



Canadian Life
and Health Insurance
Association Inc.

Association canadienne
des compagnies d'assurances
de personnes inc.



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The Taxation of Critical Illness and Long-Term Care Insurance in Canada

Dear Sirs:

Over the last dozen years, accident and sickness insurance products worldwide have undergone a significant evolution as they respond to consumer needs. In Canada, this has been most obvious in the creation of products paying benefits in the event of critical illness or to fund long-term care. The majority of these products are structured as stand-alone products, but some life insurers have packaged these benefits with life insurance products in order to address the “one-stop shopping” objectives of consumers.

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Because accident and sickness insurance does not provide a savings component, it is not generally addressed in the Income Tax Act, and this is particularly true with respect to such new and innovative products. The tax regime relating to life insurance – which was developed in the early 1980's – does not (and should not) address this rapid evolution in products, other than to the extent that critical illness and long-term care insurance products are combined with life insurance.

While insurers believe that these new accident and sickness products provide non-taxable benefits under the current provisions of the Income Tax Act, the industry acknowledges that, absent explicit provisions in the Act, consumers and advisors may be uncomfortable accepting the industry's interpretations.

In order to address these concerns, the industry has prepared the attached discussion paper, which reviews products and analyzes the application of current tax law. The industry requests that the Department of Finance and the Canada Revenue Agency review the paper and confirm our interpretations or identify any potential differences in interpretation.

We recognize that it may be difficult to quickly address all questions that might arise from issues raised in the discussion paper. While the industry hopes that this discussion paper will form the basis of an on-going dialogue between the industry, the Department and the Agency as to the appropriate treatment of these benefits offered either on a stand-alone basis or in combination with or under a life insurance policy, the most urgent concerns are confirmation that:

- a critical illness or long-term care benefit is non-taxable,
- a refund of premium benefit on death is not viewed as bringing the policy into the taxation regime governing life insurance policies, and
- a refund of premium benefit on death, on surrender of the contract, or at other contractually specified times, is non-taxable.

We believe that the same tax treatment should apply where such benefits are paid under or in combination with life insurance policies, so that consumers are not disadvantaged from a tax standpoint because of the way in which the benefits are packaged.



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Confirmation of the tax treatment of critical illness and long-term care benefits is of considerable importance to consumers and advisors. Therefore, we would appreciate a meeting at the earliest opportunity to discuss this matter.

Yours sincerely,

Original signed by Ron Sanderson

Original signed by Ted Ballantyne

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