Submission to the Department of Finance for "Let's Talk Budget 2024"

The Conference for Advanced Life Underwriting (CALU)

February 2024

List of Recommendations

We offer the federal government the following four recommendations for Budget 2024, including measures to address some of the affordability challenges facing many Canadians while remaining respectful of Canada's fiscal framework.

Recommendation 1: Support the successful transition of small businesses to family members by ensuring the final legislation amending section 84.1 of the *Income Tax Act* which is included in Bill C-59 currently before Parliament is expeditiously enacted in early 2024.

Recommendation 2: Closely monitor the ongoing decline in the percentage of Canadians who are self-employed and take any necessary action to ensure this important pillar of employment and economic growth for the country continues to prosper.

Recommendation 3:

3.1 Allow unused RRSP contribution room to be annually indexed to partially compensate for the loss of tax deferred savings due to the deferral of contributions resulting from other financial priorities.

3.2 In combination with changes to RRIF rules discussed below, permit RRSP contributions to continue past age 71.

3.3 Modify RRIF payout requirements in the following ways:

- 3.3.1 Reduce the minimum payout formula to allow more funds to remain tax-sheltered over a RRIF holder's lifetime.
- 3.3.2 Similar to the result achieved by purchasing an Advanced Life Deferred Annuity (ALDA) allow RRIF holders to exclude up to $170,000 (indexed) from the application of the RRIF minimum payment formula until the RRIF holder attains age 85.
- 3.3.3 Defer immediately or over time the requirement to convert an RRSP to a RRIF to age 75.

3.4 Make more publicly transparent the factors used to establish the RRIF minimum payment formula and establish a regular process for reviewing the RRIF minimum payout formula to ensure it continues to meet the income needs of older retirees.

Recommendation 4: Provide a 35 percent refundable tax credit in respect of the cost of dental care programs for employees of qualifying small businesses. The credit should be designed to support small businesses with employees earning less than the income coverage limits under the CDCP, among other eligibility criteria.

Who we are

CALU is Canada's national association for leaders in the life insurance and financial advisory industry. Along with our partner organization, Advocis, we speak for more than 7,500 insurance and financial advisors in every part of Canada to grow and preserve the financial well-being of Canadians and family businesses.

We offer the federal government the following four recommendations for Budget 2024, including measures to address some of the affordability challenges facing many Canadians while remaining respectful of Canada's fiscal framework.

Supporting small business owners

CALU believes that small businesses are the backbone of Canada's economy. In this context, we offer two recommendations to better support specific segments of this key sector, namely family businesses and self-employed individuals, so they continue to grow their significant contribution to GDP and employment in Canada.

1) Intergenerational business transfers

First, CALU is pleased that the Fall Economic Statement Implementation Act, 2023 (Bill C-59) has been introduced into the House of Commons and includes the final legislation governing the intergenerational transfer of shares in small businesses (section 84.1 of the *Income Tax Act*).

Generally, we believe Finance Canada has taken a measured approach to facilitating the transfer of shares in small businesses to the next generation of family owners while restricting opportunities for tax avoidance. However, we are concerned with changes proposed in August 2023 which effectively prevent the use of the new exemption on subsequent transfers of shares in the same business to family members, which greatly limits flexibility when utilizing the gradual business transfer rules. We hope there is time to reconsider this change before the passage of this legislation.

Given that this legislation will apply to share transfers taking place after 2023, we urge the government to prioritize the passage of this legislation to provide small business owners with certainty in planning for their business succession in 2024.

Recommendation 1: That the government support the successful transition of small businesses to family members by ensuring the final legislation amending section 84.1 of the *Income Tax Act* which is included in Bill C-59 currently before Parliament is expeditiously enacted in early 2024.

2) Self-employed individuals

Second, we see the potential need for new tax and fiscal measures to better support the growth and financial well-being of self-employed individuals. These individuals play an important role in the Canadian economy and are often incubators for the growth of larger businesses generating additional employment.

Unfortunately, recent data from Statistics Canada demonstrate the decline in self-employment. For example, the number of self-employed Canadians has dropped from a peak of approximately 2.84 million in May 2018 to 2.64 million in December 2023, a reduction of approximately 7 percent. Over the same period, self-employed individuals as a percentage of the entire labour force decreased from 15.3 percent to 13 percent. As a result, the self-employed account for the smallest share of all workers in more than forty years.[1]

While the cause of this decline is not clear, we believe it is an unwelcome development as the number of self-employed is one indicator of the growth and formation of new businesses in Canada.

Recommendation 2: That the government closely monitor the ongoing decline in the percentage of Canadians who are self-employed and take any necessary action to ensure this important pillar of employment and economic growth for the country continues to prosper.

Enhancing Canada's retirement system

Canada's affordability crisis is impacting the ability of younger people to save for their retirement and the ability of seniors to ensure the longevity of their savings.

This development compounds other economic, employment and demographic trends that have increasingly been challenging certain aspects of Canada's retirement income system. First, many Canadians are experiencing difficulties saving sufficient funds in their Registered Retirement Savings Plan (RRSP) due to competing needs for their financial resources early in their working lives.

They often cannot take advantage of their RRSP contribution room until closer to their retirement and therefore will not fully benefit from the tax-free investing within an RRSP. As well, the requirement to withdraw all funds from an RRSP or convert it to a registered annuity and/or Registered Retirement Income Fund (RRIF) by age 71 means that those who may out of necessity continue to work later in life are not able to continue to benefit from tax deductible contributions to an RRSP.

The second challenge affects the majority of Canadians who choose to convert their RRSPs into RRIFs. Some of those seniors fear they won't have sufficient retirement income later in life due to tax rules requiring them to withdraw an increasing amount from their RRIF as they grow older without the financial need to do so. Moreover, some seniors in financial need are finding their funds significantly diminished due to taxes payable on the withdrawn funds and loss of tax sheltering. Mandatory RRIF withdrawals can also push some seniors into a

[1] It is also important to note that from December 2022 to December 2023 the number of self-employed declined by .8% whereas all other classes of employees increased by 2.6%.

higher tax bracket and result in the loss of government benefits such as the Guaranteed Income Supplement (GIS) benefit.

In early 2023, Finance Canada consulted with stakeholder groups (including CALU) on the issue of RRIFs and minimum withdrawal requirements which resulted in the tabling of a report in Parliament in June 2023. While the report does not make specific recommendations, it contains a wealth of information that should be helpful to the government in determining how RRIF rules can best meet the needs of retirees.

For example, the RRIF Report indicates that:

1. The vast majority of RRSP holders wait to age 72 to convert their RRSP to a RRIF and over 60 percent of those RRIF holders only take the minimum.
2. About half of RRIF holders earning between $50,000 - $100,000 are only taking minimum RRIF withdrawals.
3. The average retirement age for Canadians has been increasing since 2007, particularly for the self-employed, and a growing number of people continue to work into their 70's.
4. Life expectancies continue to increase, with a growing number of retirees living well into their 90's.

Given the results of this report and feedback from our members and their clients, we are recommending the following changes to RRSP and RRIF rules.

Recommendation 3:

That the federal government:

3.1 Allow unused RRSP contribution room to be annually indexed to partially compensate for the loss of tax deferred savings due to the deferral of contributions resulting from other financial priorities.

3.2 In combination with changes to RRIF rules discussed below, permit RRSP contributions to continue past age 71.

3.3 Modify RRIF payout requirements in the following ways:

- **3.3.1 Reduce the minimum payout formula to allow more funds to remain tax-sheltered over a RRIF holder's lifetime.**
- **3.3.2 Similar to the result achieved by purchasing an Advanced Life Deferred Annuity (ALDA) allow RRIF holders to exclude up to $170,000 (indexed) from the application of the RRIF minimum payment formula until the RRIF holder attains age 85.**
- **3.3.3 Defer immediately or over time the requirement to convert an RRSP to a RRIF to age 75.**

3.4 Make more publicly transparent the factors used to establish the RRIF minimum payment formula and establish a regular process for reviewing the RRIF minimum payout formula to ensure it continues to meet the income needs of older retirees.

Strengthening Canada's dental care system

CALU agrees that the federal government should help uninsured individuals who need, but cannot afford, dental care because oral health is an important component of overall health. The federal government's new dental program, the Canadian Dental Care Plan (CDCP), is currently accepting applications from seniors whose access to services will begin in May 2024 while most adults 18-65 will be eligible to apply in 2025. As the CDCP continues to be developed to support various segments of the uninsured population, we are concerned that its availability could inadvertently reduce the availability of dental plans offered by small businesses and shift costs to the public purse.

Specifically, we are concerned that, without proper design, the CDCP may incentivize businesses – and particularly small businesses – to drop their existing employee dental plans in favour of the federal plan. While there remain many unknowns about the CDCP, we believe the risk of small businesses abandoning their private dental plans to be significant based on reports from our members and the small businesses they deal with as well as other experts in the field.

These small businesses, many of which are private corporations, generally face higher after-tax costs of providing employee health benefits (including dental benefits) than larger private and public corporations, and typically offer less generous benefits to their employees than larger businesses.

The existence of the CDCP may therefore be a powerful incentive for small businesses to abandon their employee dental plans in favour of the federal plan. CALU expects businesses that employ minimum wage workers, foreign workers, franchises, non-profits, and non-skilled labour individuals (ex. movers and roofers) to be most likely to abandon their dental plans in response to the introduction of the CDCP.

CALU is also concerned that, based on information provided by Health Canada, the CDCP will cover more services (e.g., restorative services) than some private plans and at a lower cost to individuals (some of whom currently pay 50% of the premium for their dental plans). In those cases, the CDCP will obviously be preferable to a private plan for both employers and employees and accelerate the transition away from private plans.

Conversely, the CDCP offers little incentive for businesses that do not currently offer dental benefits to their employees to do so, particularly if the CDCP is deemed to offer sufficient coverage at no cost to the employer.

The offloading of private dental coverage to the CDCP will inevitably increase costs to the federal purse. In June 2023, the Parliamentary Budget Officer (PBO) estimated the cost of the CDCP to range from $10.1 billion to almost $15 billion over five years. This overall cost depends on the extent to which provinces choose to abandon their existing plans in favour of the federal plan – much like businesses.

To avoid unintended consequences for small businesses and the public purse, CALU believes the CDCP should support the following objectives:

- Ensure small business dental plans are maintained and potentially enhanced.
- Encourage more small businesses to offer dental coverage as an employee benefit.
- Save program costs and/or permit the federal government to expand benefit coverage to others at the same budgeted cost.

We believe these objectives could be met by providing a 35 percent refundable tax credit in respect of the cost of dental care programs for employees of qualifying small businesses. The credit should be designed to support small businesses with employees earning less than the income coverage limits under the federal plan (the income limit).

Qualification would be based on the following criteria:

- **Type of business** – private corporations that qualify for the small business deduction, including farming and fishing corporations.
- **Dental plan membership** – at least 50 percent of employees covered by the plan earn less than the income limit with the credit not available for owners or those earning more than the income limit.
- **Plan coverage** – must be at least as generous as the CDCP.
- **Duration** – the credit program would be temporary (e.g., three years) with a review at the end of the period.

Under this proposal, employers would continue to pay about 55 percent of the cost of dental insurance for their employees thus saving the federal government from paying 100 percent of the cost if the employer dropped its dental coverage. It would also likely result in those employees receiving better dental coverage than what will be available under the CDCP.

Precedent for a proposal of this type exists in the United States where the Affordable Care Act – or Obamacare – included incentives and penalties to encourage employers to maintain health insurance coverage for all employees.

Recommendation 4: That the federal government provide a 35 percent refundable tax credit in respect of the cost of dental care programs for employees of qualifying small businesses. The credit should be designed to support small businesses with employees earning less than the income coverage limits under the CDCP, among other eligibility criteria.