Conference for Advanced Life Underwriting: 2018 Federal Pre-Budget Submission

Overview

On behalf of the Conference for Advanced Life Underwriting (CALU), we are pleased to provide this submission to the House of Commons Standing Committee on Finance (the "Finance Committee") as part of its 2018 pre-budget consultation process. CALU is a national professional membership association of established financial advisors, accounting, legal, tax and actuarial professionals. For over 25 years, CALU has engaged in political advocacy and government relations activities on behalf of its members and the members of its sister organization, Advocis. CALU represents the interests of more than 12,000 insurance and financial advisors and in turn the interests of millions of Canadians.

CALU has a distinguished history of working with the federal government, as well as facilitating discussion and consensus with affected stakeholder groups, on important tax and social policy issues including:

- ensuring that all Canadians are financially prepared for their retirement;
- the impact of the aging population on families and the health care system; and
- the delivery of health and dental care benefits to employees and the self-employed.

In this submission CALU will highlight a major area of concern arising from Canada's aging population and the issues this raises relating to funding long term care expenditures. It is estimated that approximately 11 million Canadians (23% of the population) will have reached the age of 65 by the year 2036,[1] with the expectation of enjoying longer lifespans. The federal government has recently advanced a number of programs and policies to meet the needs of aging Canadians.[2] However, we believe the federal government will need to look to new and more innovative ways to support middle class Canadians as they deal with the financial and social implications of aging.

CALU has developed new and unique approaches to assist with the preparedness and independence of Canada's aging citizens, options that we believe will work within the existing federal tax policy framework and directly assist middle class Canadians. In addition to providing Canadians with the right tools to yield maximum benefits of their retirement savings, our proposals with respect to long term care insurance would also reduce the burden of family support obligations and preserve government resources through reduced reliance on public programs and institutions for support.

These proposals will enhance the competitiveness of Canada's health care system, maintain tax fairness and equity between younger and older

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generations of Canadians, and make younger generations more productive by providing financial assistance towards their family support obligations.

In the following section we will discuss this area of concern in more detail, and CALU's recommendations as they relate to tax policy formulation for the 2018 federal budget.

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 it's 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.[3] 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).[4]

Many Canadians have the mistaken belief that their long-term care needs will be met through programs and services funded by provincial governments. However, long term care is not included under the Canada Health Act and, therefore, is not available to Canadians on a universal basis. While government programs aimed at assisting Canadians with long term care needs currently exist, these programs vary by jurisdiction and 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.

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A 2014 report by the C.D. Howe Institute provides an excellent overview of the long term care situation in Canada and explores several avenues to addressing this complex issue. This report contains the following observations and recommendations:

- The total cost of long term care (public and private sources) will almost triple to $188 billion by 2050, with private funding costs (institutional, homecare and informal care) representing approximately 2/3rds of this cost.
- The apparently simple solution of expanding Canada's public health system to cover long term care costs should be rejected due to the additional stress that the expected growth on costs would put on future budgets and taxpayers of working age.
- A multi-pronged solution to better target means-tested public subsidies and allow growth of private insurance and savings should be pursued instead.
- Reforms must encourage individuals to better prepare for the costs of long term care, as many Canadians believe that governments will pay for all future care costs.

As an important first step, we believe the Federal government should play a leadership role similar to that undertaken in conjunction with the provinces and territories relating to Canadians' retirement income sufficiency, which led to the recent

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enhancements to the Canada Pension Plan. This might include one or more of the following initiatives:

- Support for the HUMA Committee[5] in developing a national seniors strategy and for the Senate Committee on National Finances' review of the impact of an aging population on government policies;
- Convening a Federal, Provincial and Territorial Minister joint committee to identify and develop common approaches for dealing with long term care funding issues; and
- Holding a national symposium which includes stakeholder groups to discuss and debate seniors' issues and develop appropriate recommendations.

We are also of the view that broader ownership of long term care insurance (LTCI) can help reduce these financial pressures on individuals, families and governments, by encouraging individuals to take action now to deal with their future long term care funding needs. LTCI is designed to help cover the cost of care for individuals who have lost the ability to care for themselves. Such funds can typically be used at the discretion of the recipient, allowing for the option to stay at home with appropriate nursing care, or seeking out care in a long term care facility. LTCI typically provides a daily or monthly cash benefit which can be used at the discretion of the policyholder to fund costs associated with their care.

Despite the growing number of studies documenting the concerns of Canadians about their ability to afford future long term care needs,[6] ownership of LTCI is low due to a general lack of awareness relating to the extent of the long term care costs and who is responsible for funding these costs. Middle class Canadians are particularly at risk as many will need to expend their retirement savings, which may already be inadequate to fund normal lifestyle expenditures, on their long term care. Many other countries are well advanced in terms of raising public awareness of these issues. For example, the United States and France have done a better job of educating their population on this funding need. As a result, there is a greater percentage of LTCI ownership, and hence the ability of individuals to self-fund their long term expenditures, is much higher.

CALU is therefore recommending that the federal government work with the provincial and territorial governments to develop a national approach to informing Canadians as to the need to plan for their long term care funding expenses, and developing a more unified approach to determining subsidized access to long term care services.

CALU is further recommending that the federal government permit RRSP annuitants to withdraw up to $2,000 per year from their RRSP or RRIF (to lifetime limit of $24,000) on a tax-free basis to fund the purchase of qualifying LTCI.[7] This program would be similar to the LifeLong Learning Plan and the Home Buyers' Plan that are part of the current Income Tax Act.

Thank you for this opportunity to make this submission and we would greatly appreciate the opportunity to appear before the Finance Committee and discuss these matters as part of its pre-2018 budget consultation hearings.

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Endnotes

1 Statistics Canada, Population Projections for Canada, Provinces and Territories (91-520-X) dated May 26, 2015.

2 Such as the reinstatement of age 65 for GIS and OAS benefits, and expansion of the Canada Pension Plan.

3 Statistics Canada, Health Expectancy in Canada.

4 Canadian Life and Health Insurance Association Report on Long-Term Care dated June 2012.

5 The Standing Committee on Human Resources, Skills and Social Development and the Status of Persons with Disabilities.

6 Canadian Medical Association 16th National Report Card on Health Care dated August 18, 2016.

7 This level of funding is based on the average needs of middle class Canadians and would provide a meaningful benefit to subsidize long term care expenditures.

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