Submission for the pre-budget consultations in advance of the 2022 federal budget

The Conference for Advanced Life Underwriting (CALU)

February 2022

Summary

Recommendation 1: That the government provide further support for the small business sector in recognition of this sector being a key driver of Canada's post-pandemic recovery and job creation.

Recommendation 2: That the government enhance Canada's retirement system to better meet the needs of today.

Recommendation 3: That the government strengthen Canada's healthcare system with sustainable solutions.

Recommendation 4: That the government reduce costs for Canadians to secure their financial futures.

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Who we are

CALU is the only national professional organization dedicated to advanced planning issues related to life and group insurance, tax and succession planning and financial management. Our 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 16,000 insurance and financial advisors in support of fair and competitive public policies to promote and protect the health and financial well-being of Canadian families and businesses.

We are pleased to make the following four recommendations on tax and fiscal measures that the federal government can 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

The small business sector has been a major factor in job creation and economic growth in Canada over the past decade. However, this sector has experienced significant financial set-backs due to economic shutdowns caused by the pandemic. While recognizing the various levels of government moved quickly to put in place a number of programs to support businesses and their employees during the pandemic, we believe longer-term responses need to be implemented to help reinvigorate the entrepreneurial sector.

CALU has therefore identified the following actions that should be taken to provide continued support to small business owners and the communities where they do business:

1. **Support the small business sector as a key driver of post-pandemic recovery and jobs.**

    1.1. Collaborate with key stakeholders on implementing Bill C-208 to facilitate genuine intergenerational transfers of shares in small businesses while preventing tax avoidance that undermines the equity of Canada's tax system.

    1.2. Support small and family business recovery and financial stability with changes to the tax on split income (TOSI) and passive investment rules as follows:

    1.2.1. Modifying the TOSI rules to ensure they do not apply to spouses except in limited circumstances.

    1.2.2. Modifying the passive investment income claw-back of the small business deduction to take effect on a more gradual basis, thus better supporting the financial stability of small businesses and the retirement income of owner/managers in times of financial downturn.

    1.3. Protect the small-business sector and coming generations of Canadians from the risk of significant future tax increases by applying a fiscal anchor that will manage the growth of the deficit in relation to economic growth.

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Recommendation 2

Recent federal governments have taken important steps to improve the retirement income system by introducing Tax-Free Savings Accounts, modifying the Canada Pension Plan, increasing future Old Age Security benefits and introducing new forms of income payout options for registered retirement income plans. However, the trend toward defined-contribution pension plans, persistent low long-term interest rates, increasing longevity, and the aging of Canada's population requires additional steps by governments to ensure that Canadian have sufficient retirement income system throughout their lifetime.

CALU has therefore identified the following actions the government could take to enhance Canada's retirement system:

2. Enhance Canada's retirement savings system to better meet the needs of today.

- 2.1. Finance Canada should initiate stakeholder consultation on ways to create greater equity in the retirement income that can be earned through defined-benefit pension plans versus defined-contribution pension and registered retirement plans.
- 2.2. The government should help Canadians save enough to last through their retirement years by implementing tax rules that facilitate new lifetime retirement income options:
  - 2.2.1. Eliminate or modify the RRIF minimum rule to ensure Canadians have sufficient retirement income throughout their expected lifetime.
  - 2.2.2. Recognizing the growing use of TFSAs for retirement savings, allow TFSAs to offer retirement income options that preserve the tax-free treatment of the retirement income.
  - 2.2.3. Extend variable payment life annuities (VPLAs) to defined contribution registered plans and TFSAs.

Recommendation 3

There is an urgent need and opportunity for the federal government to leverage proven approaches and develop new strategies to better address the healthcare needs of Canadians without creating an unsustainable tax burden for future generations.

Employer sponsored and funded employee benefits program are one such proven approach to providing Canadians with affordable health care options. Given the dominant role the small business sector plays in employing Canadians, it is essential that these businesses continue to have access to flexible and cost-effective group benefits programs for their employees.

COVID-19 has exposed flaws in the delivery of long-term care for the elderly. It has highlighted a systemic funding and delivery issue for long-term care services given the aging of the Canadian population and the erosion of societal and family safety nets. We believe action needs to be taken now

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to address these issues before the system becomes overwhelmed by the demands of an aging population.

The federal government has identified that better and more inclusive access to pharmacare should be an important element of Canada's healthcare system. Steps have been taken to explore the development of a universal pharmacare system and how the government can work collaboratively with other levels of government and the private sector in the delivery of universal drug coverage. We support these various initiatives and believe much can be accomplished through a public-private sector approach to this issue.

CALU has therefore identified the following required actions in support of improving Canada's healthcare system:

3. Improve Canada's healthcare systems with sustainable solutions

3.1. Create incentives for small businesses to provide flexible and competitive group benefits to their employees:

3.1.1. Ensure the tax and administrative rules for employee health and welfare plans appropriately accommodate smaller employers and their employees.

3.2. Develop a new Canadian policy framework and strategy for long-term care, leveraging federal-provincial cooperation, other countries' successes, and the existing model of collaboration (e.g. CPP/RRSP/TFSA):

3.2.1. Establish a public long-term care insurance plan to provide a dedicated source of funding to support Canadians' care in their own home or in a long-term care facility.

3.2.2. Modify tax rules to support the development of financial products/savings plans geared towards helping individuals and families fund the growing costs of long-term care support beyond the public plan.

Note: Please refer to Appendix A for a more detailed discussion of CALU's recommendations relating to long-term care.

3.3. Employ a practical and prudent approach to providing pharmacare to all Canadians:

3.3.1. Preserve existing employer-sponsored drug benefit plans and introduce public programs solely to fill the gaps.

3.3.2. Establish a standard list of drugs that would have to be met by both government and workplace group insurance plans.

3.3.3. 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 do not have to bear that financial burden.

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Recommendation 4

Given the complexity of financial markets and products, and the need for Canadians to have access to qualified advice to support them in their financial, retirement and estate planning needs, it is important that the tax system not impose additional and unnecessary costs to access financial advice. We believe the government needs to take steps to modify some taxes to remove this inappropriate burden on financial consumers.

CALU has therefore identified the following required actions that would reduce costs for Canadians in accessing financial advice:

4. Reduce costs for Canadians to secure their financial futures

4.1. Eliminate GST on investment management fees to enhance investment returns and savings.

4.2. Ensure that GST is not imposed on compensation payable to intermediaries involved in the delivery of financial services to Canadians, recognizing that the cost will ultimately be borne by the consumer.

4.3. Modify the deduction for fees paid for investment counsel to equitably apply to similar investment products offered by different financial institutions including segregated fund policies offered by life insurers.

Conclusion

We appreciate the opportunity to present our priorities for the upcoming federal budget. Representatives from CALU would be pleased to participate in one of the virtual Ministerial roundtables to discuss our recommendations in more detail.

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Appendix A: Canadian policy framework for delivering long-term care[1]

Adequate funding for, and the provision of, 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).

Unfortunately, many Canadians have the mistaken belief that their long-term care needs will be substantially met through programs and services funded by various levels of government. While government sponsored long term care programs exist, they 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. As part of these initiatives, CALU recommends the development of a national long-term care funding program that is sustainable, equitable across all regions, adaptive to change, is fiscally responsible and provides protection through risk pooling.

As required funding obligations will arise primarily for more elderly Canadians, we believe the system should operate independently from current federal-provincial healthcare funding arrangements. We believe the best approach is to expand the Canada Pension Plan (and Quebec Pension Plan) (CPP/QPP) to include long term care benefits, funded by employer and employee contributions based on actuarial projections of future funding costs. Experts have estimated that a two per cent increase in the CPP/QPP contribution rates would provide the required long-term care funding by 2035 for those participating in the plan.

In addition, we feel the federal government could encourage Canadians to save more for long term care expenditures by modifying the tax rules to permit products similar to advanced life deferred annuities (ALDAs) for non-registered investments including savings in tax-free savings accounts (TFSAs). Eliminating or modifying the RRIF minimum payout rules would also ensure more registered funds remain available later in life to assist in funding long term care expenditures.

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[1]Based on the research of Tuohy, Carolyn Hughes. 2021. *Federalism as a Strength: A Path Toward Ending the Crisis in Long-Term care*. IRPP Insight 36. Montreal: Institute for Research on Public Policy. https://centre.irpp.org/research-studies/federalism-as-a-strength-a-path-toward-ending-the-crisis-in-long-term-care

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