Written Submission for the Pre-Budget Consultations in Advance of the 2021 Federal Budget

The Conference for Advanced Life Underwriting (CALU)

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Recommendations:

CALU is pleased to make the following recommendations on measures the federal government could take to restart the Canadian economy as it recovers from the COVID-19 pandemic and to enhance the social safety net and tax equity among Canadians.

Recommendation 1: That the government support small business as the primary engine that will reboot the Canadian economy by removing unfair penalties and barriers that impede succession of small businesses to the next generation of family members.

1.1 That section 84.1 of the ITA be amended to remove tax disincentives that currently arise on the sale of a private corporation to family members and that those rules apply equally to all small business owners who meet the qualifying requirements.

Recommendation 2: That the government support Canadians to adequately fund their retirement and long-term care needs by allowing greater access to investment and retirement products that protect against the risk of out-living one's finances.

2.1 Develop a national seniors' strategy that includes a review of the impact of an aging population on government policies
2.2 Convene a federal, provincial and territorial ministers joint committee to identify and develop common approaches for dealing with long-term care funding issues
2.3 Modify tax rules to support the development of financial products that are geared towards helping individuals and families fund the growing costs of long-term care support
2.4 Implement the legislation governing advanced life deferred annuities (ALDAs) and variable payment life annuities (VPLAs). Given the growing role of tax-free savings accounts (TFSAs) as a source of retirement income we also recommend further legislative changes be made to permit TFSAs to offer annuity payment options as well as extending VPLAs to defined contribution registered plans and TFSAs.

Recommendation 3: That the government close the drug coverage gap that exists in Canada by implementing systemic reforms for national pharmacare for those who have no group insurance today.

3.1 Ensure drug coverage for all by establishing a standard list of drugs that would have to be met by both government and workplace group insurance plans

3.2 Tackle high-cost drugs with a new pan-Canadian partnership that includes governments, insurers and advisors to ensure that those facing catastrophic drug costs for rare diseases don't have to bear that financial burden

3.3 Lower costs by creating a single buyer for prescription drugs through the pan-Canadian Pharmaceutical Alliance to get the best price for public and private health plans, saving billions in drug costs.

Recommendation 4: That the government ensure middle-class Canadians have the opportunity to earn comparable levels of retirement income whether they are in a defined benefit or defined contribution plan, by updating the current regime for registered pension and retirement plans.

4.1 That Finance Canada undertake a consultation process with industry stakeholders with a view to modifying current funding factors in order to create greater equity between various types of registered pension and retirement plans.

Recommendation 5: That the government ensure that rising federal deficits can be managed without having a significant and adverse impact on the recovering Canadian economy.

5.1 That the federal government undertake, with the assistance of key stakeholders, a review of fiscal and tax policies which could be employed to manage the federal deficit in the event that there are future shocks to the economy arising from COVID-19 or related factors.

Overview

CALU is the only national professional organization dedicated to advanced planning issues related to life underwriting, tax planning and wealth management. CALU's industry leading members include insurance and financial advisors as well as accounting, tax, legal and actuarial experts. Through a strategic partnership with Advocis, we advocate on behalf of more than 13,000 advisors in support of fair and competitive public policies to grow and preserve the financial well-being of Canadian families and businesses.

Recommendation 1 - Family Business Succession

Current rules in the *Income Tax Act* (section 84.1) governing private corporations can result in more taxes being paid by a business owner on the sale of shares to family members, than would be the case if those shares were sold to an arm's length purchaser. This has the effect of discouraging the transfer of a private business to the next generation of family members, at a time when many business owners are considering retiring and realizing on the value of their business.

As part of its 2017 review of the tax rules governing private corporations, the Finance Minister indicated the Government plans to "work with family businesses, including farming and fishing businesses, to make it more efficient, or less difficult, to hand down their businesses to the next generation." The Government also indicated it would consult with "business owners to develop proposals to better accommodate intergenerational transfers of businesses while protecting the fairness of the tax system."

However, during the 2019 federal election the Liberal Party seemed to indicate that it supports the review of these discriminatory tax rules only insofar as they apply to the intergenerational transition of farming businesses. The reason for only offering relief to the owners of farming businesses was not stated, and we believe should be reconsidered for the reasons discussed below.

According to a recent Statistics Canada report,[1] there are over 1.1 million small businesses (defined as having less than 100 employees) operating in Canada. These businesses employ almost 70% of private sector employees[2] and have contributed significantly to employment growth since 2013. In turn, those small businesses employing less than 20 employees represent over 85% of all small businesses operating in Canada. Clearly, the "small" small business sector is an important component of the Canadian economy and the growth of this sector needs to be nurtured by equitable tax policies.

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[1] https://www.ic.gc.ca/eic/site/061.nsf/eng/h_03090.html

[2] This represents almost 8.3 million employees.

Statistics Canada also reports that the agricultural, forestry, fishing and hunting industry represents less than 5% of all small businesses, and that the agricultural industry employs just over 1% of all employees in the small business sector. Thus, limiting changes to section 84.1 solely to farming businesses excludes over 95% of small businesses, which in turn employ more than 8 million Canadians. In turn, the application of these rules will often force small business owners who are seeking to retire to sell their businesses to arm's length third parties due to the significant tax penalties associated with a transfer to family members. We believe the financial impact of COVID-19 on small businesses will only accelerate the desire of owners who are nearing retirement to transition their businesses to family members who can carry on the business with minimal additional disruption.

CALU has previously provided Finance Canada with its recommendations on how section 84.1 could be modified to ensure these changes only benefit those small business owners who are transitioning the business to family members due to retirement or illness. We would be pleased to engage in further discussions with Finance Canada officials relating to those recommendations with a view to ensuring that there is equitable treatment of all small business owners.

Recommendation 2 - 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 long-term care support, whether in the home or in an institutional setting.

According to Statistics Canada, the chances of requiring long-term care are one in 10 by age 55, three in 10 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 their long-term care needs will be met through programs and services funded by provincial governments. While government programs aimed at assisting Canadians with long-term care needs currently exist, these programs vary by jurisdiction and are at least partly dependent on the income and/or assets of the infirm person. Based on future funding requirements for long-term care, it is anticipated that Canadians will become responsible for an increasing portion of the overall costs, either directly or through increased taxes.

The impact of COVID-19 on the health of aging Canadians, whether they reside at home or in an institution, has highlighted the need for the federal government to take a leadership role, along with other levels of government, to address the long-term care needs of the elderly.

Recommendation 3 – Expanding Pharmacare Support

As Canadians age, their reliance on prescription drugs will increase. According to Statistics Canada, 83% of 65 to 79-year-olds use prescription drugs to manage disease and lead more productive lives. While many Canadian seniors have prescription drug plans through extended health benefits or provincial coverage, there are important gaps in coverage. Moreover, Canada faces one of the highest drug costs among the countries of the OECD and drug costs are one of the fastest growing components of employee benefit plans.

CALU believes the current system of group insurance works well for millions of Canadians and their families, helping them afford medicines and other health benefits. The gaps in coverage for many should be addressed and must be done in line with existing programs and not put at risk what works well today. Moreover, any improvement on prescription drug coverage should be fiscally responsible and sustainable in the long term, particularly with the massive growth of federal and provincial deficits due to COVID-19 support programs.

Recommendation 4 - Updating Funding Rules for RPPs and RRSPs

The existing model for determining funding levels for defined benefit and money purchase pension and retirement saving programs was developed in the early 1990s.[3] Since then there have been significant changes impacting existing retirement savings programs, including:

- Increasing longevity during retirement
- A reduction in guaranteed investment returns
- The replacement of defined benefit pension plans with defined contribution plans
- Increased volatility in equity markets due to COVID-19 and related economic/business uncertainty, creating greater risks for members of defined contribution plans
- New investment products, which may not be available to registered plans.

These changes can often result in significant retirement income disparity between Canadians in similar circumstances who participate in defined benefit versus defined contribution retirement plans. The issues and possible options for dealing with these disparities have been reviewed by a number of different organizations.[4]

[3] The so-called Factor of Nine" is based on the assumption that saving 9% of annual earnings will create a lifetime income equal to 1% of pre-retirement income.
[4] For example, the C.D. Howe Institute. Commentary N. 495 dated November 2017.
https://www.cdhowe.org/sites/default/files/attachments/research_papers/mixed/Commentary_495_0.pdf

Recommendation 5 - Comprehensive Fiscal and Tax Review

The federal and provincial governments have undertaken an unprecedented level of fiscal stimulus including generous tax and other subsidies to ensure Canadians survive the financial fallout from shuttering the economy to battle COVID-19. There is now hope that the worst is behind us, with the recent recovery in employment and business growth.

While many economists believe that the federal deficit is manageable under current interest rate and growth assumptions, future economic shocks could quickly require a focused and concerted effort to control government costs and increase taxes. We believe a review of fiscal and tax levers should be undertaken in the very near future to ensure the federal government is prepared for various contingencies. In turn, this would allow Canadian businesses to move forward confident that deficit management policies will not inflict new damage to consumer confidence.

We thank the members of the Committee for the opportunity to present our recommendations and would be pleased to appear as a witness to discuss our views in more detail.

Cindy David – Chair of the Board

Guy Legault – President & CEO