to protect the retirement benefit security of Canadians.

7. Re-think the introduction of sector specific additional tax to enable our industry to compete with others domestically and internationally.

2. INTRODUCTION

The Canadian Life and Health Insurance Association (CLHIA) is pleased to provide its recommendations to the Minister of Finance in advance of the 2023 Federal Budget.

Life and health insurers play a key role in providing financial security to Canadians.

Protecting 29 million Canadians

27 million with drug, dental and other health benefits

22 million with life insurance averaging $236,000 per insured

12 million with disability income protection

$113 billion in payments to Canadians

$58 billion in annuities

$41 billion in health and disability claims

$14 billion in life insurance policies

$8.8 billion in tax contributions

$1.6 billion in corporate income tax

$1.4 billion in payroll and other taxes

$1.7 billion in premium tax

$4.1 billion in retail sales and payroll taxes collected

Investing in Canadians

$1.1 trillion in total invested assets

91% held in long-term investments

Below are our detailed recommendations for Budget 2023.

3. SUPPORTING WORKPLACE HEALTH BENEFITS PLANS

Life and health insurers work together with employers to offer a wide variety of health services through employer sponsored benefit plans. In 2021, insurers paid a record $40.8 billion in total health claims– up 11 percent from 2020.

Canada's blend of public and private group health insurance means more Canadians can receive the health care they need more quickly. The current public-private approach means that governments and employers work together to provide affordable and accessible healthcare for Canadians.

Canadians value their benefit plans, which provide them with access to prescription medicines, vision care, dental care, and mental health supports. In the current economic climate, both large and small employers use benefit plans as a retention and recruitment tool.

Support for accessible dental care

Millions of Canadians rely on workplace benefits plans to access dental services and in 2021, the industry paid over $9 billion in dental claims. Eighty-eight per cent of Canadians with access to an employer sponsored benefits plan say that they find it helpful with access and affordability for a variety of health services, including dental care.

While the current system works for many, there are gaps that leave some with limited or no coverage for dental care. We applaud the federal government on its stated intention to provide access to those without dental coverage.

It is important that the new program target supports for those without access to existing coverage in a way that would not reduce benefits and coverage from workplace benefits plans and would not result in fewer Canadians accessing dental benefits. This can be achieved by offering a tax credit to small businesses, which could serve as an incentive for employers to keep plans and ensure that Canadians continue to receive the coverage they rely on. As the federal government works to expand its Canada Dental Benefit to more Canadians, we encourage close collaboration with all payers.

We recommend that the federal government target supports to those without access to existing dental coverage in a way that does not incentivize employers to drop plans or reduce coverage. Our sector has expertise to share and would welcome the opportunity to work with the government as it expands the Canada Dental Benefit.

All Canadians should be included in a strategy to help those affected by rare diseases

Canadians pay some of 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. Additionally, from 2012 to 2019, expenditures on rare disease drugs grew by 32 per cent—more than six times the rate for all prescription medicines. With inflation on the rise, it is even more crucial that the federal government's work on the rare disease strategy be accelerated.

The federal government needs to work together with private insurers, along with provincial and territorial governments, to find the best way to increase access to high-cost medications in a fiscally sustainable way. The life and health insurance industry is a key contributor to supporting Canadians with rare disease drugs. For instance, in 2020, insurers paid out more than $650 million in coverage for rare disease drugs to over 15,000 Canadians.

Patients should be the focus of the federal rare disease strategy and all Canadians must be treated equitably regardless of whether they access medications through a public or private plan. It is crucial that both private and public payers are integrated into all aspects of the strategy, including the funding model, from day one. With both private and public payers working together, we can ensure that patient access to these medications is seamless, and employers are supported as they continue to offer rare disease drugs to their employees.

Private insurers want to work with the federal, provincial and territorial governments to develop a standard list of medicines that all Canadians can access regardless of where they live or whether they have workplace benefits. The industry would also like to see Canadians have access across the country not only to this standard formulary of medicines but also to high-cost medicines used to treat chronic and rare diseases.

All Canadians should be included in the Rare Disease Strategy, regardless of whether they access medications through a public or private plan.

Canada Pharmacare Act

27 million Canadians access their needed health benefits through their workplace benefit plans. These plans cover large and small employers; public employers and private employers; and cover Canadians in every province and territory. We know Canadians value their workplace benefit plans that give them access to affordable prescription drugs in addition to dental care and health benefits.

Health benefit plans are a key pillar of Canada's health care system. Public benefits have a history of working in concert with the private sector's offering of health benefits to support workers and their families. Working together, our health system helps to support Canadians – whether in a public or private plan – by improving access to health care in an affordable way.

Budget 2022 committed the Government to introduce a Canada Pharmacare Act in 2023. We believe it is critical that the proposed Act build on the successes of Canada's prescription drug system that is working well for millions of Canadians. The Act should recognize the role of the provinces and territories in the delivery of health care as well as the strengths of our current system. It should aim to enhance coverage across the country by introducing a minimum formulary to ensure all Canadians have access to medication regardless of where they live.

Any new program must not create incentives for employers to reduce or eliminate the coverage Canadians already have through their workplace benefit plans. Unravelling private plans will hurt Canadians at a time where issues of affordability are a priority. Most workplace benefit plans include coverage for over 10,000 drugs. In comparison, provincial plans offer between 2,000 and 7,500 drugs, with the majority of public plans offering coverage for 4,000 drugs. It is crucial that reforms do not erode coverage. Canada's public-private mixed system works well for the overwhelming majority of Canadians and helps ensure the long-term sustainability of the healthcare system. It will be important to ensure that pharmacare reforms are focused on those without coverage.

More specifically, the Act should focus on an affordable solution and clearly articulate the scope of coverage for any programs that result from the Act. We believe that that this can be achieved though the inclusion of an explicit reference in the Act committing to targeting drug coverage to those without coverage.

Our industry also supports the development of a minimum national formulary to ensure that Canadians have access to a minimum list of medications regardless of where they live and whether they are covered by a public or private health benefit plan.

We recommend that the new Canada Pharmacare Act be principles based and build on what is already working today. The federal government should target supports for those without coverage and avoid creating incentives for employers to reduce or eliminate coverage in workplace benefit plans. We support sustainable funding to the provinces and territories as they work to deliver and improve health care services in their respective jurisdictions.

4. Employment Insurance (EI) reform consultations

In our submission on the first Phase of EI reform we asked the government to transform the Premium Reduction Program (PRP) in order to make it attractive to employers.

Our members were active participants in Phase 1 of Employment and Social Development Canada's (ESDC) review of Employment Insurance. We were pleased the "What we Heard Report" reflected our industry' views that:

- The EI Program must be financially viable,
- EI Program must focus on program's core insurance principles of income support during sickness,
- The important role of insurers in the Premium Reduction Program (PRP) and core issues of importance to our sector – ensuring flexibility so that more employer sponsored plans can qualify, and simplifying and digitizing the process.

The program today is cumbersome, with a lengthy application program and assessment period by Service Canada. We ask that the government consider stability and flexibility as foundational elements as it considers implementing changes to the PRP, and that the program include the full range of disability income plans. Employers and their employees continue to absorb unexpected shocks due to rising inflation – moving too quickly will negatively affect Canadians. A staged approach to the changes is preferred. We believe that our industry can serve as a strong partner in this work given our members' close relationships with employers.

We ask that the government modernize and update the PRP as part of the second phase of Employment Insurance reform to make it attractive to employers.

5. 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 towards an even more robust and coherent regulatory framework to protect consumers while promoting innovation, and a dynamic insurance market in Canada.

Our industry commends the government's willingness to modernize privacy legislation within Canada. While the *Personal Information Protection and Electronic Documents Act* has served Canadians well for over 20 years, it is important that the updated legal framework reflects the growing data-driven economy and new ways of protecting personal information.

Generally, the industry is supportive of the new privacy legislative framework as set out in Bill C-27. However, we believe that Bill C-27 can be enhanced with some key technical changes. CLHIA will provide a submission to the federal government detailing these recommended changes.

It is crucial to move quickly with a modernized private sector privacy legislation to keep current with new technologies and innovations in the marketplace and to retain adequacy with the European General Data Protection Regulation.

We recommend that the federal government expeditiously move ahead with Bill C-27. The industry will continue to work with the government on technical refinements to Bill C-27 in order to facilitate a modernized and coherent regulatory framework across all Canadian jurisdictions.

6. SUPPORT PRIVATE SECTOR INVESTMENT IN SUSTAINABLE INFRASTRUCTURE PROJECTS

The nature of Canadian life and health insurance products − routinely lasting more than 50 years − results in predictable, long-term, liabilities. As such, life insurers are ideal financial partners for long-term infrastructure projects, including public-private partnerships (P3), as they can commit to long-term financing. This inherent structural advantage makes the industry an important and stable investor in long-term assets.

Insurers remain a leading source of long-term infrastructure financing and have participated in various infrastructure projects ranging from roads to wastewater systems. In 2021 alone, the industry invested $60 billion in infrastructure. However, the industry is able and wants to do more. The industry is well positioned to continue as a partner in Canada's P3 projects and has the capacity to make more investments in Canada's infrastructure.

In addition to the economic benefits, we also recognize the role sustainable infrastructure plays in mitigating climate change and adapting to it by minimizing its associated consequences on mortality, public health and livelihood. While managing climate change is of interest to many, it is an area of significant and growing concern to the life and health insurance industry and we see it as our responsibility to support a transition to a resilient, lower carbon future.

As a substantial investor in the Canadian economy, the industry is well positioned to support the transition to a resilient and lower carbon economy through investment in sustainable financial products and assets, including infrastructure. However, insurers' capacity to invest more is not matched by available sustainable assets.

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 five years. Bringing forward these regulations would encourage greater private sector investments in infrastructure and FinTech.

We recommend the government leverage our industry's investment capacity to expand and accelerate long-term infrastructure projects. This can be achieved by structuring projects to attract long-term investors, allowing Canada to modernize its infrastructure and make the economy more productive and competitive. We would encourage the Government to develop government policies and bring forward regulations to encourage private investment in infrastructure.

7. 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 lifetime income in their retirement by broadening the scope of these initiatives. This is particularly urgent with rising inflation impacting Canadians' ability to save for their retirement.

VPLAs as enacted would only be available to members of very large defined contribution (DC) pension plans, excluding the millions of Canadians who work for smaller employers with DC plans or save for their retirement through group and individual 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 have grown, they have 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, including RRSPs, RRIFs, etc.; and***

- ***The liquidity requirements in TFSA rules be waived to allow Canadians to use TFSAs to supplement retirement savings.***

8. CONTINUE TO ISSUE REAL RETURN BONDS (RRBs)

Pension plans and insurance companies rely on RRBs as an effective tool for hedging inflation. In the absence of RRBs, plan sponsors and annuity providers that provide index-linked benefits would face higher inflationary risk and will need to look for alternatives for inflation hedging. However, there are no alternative Canadian investment solutions that hedge inflation as effectively as RRBs. As such, these alternatives will likely be more expensive and less effective, increasing plan sponsors' risk and costs.

Without RRBs, pension plans and annuities linked to inflation will be less equipped to account for inflation. This could make it harder to determine how much money to set aside to pay members future benefits and to determine lump sum values for Canadians. This could result in less retirement security for Canadians and increased risk of Canadians receiving inadequate retirement benefits.

RRBs play a critical role in the protecting the financial and retirement security of Canadians. The federal government's decision to cease the issuance of RRBs will negatively impact the retirement security of Canadians, as well as insurers.

We recommend that the government continue to issue RRBs at more regular intervals to protect the financial and retirement security of Canadians.

9. REDUCE ANTI-COMPETITIVE TAXATION ON LIFE INSURERS

As noted above, the life and heath insurance industry provides financial protection to over 29 million Canadians and makes significant tax contributions to the federal and provincial governments ($8.8 billion in 2022). However, various revenue measures announced in the 2022 Federal Budget unfairly target financial institutions (FI) including life insurers.

We believe that the government's policy to charge banks and insurers, on a permanent basis, an additional 1.5 percent tax on taxable income greater than $100 million creates an inequitable sector specific two rate structure for corporate taxation in Canada. Ultimately, higher taxes increase the price of products and services these FIs provide to Canadians further adding to the affordability challenges Canadians are facing in the current inflationary environment.

While the corporate tax system in Canada already includes a rate differential between small business corporations (SBCs) and other corporations as well as some targeted initiatives such as accelerated capital cost allowance, etc., we believe this higher corporate tax on banks and insurers is unfair, inequitable and is not good tax policy. Profits made by corporations (other than SBCs) should be taxed at the same rate as profit from any other business, whether that be oil and gas, grocery chains pharmaceuticals, telecommunications or big box retail chains. While this has been noted as taxing the windfall profits during the pandemic, we would note insurers did not experience windfall profits. Furthermore, there were other industries with notable windfall profits that have not been targeted by this tax.

The government's rationale for continuing to impose a heavier tax burden on life and health insurance companies considering the vital financial services we provide to Canadians, especially in uncertain economic times, is not clear to us.

The CLHIA urges the government to re-evaluate and repeal the additional 1.5% corporate tax rate to restore a more equitable corporate tax rate to apply on all Canadian corporations.

10. CONCLUSION

Should you have any questions, you may contact Susan Murray, Vice President, Government Relations and Policy at smurray@clhia.ca.

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