2021
Provincial Budget Submission

Presented to
The Honourable Peter Bethlenfalvy
Minister of Finance and Treasury Board President
Government of Ontario

Canadian Life and Health Insurance Association
February 2021

Executive Summary

The Canadian Life and Health Insurance Association (CLHIA) is pleased to provide its comments in advance of Ontario's 2021 Budget. 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 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 protect Canadians through health benefit plans, travel insurance and other financial security products.

The life and health insurance industry has provided support in several areas, including:

- Proactively providing premium reductions and other forms of relief to employers offering group benefits plans, helping them and their employees get through this unprecedented economic crisis—98.5 per cent of Canadians who had supplemental health insurance in March 2020 continued to have coverage at year end;
- Assisted an unprecedented number of Canadians activate travel insurance to get home following the Government of Canada's global travel order; and
- Worked with governments to have life and health insurers designated an essential service so that benefits could continue to flow without interruption to Canadians while enabling employees to work from home wherever possible

Our industry will continue to work closely with all levels of government. In Budget 2021 we recommend that the Government of Ontario:

1. ***Ensure Ontarians continue to have access to affordable prescription drugs*** by:
    - Supporting workplace and individual drug plans that provide 10.2 million Ontarians with comprehensive access to medicine; and
    - Working with our industry to bring down drug costs and enhance access to high cost medicines, including for rare diseases.

2. Continue to ***protect vulnerable Ontario seniors from financial exploitation*** by ensuring that proposed changes to the *Insurance Act* in Private Member Bill 219 do not move forward.

3. Develop a tangible plan to ***reduce, and eventually eliminate, the retail sales and premium taxes on life and health insurance***, which discourage Ontarians from purchasing essential life, health and disability insurance.

4. In order to ***provide sustainable, affordable retirement income options***:
   - Monitor and parallel forthcoming federal measures to introduce Variable Payment Life Annuities and Advanced Life Deferred Annuities; and
   - Enable automatic pension plan participation to make it easier for Ontarians to achieve lifetime financial security through higher retirement income.

5. Continue to ***collaborate with key stakeholders to ensure that changes to financial professionals titling protect Ontarians***, while not leading to unnecessary regulatory burden.

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

7. ***Collaborate with the industry to increase the supply of sustainable investments***, such as infrastructure, low-carbon electricity generation and climate transition projects.

The industry greatly appreciates the opportunity to provide comments on Ontario's 2021 Budget. Should you have any questions, you may contact Susan Murray, Vice President, Government Relations and Policy at smurray@clhia.ca.

2021 Ontario Budget Submission

The Canadian Life and Health Insurance Association (CLHIA) is pleased to provide its comments to the Minister of Finance and Treasury Board President in advance of Ontario's 2021 Budget. The CLHIA is a voluntary association with member companies which account for 99 per cent of Canada's life and health insurance business.

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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 to return home, including "snowbirds" with travel medical insurance in the southern United States

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 $2.4 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 make a number of recommendations which will contribute to the fiscal sustainability, competitiveness and prosperity of Ontario as it recovers from the COVID-19 pandemic and the association economic impacts. including:

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 funded by employers, unions and other professional organizations.

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 July 2021. 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 at the end of December.

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. We recommend that all Canadians be covered through a plan offered either by an employer, union or other professional organization or by the government. This would address access issues, ensure that Canadians with existing plans do not see their coverage reduced while also using public funds in the most efficient and effective way.

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. The life and health insurance industry looks forward to working with the federal government through their consultation process as they develop a strategy for high cost drugs for rare diseases.

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 and enhance access to high cost medicines.

2. PROTECT SENIORS FROM FINANCIAL EXPLOITATION

If passed, Private Member Bill 219, *Life Settlements and Loans Act*, would amend section 115 of the *Insurance Act* to permit trafficking in life insurance policies. This practice, also referred to as "life settlements" is currently prohibited in Ontario, as it is in almost every province. Under life settlement contracts, individuals sell their life insurance policy to a third party in exchange for a cash payment, usually substantially discounted below the face value of the policy; this valuation is entirely non-transparent to the policy holder – there is no fair and transparent market for the "trading" of life policies.

US-based or US-backed life settlement companies typically target low-income seniors and those with medical conditions who may be expected to die sooner. Bill 219 would expose an extremely vulnerable population to potential financial exploitation, often without the knowledge of the individual's family or loved ones. In the context of COVID-19, life settlement companies are anxious to open up markets in Ontario and Canada as more Canadians are struggling financially, providing more opportunities for financial exploitation.

To protect consumers, the majority of provinces prohibit life settlements. In recent years, both New Brunswick and Nova Scotia have prohibited the practice outright. Were Bill 219 to pass it would bring Ontario offside most other jurisdictions in Canada.

Insurers already offer safe, regulated and viable solutions to the policyholders: clients can apply for living benefits under the policy, take out a policy loan or reduce the policy's face amount to make premiums more affordable. For vulnerable clients, these options are preferable to selling their policy at a discounted price, taking a tax hit and giving up their privacy rights. A trusted insurance advisor can help clients decide which of these options will suit their needs.

We encourage the Government of Ontario to protect seniors from financial exploitation by ensuring that Bill 219, Life Settlements and Loans Act, does not move forward.

3. SUPPORTING A DYNAMIC AND INNOVATIVE BUSINESS CLIMATE

Ontario imposes a two per cent tax on life, health and disability insurance premiums 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, 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.

4. PENSION INNOVATION

<u>New types of annuities</u>
We support enhanced retirement income security for all Ontarians, including access to widely available, effective and innovative retirement income solutions. 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.

To help address this, the 2019 federal budget proposed two measures – Variable Payment Life Annuities (VPLAs) and Advanced Life Deferred Annuities (ALDAs). These products pool individuals' longevity risk to provide an enhanced and more secure source of earnings in retirement for Canadians. Our industry supports these measures; however to provide the broadest possible access to Canadians, we also support standalone VPLAs as well as VPLAs being made available to members not in large Defined Contribution pension plans.

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 and employees are concerned about the ability to retire ‘on time’. Employees work longer because they believe they cannot afford to retire, which has health and economic impacts. 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 individuals to achieve lifetime financial security through higher retirement income, improving the province’s productivity, competitiveness and health outcomes.

5. TITLING FOR FINANCIAL PROFESSIONALS

The 2019 budget implementation bill, *Protecting What Matters Most Act (Budget Measures), 2019*, enacted the *Financial Professionals Title Protection Act, 2019* (the Act). The Act prohibits any individual from using the title Financial Planner or Financial Advisor unless the individual has obtained an approved credential from an approved credentialing body.

In August 2020, the Financial Services Regulatory Authority (FSRA) published for comment Proposed Rule [2020-01] outlining the proposed framework to give effect to the provisions of the Act. Despite the industry’s representations, the Proposed Rule explicitly ruled out the Harmonized Life License Qualification Program (HLLQP) as satisfying the criteria to use the Financial Planner or Financial Advisor title.

Life and health insurers support the advancement of title protection for the benefit of our customers, advisors and the industry as a whole. Licensees are currently subject to regulatory educational requirements and oversight. Specifically, the HLLQP requires advisors to first complete a course that then certifies them to complete a series of four comprehensive exams. Course providers are required to meet strict eligibility criteria created by the Canadian Insurance Services Regulatory Organizations. Topics covered by the exams cover the core baseline competencies included in the proposed Rule. Further, licensees are subject to oversight for the advice they give by their licensing body (FSRA), and the insurers whose products that they sell. As a result, completing the HLLPQ 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.

We remain of the view that requiring holders of the HLLQP to acquire additional credentials is unnecessary and adds additional regulatory burden to professionals who are already subject to a robust provincial licencing process and regulatory oversight.

If the Proposed Rule when enacted continues to deem holding the HLLQP an insufficient basis for the Financial Planner or Financial Advisor titles, any gaps could be addressed, for example, through updates to the HLLQP Continuing Education Requirement and we would urge transparency and clarity in terms of why the HLLQP is considered insufficient. There should also be an articulation of the additional steps that will be required on the part of HLLQP holders in order to call themselves a Financial Planner or Financial Advisor.

We encourage continued collaboration with key stakeholders to ensure that changes protect Ontarians, while not leading to unnecessary regulatory burden for advisors, many of whom are small business owners and operators.

6. INFRASTRUCTURE INVESTMENT

World-class infrastructure is vitally important to maximizing economic development and prosperity throughout Ontario and Canada as we compete to grow in a challenging economy. Economic recovery in the wake of COVID-19 hinges on building both for the economy we want and kick starting the economy we have right now. There are important infrastructure investments to be made in Ontario's public transit, roads, hospitals and schools. In particular, the life and health insurance industry looks forward to formal government commitments in the establishment of fast, frequent two-way all day GO service along the Innovation Corridor, which could deliver $17.5 billion in direct annual GDP.

Canadian life insurers are a leading source of long-term financing for infrastructure (re)development. 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 public-long-term infrastructure projects, including 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.

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 the life and health coverage, retirement savings and pension plans upon which Ontarians depend on. 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 by structuring projects to attract long-term investors, allowing Ontario to modernize its infrastructure and make the economy more productive and competitive.

7. SUPPORT ACTIONS TO MITIGATE CLIMATE CHANGE

We support the Government of Ontario taking action to reduce, mitigate and adapt to the risks of climate change. While the immediate impact of climate change—more frequent and severe storms, flooding, drought and forest fires—is obvious to property and casualty insurers, climate change also presents a complex and long-term risk to public health, and consequently to life and health insurers. As such, 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 lower-carbon future.

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 $50 billion invested in products or assets that integrate ESG or sustainability factors.

Several Canadian life and health insurers have publicly supported the Financial Stability Board's (FSB) Task Force for Climate-related Financial Disclosure (TCFD) recommendations. These disclosures provide key data to help insurance companies manage climate-related risks as asset owners. In addition, some are also signatories of the United Nations-supported Principles for Responsible Investment (PRI) and the UN Environment Programme (UNEP) Principles for Sustainable Insurance (PSI). The CLHIA itself also recently became a supporting institution of the PSI alongside with the Insurance Bureau of Canada (IBC) and the International Actuarial Association (IAA), which is headquartered in Canada.

However, the industry is able and wants to do more. Currently, insurers' capacity to invest more is not matched by available sustainable assets. Further there is a lack of simple and clear definitions for sustainable investments and green financial products.

The industry is available to collaborate with the government on the issue of lack of supply of sustainable assets for investment, such as infrastructure, low-carbon electricity generation and climate transition projects. The industry is also available to support policymakers in developing clear language and definitions for the various investments and financial products that meet ESG criteria.

CONCLUSION

The industry greatly appreciates the opportunity to provide comments on Ontario's 2021 Budget. Should you have any questions, you may contact Susan Murray, Vice President, Government Relations and Policy at smurray@clhia.ca.

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