Conference for Advanced Life Underwriting: Submission re Bill C-59

Overview

On behalf of the Conference for Advanced Life Underwriting (CALU), we are pleased to provide this submission for consideration by the House of Commons Standing Committee on Finance as part of its study concerning **Bill C-59, An Act to implement certain provisions of the budget tabled in Parliament on April 21, 2015 and other measures**.

CALU is a national professional membership association of established financial advisors (life insurance, wealth management and employee benefits), accounting, tax, legal and actuarial professionals. For more than 20 years, CALU has engaged in political advocacy and government relations activities on behalf of its members and the members of its sister organization, Advocis. Through these efforts, CALU represents the interests of more than 11,000 insurance and financial advisors and in turn the interests of millions of Canadians.

Approximately 11 million Canadians (23 per cent of the population) will have reached the age of 65 by the year 2036, with the expectation of enjoying longer life spans. The federal government has advanced several programs and policies to meet the needs of these seniors, including raising awareness of financial planning needs and resources, the introduction of the Pooled Registered Pension Plan and as part of Bill C-59, a reduction in the required minimum amount that must be withdrawn annually from a registered retirement income fund, an increase in the contribution limits for Tax-Free Savings Accounts (TFSAs), extending compassionate care benefits as well as the home accessibility tax credit.

CALU has been working with leading financial experts to develop options to further enable the preparedness and independence of Canada's aging citizens, options that we believe work within the existing federal tax policy framework. In addition to providing Canadians with the right tools to yield maximum benefits of their savings intended for their retirement needs and security, our proposals with respect to insurance will save precious government resources through reduced reliance on public programs and institutions for support.

Introduction

Over the past 35 years, the average life span of Canadians has increased by approximately four years. A recent study[1] by the Office of the Superintendent of Financial Institutions (OSFI) predicts further gains in the future, with average life expectancy increasing to age 90 within the foreseeable future, and a steadily increasing number of Canadians achieving centenarian status.

Canadians can be proud of the comprehensive health and social programs implemented over the past 30 years that have contributed to increased longevity. However, this trend also poses a growing threat to the well-being of aging Canadians. In particular – that their retirement savings will not be sufficient to ensure a reasonable standard of living throughout the duration of their retirement years.

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Both the federal and provincial governments have recognized this issue and taken proactive steps to shore up the Canadian retirement system, including the introduction of Pooled Registered Pension Plan and more recently, the consideration of target benefit pension plans.

CALU commends the government for heeding its recommendation that the RRIF minimum withdrawal rules be modified as part of the 2015 federal budget and reiterates its call to have the government implement a regular review of these rules on a timely and ongoing basis. Such regular reviews would ensure the RRIF minimum withdrawal rules continue to take into account current economic factors and longer term demographic trends.

It must also be recognized that expenses relating to long-term care that often arise later in life can quickly deplete retirement savings. Long-term care needs can range from periodic support in the home through to more formalized institutional care, from weekly assistance for buying groceries to meeting more formal housing, medical, or social needs. The Canadian Life and Health Insurance Association (CLHIA) estimates that the increased longevity of baby boomers now moving into their retirement years will result in a $600 Billion funding shortfall for provincial long-term care programs over the next 35 years. Canadians need to be better educated on this issue and start making provision for these expenses as part of their retirement plans.

Delivering Quality Long-Term Care Support for Canadians

Providing quality long-term care support is one of Canada's fastest growing priorities. As Canadians live longer, the more likely they will be managing a chronic disease and will need some degree of support, whether it's in the home or in an institutional setting. Long-term care can range from periodic support in the home through to more formalized institutional care. Types of specialized care could include weekly assistance for buying groceries to more formal housing, medical, nursing, social or therapeutic treatments. According to Statistics Canada, the chances of requiring long-term care are one in ten by age 55, three in ten by age 65 and one in two by age 75. It is estimated that by 2036 more than 750,000 Canadians over the age of 65 will reside in health care institutions (compared to about 300,000 today).

Many Canadians have the mistaken belief that all of their long-term care needs will be met through programs and services funded by provincial governments. However, long- term care is not included under the *Canada Health Act* and, therefore, is not available to Canadians on a universal basis. While government programs aimed at assisting Canadians with long-term care needs currently exist, these programs vary by jurisdiction and are typically income-based. In the majority of cases, Canadians will be largely responsible for the cost of their long-term care needs.

A recent paper by the CLHIA and report by the C.D Howe Institute provide an excellent overview of the long-term care situation in Canada and explore several avenues to addressing this complex and multi-layer issue; to varying degrees, provincial and federal governments are also reviewing solutions in a number of key areas.

CALU reiterates its recommendation made as part of its 2015 pre-budget submission that the federal government continues to take a leadership role on this important issue, and in particular that a federal tax incentive be implemented to encourage Canadians to become more self-sufficient with respect to their long-term health care needs through the purchase of long- term care insurance.

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Currently, ownership by Canadians of long-term care insurance (LTCI) is low, and one of the reasons for this is a general lack of awareness relating to the extent of the long-term care costs and who is responsible for funding these costs. On the other hand, in the United States the percentage of LTCI ownership, and hence the ability of individuals to self-fund their long-term expenditures, is much higher.[2]

CALU believes that greater ownership by Canadians of individual LTCI is an important solution to this growing funding problem. LTCI is designed to help cover the cost of care for individuals who have lost the ability to care for themselves, allowing the option to stay at home with appropriate nursing care, or to seek out care in a long-term care facility. Once a claim is triggered, LTCI typically provides a daily, weekly or monthly cash benefit which can be used at the discretion of the policyholder to fund costs associated with their care or more general living expenses.

While CALU commends the government for the introduction of some long-term care initiatives in the 2015 budget including the home accessibility tax credit and extending compassionate care benefits, these initiatives are a small step in a larger battle.

CALU is therefore recommending that the federal government consider one of the following options as part of its 2016 budget:

1. **Permit LTCI to be a qualifying investment for an RRSP or RRIF; or**

2. **Permit RRSP annuitants to withdraw up to $2,000 per year from their RRSP or RRIF (to a total of $24,000) to fund the purchase of qualifying LTCI.**

CALU also continues to recommend that the federal government work with provincial and territorial governments to develop a national approach to educating and informing Canadians as to the need to plan for their long-term care funding expenses, and developing a more unified approach to determining subsidized access to long-term care services.

Endnotes

1 All reports and studies referenced in this submission may be viewed at the CALU website www.calu.com/CALU 2015 Pre-Budget Submission.

2 Approximately 5% of the U.S. population aged 55 and over own LTCI vs. less than 1% of Canadians within the same age range.

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