Standing Committee on Finance (FINA)

Pre-budget consultations 2012

Canadian Life and Health Insurance Association Inc.

Responses

1. Economic Recovery and Growth

Given the current climate of federal and global fiscal restraint, what specific federal measures do you feel are needed for a sustained economic recovery and enhanced economic growth in Canada?

Governments, industry, consumers and a thriving society need stable and predictable economic conditions. Effective, efficient and competitive regulation is central to creating and maintaining such conditions, and to attracting capital and the jobs that capital creates. But inappropriate regulation impedes inflows or retention of capital and the ability of business to serve consumer and shareholder needs. Accounting changes currently being contemplated in Canada and internationally will precipitate negative, and potentially very dramatic, impacts on life insurance companies. These impacts are described in a July 2011 report by the Bank for International Settlements' Committee on the Global Financial System (chaired by Governor Carney), entitled "Fixed income strategies of insurance companies and pension funds". Life insurers are major providers of long-term funding to banks, the broader corporate sector, and the public sector, and also provide consumers with long-term guaranteed products. Hence, life insurers contribute substantially to a well-functioning economy and ease the burden on governments to provide financial security to citizens. The accounting and capital changes currently being considered have the potential to shift life insurers' investments away from long-term corporate bonds and equities and to force insurers to withdraw products offering long-term guarantees. We encourage the Government to take into account the conclusions of this study as it contemplates any capital, accounting or other regulatory changes. As currently contemplated, the U.S. Foreign Account Tax Compliance Act (FATCA) will result in significant costs and increased compliance burdens for Canadian financial institutions and their foreign subsidiaries. We understand the objective of FATCA to reduce tax evasion by U.S. citizens. However, the legislation currently does not distinguish between low-risk nations such as Canada and tax havens. Nor does the legislation provide sufficient exemptions for life insurance products purchased to provide financial security, not to evade taxes. We appreciate the efforts of the Minister of Finance and Finance Canada to raise the industry's concerns with the U.S. government and encourage their continued efforts to develop a bilateral (or multilateral) solution, utilizing the tax information sharing provisions under the Canada-U.S. Income Tax Treaty.

2. Job Creation

As Canadian companies face pressures resulting from such factors as uncertainty about the U.S. economic recovery, a sovereign debt crisis in Europe, and competition from a number of developed and developing countries, what specific federal actions do you believe should be taken to promote job creation in Canada, including that which occurs as a result of enhanced internal and international trade?

It is widely acknowledged by business leaders that Canada will be facing critical shortages of skilled labour, a factor that could have an impact on the competitiveness of the life and health insurance industry. In a landmark March 2007 report by the Toronto Financial Services Alliance entitled "Talent Matters - A Study of the Toronto Financial Service Industry Talent Market", the study's authors forecasted major gaps in critical talent. While the financial services industry has been relatively successful in the past in providing incentives to attract and retain employees, competition for human resources is increasing in the face of declining labour force growth and an aging population. Finding highly educated professionals will become increasingly competitive and as such, it is imperative that the talent needed to replace our experienced workforce be cultivated now; and that the significant loss of experience due to the large-scale retirement of baby boomers be mitigated by knowledge-transfer to new recruits. Policies and programs respecting training and recruitment are required in order to assist the industry in securing an age-balanced workforce to support its operations. Encouraging students to choose a career in financial services would be greatly enhanced by improvements to the availability of focused courses and training. Greater collaboration between government and industry is required to effect this change. Attracting skilled immigrants is also critical and there is a need to streamline immigration processes and commit resources to programs aimed at facilitating the integration of immigrants into the labour market and Canadian society. To ensure that a highly-skilled and highly-educated financial services workforce can continue to be a competitive advantage for Canada, the industry recommends that the government promote greater collaboration between schools, provincial and federal governments and industry with a view to improving financial services education and training and to attract more students to the industry. The industry also recommends that the government strive to eliminate barriers to hiring and integrating new immigrants in order to take advantage of the skills and knowledge that immigrant workers can bring to the economy.

3. Demographic Change

What specific federal measures do you think should be implemented to help the country address the consequences of, and challenges associated with, the aging of the Canadian population and of skills shortages?

The face of health care in Canada is changing. Shorter hospital stays, more outpatient treatment and an aging population with longer life expectancy are increasing the demand for long-term care in Canada. As baby boomers enter older age, this challenge will only grow. Canada is facing a significant challenge in ensuring that Canadians will have access to quality long-term care that they will need. A significant funding gap exists with respect to the cost of long-term care, particularly over the next 35 years. Conservatively, the cost in current dollars, of providing long-term care over this timeframe is almost $1.2 trillion. Current levels of government program and funding support will cover about half of this total cost. As a result, Canadians currently have an unfunded liability for long-term care of over $590 billion, equivalent to almost all individual retirement savings in Canada today. Structural reform to transition patients to the most appropriate long-term care setting will not only enhance patient care, but will generate significant efficiency savings to governments of over $139 billion. These savings can then be re-invested into other long-term care initiatives to further improve patient care and address the funding shortfall. To this end, as detailed in the CLHIA's Report "Improving the Accessibility, Quality and Sustainability of Long-Term Care in Canada", we urge the federal government to work collaboratively with the provinces to: • Encourage Canadians to save for long-term care; • Pursue a patient-centered approach to long-term care; • Restructure long-term care to recognize the continuum of care; • Ensure sufficient capacity of long-term care; and • Encourage health and wellness promotion. As well, within its current review of tax rules for life insurance policies, government should preserve the viability of life insurance as a funding tool for long-term care and retirement income. Given the magnitude of the challenge, action is required now to ensure that Canadians will have access to the long-term care that they will need. The Canadian life and health insurance industry stands ready to play an active role in supporting governments and stakeholders in the reform that will prepare the long-term care system to meet future demands.

4. Productivity *With labour market challenges arising in part as a result of the aging of Canada's population and an ongoing focus on the actions needed for competitiveness, what specific federal initiatives are needed in order to increase productivity in Canada?*	
The 2012 Federal Budget described proposed changes to the taxation of life insurance policies and the intention to consult with stakeholders on how the "exemption test", which limits the savings potential of such policies, should be revised. While updating the test is necessary, life insurance policies are exceedingly long-term arrangements and are not dramatically responsive to short-term variations in investment conditions, mortality trends and expense levels. The cost of implementing the proposed changes will be very substantial. Frequent mandated variations in the assumptions underlying the exemption test would cause significant disruption in life insurance marketplaces, leading to expensive redesigning and re-pricing of insurance policies, the costs of which would ultimately be borne by consumers. Canada's life and health insurance industry believes that short-term recalibration of the exemption test assumptions would provide no material value to consumers or governments and would run counter to the government's objective of encouraging economically productive activity. The industry encourages government to work with industry to develop a revised exemption test that (a) will be simple to administer, (b) won't discourage socially desirable and prudent consumer behaviour, (c) builds capital to invest in Canadian communities, families and businesses, and (d) will stand the test of time.	
5. Other Challenges *With some Canadian individuals, businesses and communities facing particular challenges at this time, in your view, who is facing the most challenges, what are the challenges that are being faced and what specific federal actions are needed to address these challenges?*	