Submission

on the

2016 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 2016 Federal Budget. Our recommendations align with the Government's priorities ***to support the middle class, create jobs and set the right conditions for long-term prosperity and stronger economic growth.*** We look forward to working with you to bring these initiatives to fruition.

The Canadian life and health insurance industry plays a key role in Canada's economy. It protects over 75% of Canadians through a wide variety of life and health insurance and annuity products. The industry paid over $83 billion in benefits in 2014 or more than $1.6 billion a week, with over 90% paid to living policyholders. Almost 155,000 Canadians earn some or all of their income directly from the industry (as employees or independent agents). The industry is a major investor in Canada with more than $721 billion in assets, nearly 90% of which comprise long-term investments, an important source of long-term capital for the federal and provincial governments and businesses. Canadian life insurers contributed over $1 billion in corporate, capital, sales and other taxes to the federal government for the 2014 calendar year. Canada's life insurers have a longstanding record of operating in international markets, with almost $62 billion (or 41%) of their worldwide premiums coming from outside Canada.

In this submission, we recommend the following five initiatives that align with the Government's key priorities for the 2016 budget*:*

1. ***Increase use of public-private partnerships***

2. ***Encourage Canadians to take responsibility for their long-term care needs***

3. ***Enhance retirement income***

4. ***Reduce or eliminate capital tax on financial institutions***

Our recommendations are sustainable and prudent and help drive middle class prosperity and provide a wide range of cost effective risk management and protection options to Canadian consumers.

1. INCREASE USE OF PUBLIC-PRIVATE PARTNERSHIPS

The CLHIA commends and congratulates the Government's focus in the recent Throne Speech to provide much needed long-term support for public infrastructure. Such targeted and well executed long-term investments will help drive economic growth.

Public-private partnerships (P3s) can play an important role in stimulating long-term infrastructure investments in that it avoids all the burden of costs in the short term from landing on the government. They are also an attractive source of long-term investment for the life insurance industry to support long-term liabilities. By the government developing some of the infrastructure projects as P3s, the private sector's expertise on governance and execution, can be leveraged to deliver projects on time and within budget.

We also note that as the bulk of Canada's $400 billion infrastructure deficit is at the smaller municipal government and First Nations' level, a more nuanced and specific action plan 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.

The Government can do more to encourage P3 investments in Canada − particularly for smaller infrastructure projects. ***We recommend that the Government instruct PPP Canada to take a leadership role in developing standardized P3 documentation for projects under $50 million, in close collaboration with key stakeholders, including provincial/municipal governments, life and health insurers and other institutional private investors.*** A targeted action plan will help reduce the infrastructure deficit at the municipal level and contribute to more prosperous and secure communities across Canada. ***We also recommend that, over the medium term, the Government re-introduce the P3 screen threshold to ensure projects of a certain size are considered as to whether they would deliver the greatest value as a P3.***

2. ENCOURAGE CANADIANS TO TAKE RESPONSIBILITY FOR THEIR LONG-TERM CARE NEEDS

The demand for long-term care (LTC) in Canada is growing dramatically as the baby boomers age. Statistics Canada projects that by 2030 24% of Canada's population will be over 65 years of age (compared to 15% in 2013), and seniors aged 80 and over will balloon from around 4% in 2013 to 10 % by 2045. Government programs aimed at assisting Canadians with LTC expenses, are not adequate to cover the full costs of providing such care, including home care. Three quarters of Canadians admit they have no financial plan to pay for LTC if they need it and two- thirds of them believe government will cover half or more of the cost of their LTC needs. The CLHIA conservatively estimates that t h e unfunded LTC liability of Canadian baby boomers is around $600 billion.

Pooling of risks through LTC insurance is a cost-effective way to protect against potentially debilitating LTC expenses, shifting the risk away from governments and families. But at the end of 2014, only about 350,000 Canadians were covered under LTC insurance plans and more than two-thirds of them were through employers' group plans where coverage ends after retirement. By comparison, over 7.5 million Americans had private LTC insurance in 2012, encouraged by the tax deduction for the purchase of LTC insurance in the United States.

It is important that the 2016 budget take steps to inform Canadians about their personal/family responsibility for their LTC needs and incent them to take prompt action to prepare for those potential costs. In December 2014, the House Finance Committee called on the government to "examine ways to help Canadians save for long-term care", noting the CLHIA proposal to provide a 15 per cent non-refundable tax credit for premiums paid for **long-term-care insurance**. The longer Canadians and governments wait to take action the more difficult it will be to close this gap.

To incent Canadians to prepare financially for their potential LTC expenses, ***the CLHIA recommends that the Government introduce a non-refundable 15% tax credit on premiums paid for Qualifying LTC insurance[1]. Such targeted support for LTC will encourage Canadians to take personal responsibility for their LTC needs and will help ensure subsequent generations are not burdened with more than their fair share of LTC costs***.

3. ENHANCE RETIREMENT INCOME

Tax Free Savings Accounts (TFSAs) provide important opportunities for Canadians to save. They are currently short- to medium-term savings vehicles and are required to be portable and liquid, to give Canadians flexibility and access to their accumulated savings. However, encouragingly, middle class Canadians are using TFSAs for long-term savings to supplement their retirement income.

Not all consumers may want to exchange liquidity or the possibility of a residual estate value on death for higher guaranteed incomes, payable for life. However, providing the choice to waive liquidity rights (say after age 55) in favour of guaranteed lifetime income serves a real public policy need to enhance retirement income security of middle class Canadians. The waiver of liquidity rights would not be necessary until a holder elects a guaranteed income, which would preserve liquidity and portability until that time.

To the extent that life annuities within TFSAs replace other investment instruments, ***there is no fiscal cost to annuitization***. Permitting life annuities (in addition to term certain annuities currently

[1] A ***Qualifying LTC policy*** would be a pure insurance product with no cash surrender value. Benefits would be limited to those expenses that would otherwise have been eligible for the medical expense tax credit (METC), such as nursing-home care, home-health care, personal or adult day care, etc., for individuals with long-term disabilities. In this respect, a ***Qualifying LTC policy*** would operate in a similar manner to the Private Health Service Plan, where the reimbursed costs are not eligible for METC, but would instead be specifically targeted to cover LTC expenses.

contemplated by the TFSA rules) would eliminate an inequity in the TFSA marketplace and better serve retirement income needs of many Canadians.

CLHIA recommends that the TFSA rules be amended to permit holders to waive their liquidity rights in favour of obtaining a guaranteed income payable for life, within a TFSA. Such a targeted move will enable middle class Canadians to leverage the use of TFSAs for long-term needs without any incremental fiscal cost.

4. REDUCE OR ELIMINATE CAPITAL TAX ON FINANCIAL INSTITUTIONS

Around the globe, governments have continued to strengthen the quantity and quality of regulatory capital of financial institutions (FIs) to protect consumers and prevent the need for costly taxpayer bail-outs, and Canada is no exception. However, Canada is the only major country in the world to levy a 1.25% tax on the very same regulatory capital held to protect consumers, since 1990.

While this capital tax is only payable to the extent it exceeds corporate income tax, the perverse nature of this tax is such that the level or amount of capital tax (which is not dependent on profitability) has often exceeded life insurers corporate income tax (which is based on profitability). As such, capital tax increases the hurdle rate of Canadian life insurers wanting to grow by strengthening their capital level to underwrite additional risks to provide greater protection for consumers. 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 the long run.

As the only nation in the G20 to impose such a tax, it is time for the Government of Canada to eliminate capital tax on FIs, to ensure competitiveness of Canadian financial institutions. If elimination is not possible in the short term, ***the CLHIA recommends that the capital tax rate be reduced immediately from 1.25% to .67% (commensurate with recent corporate tax rate reductions that will also align recoverability of capital tax with profitability levels)***. Such a clear action by the Government would send an unequivocal message that capital accumulation by FIs is encouraged and supported.