Submission

on the

2019 Federal Budget

to the

House of Commons Standing Committee on Finance

by the

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EXECUTIVE SUMMARY

The Canadian Life and Health Insurance Association (the "CLHIA") is pleased to provide its recommendations for the upcoming 2019 Federal Budget. Our recommendations align with the Government's priorities ***to support and/or encourage Canadians and their businesses to grow the economy in the face of a changing economic landscape.***

Canada's life and health insurers play a strong role in supporting the Canadian economy. Almost 155,000 Canadians work within the sector (as employees or independent agents). The industry is a major investor in Canada with more than $810 billion in assets, over 90% of which comprise long-term investments, providing an important source of stable capital for the federal and provincial governments and businesses. Canadian life insurers contributed over $2.3 billion in corporate, capital, sales and other taxes to the federal government for the 2016 calendar year. Canada's life insurers have a long record of operating in international markets, with $86 billion (or 47%) of their premiums coming from outside the country. The industry also plays a key role in providing a social safety net to Canadians. We protect over 75% of Canadians through a wide variety of life, health, and pension products. The industry paid $88 billion (almost $1.7 billion a week) in benefits in 2016, with over 90% paid to living policyholders.

In this submission, we recommend the following five initiatives that align with the Government's key priorities for the 2019 budget:

- ***Ensure the federal government works with life and health insurers to reform prescription drug coverage in Canada to help improve patient access to the medicine they need at affordable prices, while protecting strong workplace health benefit plans and ensuring tax dollars are used wisely;***

- ***Allow Canadians in and approaching retirement to obtain more secure, guaranteed, lifetime incomes through more flexible annuity options within registered pensions, RRSPs, RRIFs and TFSAs;***

- ***Reduce or eliminate the capital tax on Canadian financial institutions to encourage competitiveness; and***

- ***Encourage the Government to continue its efforts to achieve a successful conclusion to the NAFTA negotiations and support removing restrictions on data localization within the agreement.***

- ***Continue to make investments to mitigate the effects of climate change and to continue to work with the life and health insurance industry on this issue.***

Our recommendations are sustainable and will help drive prosperity for all Canadians.

2019 FEDERAL BUDGET

1. SUPPORTING A HEALTHY WORKFORCE

Canada's life and health insurers believe all Canadians should be able to access affordable prescription drugs. Today, life and health insurers provide 25 million Canadians with access to a wide variety of prescription drugs and other health supports, including vision care, dental, and mental health support, among others, through extended health care plans. These benefit plans are highly valued by Canadians and this market works well today.

The industry shares the government's desire to ensure that prescription drugs are more affordable for everyone, especially for those who do not enjoy the benefits of a group employer plan today. We are supportive of the work being done through the federal government's Advisory Council on the Implementation of Pharmacare. The work of the Advisory Council is important to improve our current system so that it works better for all Canadians.

However, it is important to note that meaningful reductions in prescription drug prices and improving access for all Canadians can be achieved today 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 would therefore recommend that private plans be included in the pCPA.

Further reforms to the current system should not negatively impact the millions of Canadians who have access to prescription drugs and other health supports today. A solution needs to be balanced whereby access to prescription drugs is expanding at affordable prices, while ensuring workplace health benefits plans are protected and tax dollars are used wisely. To achieve this, the federal government should focus the use of tax dollars on those who lack any sort of drug coverage today and to work together with insurance providers to negotiate lower drug prices.

We recommended that the federal government work with life and health insurers to reform prescription drug coverage in Canada to help improve patient access to the medicine they need at affordable prices, while protecting strong workplace health benefit plans and ensuring tax dollars are used wisely.

2. ENHANCING RETIREMENT INCOME SECURITY

Secure, adequate, income for life is becoming less common for Canadian retirees. While Old Age Security and the expanding Canada and Quebec Pension Plans provide some income certainty, the continuing shift from Defined Benefit pensions to Defined Contribution plans, RRSPs, RRIFs, PRPPs and TFSAs places undue onus on individuals to make sure they have sustainable retirement income. New measures are needed to help Canadians attain guaranteed retirement income security.

Being able to further defer the start of OAS and C/QPP benefits would allow Canadians to draw down private savings in the near term, and transition to guaranteed public benefits at later ages. Similarly, allocating a portion of private savings within registered plans to provide life annuities starting at advanced ages would allow Canadians to better manage their assets, rather than over-saving and under-consuming, for fear of “living too long and running out of funds”. Annuities are the best way to guarantee income for life, since they provide predictable income and longevity risk is transferred to insurers.

Allowing periodic purchase of life annuities by registered plans in the years before retirement – and allowing the income from those annuities to be deferred until after retirement – also allows individuals to mitigate investment risk, since they are less exposed to interest rates in effect at retirement age, and interest rates are a key factor in the income provided by annuities.

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 of life annuities within TFSAs**. Consumers should be permitted to waive this liquidity requirement, at least at older ages.

While **traditional annuities provide fixed incomes, arrangements that pay incomes based on current investment returns – and adjust incomes based on the evolving life expectancies of participants** – are also possible. The University of British Columbia Faculty Pension Plan provides such features, but current tax law prevents such new arrangements from being offered. **This flexibility should be reinstated** and made available to other DC pension plan members, as well as to RRSP, RRIF, and TFSA holders.

These options would allow individuals within tax-advantaged savings and retirement plans to "lock in" guaranteed income streams at opportune times while adding no cost to the tax system, since those savings are already exempt from tax reporting until actually paid out of such plans. Tax costs associated with deferring payout are a reasonable trade-off for enhanced income security.

We recommend the government allow Canadians in and approaching retirement to obtain more secure, guaranteed, lifetime incomes through more flexible annuity options within registered pensions, RRSPs, RRIFs and TFSAs.

3. REDUCING OR ELIMINATING CAPITAL TAX ON FINANCIAL INSTITUTIONS

Internationally, governments continue to strengthen regulatory capital requirements of financial institutions (FIs) to protect consumers and prevent the need for costly taxpayer-funded bail-outs. Canada is no exception. However, Canada is the only major country to also levy a tax on the very same regulatory capital held to protect consumers.

In 2016, life insurers paid over $290 million in federal capital taxes in addition to the income taxes paid on corporate profits. While the CLHIA has repeatedly advocated eliminating this tax, the introduction of a new regulatory capital framework this year has further increase the capital tax burden of life insurers, making capital tax even more punitive.

Capital tax perversely increases life insurers' cost of capital both directly and indirectly, limiting their ability to strengthen capital levels, to underwrite additional risks, and to provide greater protection for Canadians. This contrasts with the Government's general policy to reduce the "hurdle rate" for new investments for manufacturers and other businesses by providing tax incentives such as accelerated capital cost allowance and other tax credits. Studies generally indicate that a 10% increase in the cost of capital leads to a 7% to 10% reduction in investment in the long run.

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 encourage their competitiveness. If elimination is not possible in the short term, ***the CLHIA recommends that the capital tax rate be reduced immediately to ensure reasonable recoverability against corporate income tax***. Such clear Government action would send an unequivocal message that capital accumulation by FIs to protect consumers is encouraged and supported.

4. FURTHERING INTERNATIONAL TRADE

Canadian life and health insurers are strongly supportive of the Government’s efforts to increase Canada’s trade through international agreements. The industry is supportive of Canada’s decision to sign on to the Comprehensive and Progressive Agreement for the Trans-Pacific Partnership (CPTPP) and strongly supports the timely ratification of the agreement by the Government.

The industry continues to work closely with the Government to support the North American Free Trade Agreement (NAFTA). The stability provided by NAFTA has allowed North American businesses to grow in a predictable, transparent and competitive environment. The unrivalled benefits of NAFTA have become so entrenched in North American business operations that NAFTA itself is a core component of what makes North America an attractive place to do business.

While the priority of the negotiations must be to preserve the existing benefits of the agreement, we continue to support ongoing efforts to modernize the agreement. One element that is of importance to our industry is removing the restrictions on data localization. With new developments in technology around the world, such as cloud solutions for data storage, it is important that insurers have the ability to store their data remotely where it is the most cost-effective and secure solution. Recognizing the importance of access to data by regulators, insurers would continue to ensure that the Canadian prudential regulator would have unimpeded and immediate access to the data, including in the event of a crisis.

We support the Government’s efforts to achieve a successful conclusion to the NAFTA negotiations and support removing restrictions on data localization within the agreement.

5. SUPPORT ACTIONS TO MITIGATE CLIMATE CHANGE

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

Climate change presents a unique risk to life and health insurers. Climate change, 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, which will create particular challenges for travel insurers, as Canadians often vacation in areas that are particularly susceptible, including the Caribbean. While managing climate change is of interest to many, it is of particular interest to the life and health insurance industry.

We support the Government's continued investment in mitigating climate change and looks forward to continuing to work with the Government on this issue.