2020
Federal Budget Submission

Presented to The House of Commons Standing Committee on Finance

Canadian Life and Health Insurance Association
August 2019

Executive Summary

The Canadian Life and Health Insurance Association (the "CLHIA") is pleased to provide its recommendations for the upcoming 2020 Federal Budget. The industry plays a key role in the Canadian economy, by employing hundreds of thousands of Canadians and by providing an important source of stable capital for the federal government through investments and tax contributions.

The industry employs over 155,000 Canadians, with 57,300 managerial and administrative staff and 97,900 agents, working from offices and agencies across the country.

The industry is highly competitive with 101 life and health insurers providing Canadians with an extensive selection of life, health and disability insurance products as well as pension and retirement savings solutions.

Investing for Canadians

$860 billion - Total assets
$780 billion - 91% held in long-term investments

$7.7 billion in tax contributions

$1.4 billion - Corporate income and capital taxes
$1.2 billion - Payroll and other taxes
$1.5 billion - Premium tax
$3.6 billion - Retail sales and payroll taxes collected

The industry also plays a key role in providing a social safety net to Canadians, protecting millions of Canadians through a wide variety of life, health, and retirement income products

Protecting 29 million Canadians

25 million - With supplementary health benefits
22 million - With life insurance averaging $212,000 per insured
12 million - With disability income protection

$92 billion in payments to Canadians

$45 billion - Annuities
$34 billion - Health and disability claims
$13 billion - Life insurance policies

In this submission, we recommend the following initiatives for the 2020 budget:

- ***Ensure Canadians continue to have access to affordable prescription drugs by supporting workplace benefit plans that currently provide millions of Canadians with comprehensive access to medicines. In particular, we recommend:***
    - ***That the government work with our industry to coordinate efforts to bring down costs through bulk-buying through the pan-Canadian Pharmaceutical Alliance (pCPA);***
    - ***The development of a comprehensive strategy to ensure Canadians have access to high cost medicines for rare diseases when needed; and***
    - ***The establishment of a standard list of medicines for all Canadians, regardless of whether they are covered by a private or public plan.***

- ***Work with the industry to find solutions to 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 by expanding on the retirement income changes introduced in Budget 2019. We recommend that:***
    - ***VPLAs be permitted to pool participants from all registered retirement plans; and***
    - ***The liquidity requirements in TFSA rules be waived to allow Canadians to use TFSAs to supplement retirement savings.***

- ***Phase out the capital tax on Canadian financial institutions to encourage competitiveness.***

- ***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.

2020 Federal Budget

1. SUPPORTING ACCESS TO AFFORDABLE PRESCRIPTION DRUGS

All Canadians should have access to affordable prescription medicines regardless of where they live. Canada's life and health insurers play an important role in providing prescription drug coverage to Canadians. Life and health insurers provide more than 25 million Canadians with access to a wide range of prescription drugs and other health supports through extended health care plans.

However, the industry recognizes that real problems exist in our prescription drug system today and that the time has come to take meaningful steps to make improvements for the benefit of all Canadians.

Improvements must address access issues as well as the cost and financial sustainability of the system. In order to achieve this, it is important that governments work collaboratively with private insurers to ensure everyone has access to their needed medications and to address the relatively high costs faced by Canadians.

That is why our industry was pleased with the federal government's direction towards better coordination of efforts to reduce the high cost of medications as set out in Budget 2019, including the proposed Canadian Drug Agency with a mandate to reduce the cost of drugs for all Canadians and the development of a national formulary to ensure a common level of coverage regardless of where Canadians live or work. We look forward to further details from the government on these measures. We also look forward to hearing more about the funding for rare disease medications and encourage the government to make funding available to all Canadians regardless of whether they access medicines through a public or private plan.

The industry believes that there are three key elements that any reform to 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, including prescription medicines, vision care, dental care, and mental health supports. Canadians value their benefit plans as these plans help prevent illness and contribute to overall wellness for Canadians. A reformed system must ensure the continued viability of the health benefit plans that the majority of Canadians rely upon and value today.

Providing drug coverage for everyone

Governments should ensure that all Canadians can access and afford the medicines they need. To achieve this, we recommend the development of a standard list of medicines for all Canadians regardless of whether they are covered by a private or public plan. This list of drugs would be based on scientific evidence. Public and private plans could continue to offer more medicines but all Canadians would have access to a standard list regardless of where they live or work.

Ensuring affordability for consumers and taxpayers

Meaningful reductions in prescription drug prices and improving access for all Canadians can be achieved today by working 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 therefore recommend that private plans be included in the pCPA. This would allow governments and insurers to negotiate the best prices possible using the entire Canadian market volume while ensuring that all Canadians are treated fairly and pay the same price for the same drug.

In addition, the reforms being proposed to the Patented Medicine Prices Review Board (PMPRB) reform will assist in reducing the cost of prescription drugs in Canada and improving affordability and access for patients. We believe that the proposed changes to the PMPRB guidelines, published in 2018, are essential for ensuring the affordability of prescription drugs in Canada. We believe that the proposed framework strikes an appropriate balance of paying fair prices that contribute to an environment conducive to innovation in the pharmaceutical industry, while ensuring Canadians no longer pay among the highest prices in the world for medication. We encourage the federal government to implement the proposed changes to the PMPRB as soon as possible.

We recommend that the government ensure Canadians continue to have access to affordable prescription drugs by supporting workplace benefit plans that currently provide millions of Canadians with comprehensive access to medicines. In particular, we recommend:

- ***That government work with our industry to coordinate efforts to bring down costs through bulk-buying through the pan-Canadian Pharmaceutical Alliance (pCPA);***
- ***The development of a comprehensive strategy to ensure Canadians have access to high cost medicines for rare diseases when needed; and***
- ***The establishment of a standard list of medicines for all Canadians, regardless of whether they are covered by a private or public plan.***

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 a growing 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.

That is why we were pleased that the federal government introduced changes in Budget 2019 to facilitate the use of Advanced Life Deferred Annuities (ADLAs) and the use of Variable Payment Life

Annuities (VPLAs) in certain pension plans. We believe that these initiatives will provide Canadians with more opportunities to achieve retirement income security.

However, as proposed and in practical terms, VPLAs will only be available to members of large DC pension plans, disadvantaging those who work for small employers or save through other types of retirement plans. 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 grow, they will 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 find solutions to 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 by expanding on the changes introduced in Budget 2019. We recommend that:

- ***VPLAs be permitted to pool participants from all registered retirement plans; and***
- ***The liquidity requirements in TFSA rules be waived to allow Canadians to use TFSAs to supplement retirement savings.***

3. 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 2017, life insurers paid over $200 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 in 2018 has further increased the need to eliminate the capital tax burden of life insurers.

Capital tax perversely increases life insurers' cost of capital, limiting their ability to strengthen capital levels, to underwrite additional risks, and to provide greater protection for Canadians. This contrasts with the Government's continued policy to reduce the "hurdle rate" for new investments for manufacturers and other businesses by providing for 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 enhance their competitiveness. If complete elimination is not possible in the short term, ***the CLHIA recommends that the capital tax be phased out over a reasonable period.*** Such clear Government action would send an unequivocal message that encourages and supports capital accumulation by FIs to protect consumers.

4. SUPPORT ACTIONS TO MITIGATE CLIMATE CHANGE

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 initially create particular challenges for travel insurers, as Canadians often vacation in areas that are particularly susceptible, including the Caribbean. Changes in habitat for infection-bearing species ultimately pose an increasing domestic health threat for all Canadians. 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 look forward to continuing to work with the Government on this issue.

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