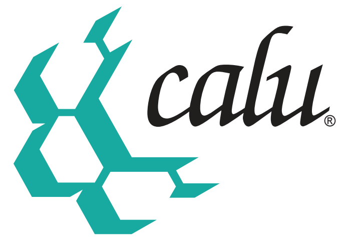

Conference for Advanced Life Underwriting: 2015 Federal Pre-Budget Submission

Overview

On behalf of the Conference for Advanced Life Underwriting (CALU), we are pleased to provide this submission for consideration by the House of Commons Standing Committee on Finance as part of its 2015 pre-budget consultation process. CALU is a national professional membership association of established financial advisors (life insurance, wealth management and employee benefits), accounting, tax, legal and actuarial professionals. For more than 20 years, CALU has engaged in political advocacy and government relations activities on behalf of its members and the members of its sister organization, Advocis. Through these efforts, CALU represents the interests of more than 11,000 insurance and financial advisors and in turn the interests of millions of Canadians.

Approximately 11 million Canadians (23 per cent of the population) will have reached the age of 65 by the year 2036, with the expectation of enjoying longer life spans. The federal government has advanced several programs and policies to meet the needs of these seniors, including raising awareness of financial planning needs and resources, the introduction of the Pooled Registered Pension Plan and more recently, the consideration of target benefit pension plans.

CALU has been working with leading financial experts to develop options to further enable the preparedness and independence of Canada's aging citizens, options that we believe work within the existing federal tax policy framework. In addition to providing Canadians with the right tools to yield maximum benefits of their savings intended for their retirement needs and security, our proposals will save precious government resources through reduced reliance on public programs and institutions for support.

CALU respectfully requests the opportunity to appear before the House of Commons Standing Committee on Finance in Toronto, Ottawa or Vancouver to provide the Committee with further information relating to the two key public and tax policy issues discussed below.

Please visit our website at www.calu.com for additional information and resources supporting this submission.

Introduction

Over the past 35 years, the average life span of Canadians has increased by approximately four years. A recent study[1] by the Office of the Superintendent of Financial Institutions predicts further gains in the future, with average life expectancy increasing

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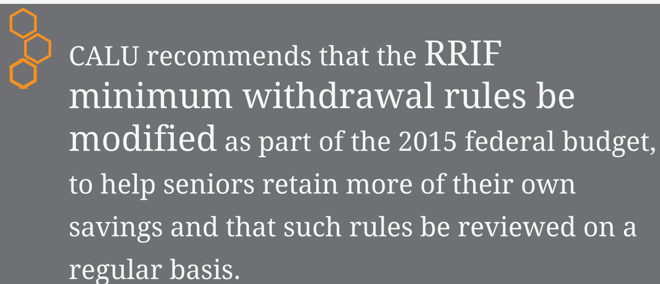
to age 90 within the foreseeable future, and a steadily increasing number of Canadians achieving centenarian status.

Canadians can be proud of the comprehensive health and social programs implemented over the past 30 years that have contributed to increased longevity. However, this trend also poses a growing threat to the well-being of aging Canadians. In particular – that their retirement savings will not be sufficient to ensure a reasonable standard of living throughout the duration of their retirement years.

Both the federal and provincial governments have recognized this issue and taken proactive steps to shore up the Canadian retirement system, including the introduction of the Pooled Registered Pension Plan and more recently, the consideration of target benefit pension plans. However, withdrawal rules applicable to Registered Retirement Income Funds (RRIFs), including those that are subject to locking-in requirements imposed by pension standards legislation, are counterproductive to this goal, and could result in seniors running out of money later in life. This in turn will leave them financially vulnerable and reliant on their families and/or public programs for support.



Recommendation #1

CALU recommends that the **RRIF minimum withdrawal rules be modified** as part of the 2015 federal budget, to help seniors retain more of their own savings and that such rules be reviewed on a regular basis.

It must also be recognized that expenses relating to long term care that often arise later in life can quickly deplete those retirement savings. Long term care can range from periodic support in the home to more formalized institutional care, from weekly assistance for buying groceries to meeting more formal housing, medical, or social needs. The Canadian Life and Health Insurance Association (CLHIA) estimates that the increased longevity of baby boomers now moving into their retirement years will result in a $600 billion funding shortfall for provincial long term care programs over the next 35 years. Canadians need to start making provision for these expenses as part of their retirement plans or the burden will fall back on governments.

Recommendation #2

CALU recommends that a **federal tax incentive be implemented** to encourage Canadians to become more self-sufficient with respect to their long-term health care needs through the purchase of long term care insurance.

Rethinking Withdrawal Rates for RRIFs/LRIFs

Registered Retirement Saving Plan (RRSP) annuitants are required under the Income Tax Act to annuitize or transfer their RRSP funds into a registered retirement income fund (RRIF) no later than the end of the year in which they reach age 71. The Act further prescribes a

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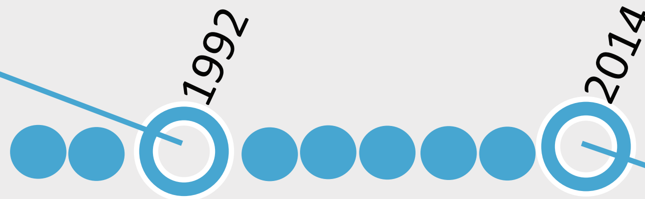
The RRIF minimum percentages for ages 71+ were determined in **1992**, at a time when

- interest rates on long-term Government of Canada bonds exceeded 8%, and
- mortality tables indicated that a male aged 65 would on average live to age 80 and a female aged 65 would on average live to age 84.



Fast forward to **2014**

- long term interest rates are forecast to remain below 4%, and
- the average life expectancy has increased by approximately four years for both males and females. As well, an increasing percentage of Canadians are living into well into their 90s.

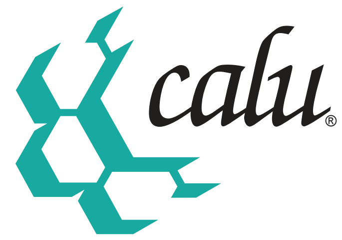
minimum amount that must be withdrawn from a RRIF on an annual basis (the "RRIF minimum amount"), with a minimum of 4% of the beginning of year balance at age 65, increasing to 7.38% by age 71, and 20% from age 94 onwards.[2]

The RRIF minimum rules therefore require a larger amount to be withdrawn than would be the case using current long term interest rates and mortality assumptions.

This exposes withdrawals and any reinvested amounts to income taxes as well as the possible claw back of the Guaranteed Income Supplement, Old Age Security and other benefits, and in turn could result in an increasing number of RRIF holders being at risk that they won't have sufficient funds to meet their needs throughout their retirement years.

While the requirement to take taxable income from an RRSP may increase government revenue in the short term, it also exposes various levels of governments to funding risks if an elderly person does not have sufficient sources of capital to fund their retirement expenses (including long term care expenses). As well, depending on the effective rates of tax on retirement income and bequests at death, the present value of this deferral could be negligible.

Recent commentaries by both the C.D. Howe Institute and Dr. Moshe Milevsky[3] provide more empirical evidence of the unfairness of the current RRIF minimum formula and offer alternative formulas for consideration. CALU has also completed its own research, and our analysis further supports the need to revise the existing minimum payout formula.



CALU therefore recommends that the RRIF minimum formula be modified, and that a timetable be established to review the payout formula on a more regular basis. We also recommend that this new formula be extended to current RRIF holders.

Providing 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 support, whether it's in the home or in an institutional setting. Long-term care can range from periodic support in the home to more formalized institutional care. The types of specialized care could include weekly assistance for buying groceries to more formal housing, medical, nursing, social or therapeutic treatments. According to Statistics Canada, the chances of requiring long-term care are one in ten by age 55, three in ten 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).

Many Canadians have the mistaken belief that all of 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 are typically income-based. In the majority of cases, Canadians will be largely responsible for the cost of their long-term care needs, either directly or through increased tax burdens.

A recent paper by the CLHIA and an upcoming report by the C.D Howe Institute provide an excellent overview of the long term care situation in Canada and explore several avenues to addressing this complex and multi-layered issue; to varying degrees, provincial and federal governments are also reviewing solutions in a number of key areas.

Currently, ownership by Canadians of long term care insurance (LTCI) is low. One of the reasons for this is a general lack of awareness relating to the extent of the long term care costs and who is responsible for funding these costs. On the other hand, in the United States the percentage of LTCI ownership, and hence the ability of individuals to self-fund their long term expenditures, is much higher.[4]

CALU believes that greater ownership by Canadians of individual LTCI is an important solution to this growing funding problem. LTCI is designed to help cover the cost of care for individuals who have lost the ability to care for themselves, allowing the option to stay at home with appropriate nursing care, or to seek out care in a long term care facility. Once a claim is triggered, LTCI typically provides a daily, weekly or monthly cash benefit which can be used at the discretion of the policyholder to fund costs associated with their care.

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CALU is therefore recommending that the federal government consider one of the following options:

1. **Permit LTCI to be a qualified investment for an RRSP or RRIF; or**
2. **Permit RRSP annuitants to withdraw up to $2,000 per year from their RRSP or RRIF (to a total of $24,000) on a tax-free basis to fund the purchase of qualifying LTCI.**

CALU further recommends that the federal government work with the provincial and territorial governments to develop a national approach to educating and 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.

For more information, please contact:
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Endnotes

1 All reports and studies referenced in this submission may be viewed at the CALU website (www.calu.com) at the button "CALU 2015 Pre-Budget Submission".

2 Certain pension plan payout arrangements are also subject to the RRIF minimum payout rules.

3 Dr. Milevsky is a professor at the Schulich School of Business at York University in Toronto and is a managing director of P Longevity Extension (PiLE) Corporation. PiLE Co. is a consulting company focused on helping pension funds, endowments and individuals determine the longevity of their portfolio, and maximize sustainable income using capital markets & insurance products. He has authored 10 books, more than 60 research articles and has delivered over 1,000 seminars and keynote presentations globally.

4 Approximately 5% of the U.S. population aged 55 and over own LTCI vs. less than 1% of Canadians within the same age range.