Submission

on the

2017 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 for Canadians.***

Canada's life and health insurers play a key role in Canada's economy. We protect over 75% of Canadians through a wide variety of life, health and annuity products. The industry paid over $83 billion (more than $1.6 billion a week) in benefits in 2014, with over 90% paid to living policyholders. Almost 155,000 Canadians work within the sector (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, providing an important source of stable 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 long record of operating in international markets, with almost $62 billion (or 41%) of their 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 within TFSAs***

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

5. ***Further international trade and tax competitiveness***

Our recommendations are sustainable, prudent and will help drive prosperity to all Canadians.

1. INCREASE USE OF PUBLIC-PRIVATE PARTNERSHIPS

The CLHIA commends the Government's focus in Budget 2016 on providing much needed long-term support for public infrastructure. Effective long-term investments will benefit Canadians and help drive economic growth.

As the Government plans for and rolls out Phase 2 of its infrastructure plans, it is important to highlight that public-private partnerships (P3s) can play an important role in stimulating long-term infrastructure investments in that they avoid imposing the burden of development and start-up costs on governments. P3s are also an attractive long-term investment for the life insurance industry to match our long-term liabilities. By implementing some of the infrastructure projects under Phase 2 as P3s, governments can leverage the private sector's expertise on governance and execution to deliver projects on time and within budget.

The bulk of Canada's $400 billion infrastructure deficit is at the smaller municipal government and First Nations' level. 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.

As part of the Phase 2 of its infrastructure plan, the Government can do more to encourage P3 investments in Canada − particularly for smaller 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 investors.*** A targeted action plan will help reduce the infrastructure deficit at the local 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 screening threshold to ensure that development of projects of a certain size as P3s is considered in order to optimize their value for Canadians.***

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

Demand for long-term care (LTC) 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 the number of seniors aged 80 and over will balloon from around 4% in 2013 to 10 % by 2045. Government LTC programs aimed at assisting Canadians are not adequate to cover the full cost of providing institutional or home-based care. Three quarters of Canadians admit they have no financial plan to pay for LTC and two-thirds of them believe government will cover half or more of the cost of their LTC needs. The CLHIA conservatively estimates that the unfunded LTC liability of Canadian baby boomers is around $600 billion.

Pooling LTC costs through insurance is an effective way to protect against 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 over two-thirds of those were covered through workplace plans where coverage ends at retirement. By comparison, over 7.5 million Americans had personal LTC insurance in 2012, encouraged by a tax deduction for the purchase of LTC insurance.

Canada's 2017 budget should take steps to inform Canadians about their responsibility for LTC needs and incent them to take timely 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. Delaying action will make it more difficult for individuals to close the gap between need and available protection.

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 LTC costs are not unfairly shifted to subsequent generations.

3. Enhance retirement income

We commend the government on the recently announced proposals to enhance Canada Pension Plan benefits. However, these proposals will do little or nothing to improve retirement income security of near-term retirees. More options need to be considered for this demographic group.

Tax Free Savings Accounts (TFSAs) provide important opportunities for Canadians to save. As currently designed, they are short- to medium-term plans and must be liquid, allowing Canadians flexible access to their savings. But many Canadians are also using TFSAs to supplement their retirement income.

Some consumers may want to exchange TFSA liquidity and residual value on death for higher guaranteed lifetime incomes. Allowing Canadians to waive liquidity rights would permit life annuities to be held within TFSAs, guaranteeing higher lifetime incomes. Such a waiver would not be needed until a holder elects a guaranteed income (perhaps at age 55 or later), preserving liquidity 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 within TFSAs would eliminate an inequity in the

[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 or home-health care for individuals with long-term disabilities. In this respect, a ***Qualifying LTC policy*** would operate in a similar manner to a Private Health Service Plan, where the reimbursed costs are not eligible for METC, but would instead be specifically targeted to cover LTC expenses.

TFSA marketplace and better provide near-term retirees with improved retirement security.

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

Internationally, 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. 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.

While life insurers' corporate income tax burden depends on their profitability, the capital tax does not, and often exceeds the normal corporate income tax, functioning as a minimum tax. This excess, is carried as a deferred tax asset (DTA) on the balance sheet of life insurers. While the CLHIA has expressed a desire to see the tax eliminated in the past, it has become even more urgent, as starting in 2018 OSFI will no longer fully recognize the DTA as capital or of the highest quality. Therefore, the imposition of this capital tax will be even more punitive than it is today.

Capital tax perversely increases life insurers' cost of capital both directly and indirectly, limiting their ability to strengthen capital level, 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 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 is encouraged and supported.

5. INTERNATIONAL TRADE

The CLHIA is pleased with the Government's commitment to increase Canadian companies' access to high-growth markets. International trade contributes vitally to economic growth, productivity and investment. It supports many high-paying and highly-skilled head-office jobs in Canada, including those in the financial sector. Canada's life and health insurers are very active internationally, with foreign operations generating $61.6 billion in premiums in 2014 and holding $729 billion in assets at the end of that year.

Canada has a relatively open market, with strong trade relationships. However, Government can increase trade liberalization through the current negotiations on the Trade in Services Agreement (TiSA) or at the WTO more generally.

International trade is also heavily impacted and influenced by regulatory and tax frameworks in the home and host jurisdictions. Canada has traditionally balanced immediate domestic objectives and furthering international trade, as evidenced by the global success of Canadian multinationals, including life insurers. In this context, the industry is increasingly concerned by the OECD's initiatives regarding Base Erosion and Profit Shifting (BEPS) and the potential for harmful tax effects. It is important to ensure that any new regulatory or tax proposals do not result in any unintended consequences to global trade and, in particular, the Canadian economy.

As a first step, ***the CLHIA urges the Government to work with its partners to ratify negotiated trade agreements, such as the Canada-European Union Comprehensive Economic and Trade Agreement (CETA) and the Trans Pacific Partnership agreement (TPP).*** The CETA is a highly ambitious agreement and its entry into force will grant Canadian businesses easier access to the important European market. ***The industry is very supportive of the TPP and encourages Government to work with its TPP partners, including the incoming U.S. administration, to quickly ratify that agreement.***

Canada's life insurers also strongly urge the Government to proceed with caution on the BEPS initiatives, making only evidenced-based policy choices after thorough consultation with stakeholders. Any domestic measures should not disadvantage the tax competitiveness of Canadian multinationals.