Submission for the pre-budget consultations in advance of the 2025 federal budget

The Conference for Advanced Life Underwriting (CALU)

August 2024

List of Recommendations

That the federal government:

Recommendation 1: Commission an expert panel to review the tax rules governing small businesses as described on page 3.

Recommendation 2: Study the decline in self-employment since 2019 as described on pages 3-4.

Recommendation 3: Update RRSP and RRIF rules to better support younger Canadians saving for their retirement and seniors concerned they won't have sufficient retirement income later in life as detailed on pages 4-5.

Recommendation 4: Provide a 35 percent refundable tax credit relating to the cost of dental care programs for employees of small businesses as described on pages 5-6.

Recommendation 5: Develop pharmacare using the same general approach as the federal dental plan: supporting those without prescription drug coverage while leaving workplace benefit plans intact as described on pages 6-7.

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 thousands of life 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 following recommendations for Budget 2025.

Supporting small business owners

CALU believes that small businesses are the backbone of Canada's economy. Accordingly, we offer two recommendations to ensure they continue to contribute significantly to GDP and employment in Canada.

A) Small business tax reform

Federal rules governing the taxation of small business owners and private corporations are becoming increasingly complex. Recent examples include:

- Expansion of the tax on split income (TOSI) rules
- Introduction of passive investment rules to limit access to the small business deduction
- Modifications to the rules on intergenerational business transfers
- Introduction of a new Employee Ownership Trusts (EOT) regime
- Changes to the capital gains inclusion rate
- Upcoming introduction of the Canadian Entrepreneurs' Incentive

CALU believes these changes are resulting in tax rules that many struggle to understand, increased compliance costs, and a disincentive to establishing and growing small businesses in Canada.

Recommendation 1: The federal government should commission an expert panel to review the tax rules governing small business taxation with a view to harmonizing the treatment of various types of businesses, reducing compliance costs and creating a more fair, coherent and integrated approach to their taxation.

B) Self-employed individuals

Self-employed individuals play an important role in the Canadian economy and are often incubators for the growth of larger businesses generating additional employment.

Unfortunately, Statistics Canada data indicates the number of self-employed Canadians has dropped from approximately 2.87 million in September 2019 to 2.69 million in June 2024 representing a decline of approximately 6.3 percent. During that same period, self-employed individuals as a percentage of the entire labour force decreased from 15 percent to 13 percent. The self-employed now account for the smallest share of all workers in more than forty years.

Various factors may explain this trend including the covid-19 pandemic, the retirement of the boomer generation and the preferences of younger workers – yet no definitive cause has been determined.

While there has been some very recent growth in self-employment, the overall trend remains concerning as the number of self-employed is one indicator of the growth and formation of new businesses in Canada.

Recommendation 2: The federal government should promptly study the decline in self-employment since 2019. This includes establishing root causes and future trends and taking any necessary actions to ensure this important pillar of Canadian employment and economic growth continues to prosper.

Enhancing Canada's retirement system

Millions of Canadians rely on Registered Retirement Savings Plans (RRSPs) to save for retirement, and in turn on Registered Retirement Income Funds (RRIFs) to provide retirement income. Unfortunately, affordability challenges have been negatively impacting both groups in recent years.

Some younger people are also challenged to save for their retirement because of competing needs for their financial resources early in their working lives. Conversely, some older Canadians fear the loss of their retirement savings due to the requirement to withdraw money from their RRIF by the end of the year in which they reach age 71 regardless of any financial need to do so.

Moreover, some seniors are finding their funds significantly diminished due to taxes payable on the withdrawn funds and loss of tax sheltering available within the RRIF. Mandatory RRIF withdrawals can also push some seniors into a higher tax bracket and result in the loss of government benefits such as the Guaranteed Income Supplement (GIS) benefit.

Following Private Members Motion M-45 in 2022, Finance Canada consulted with stakeholder groups (including CALU) and tabled a report in Parliament in June 2023. The report does not offer recommendations but contains valuable information on how RRSP/RRIF rules can best meet the needs of retirees including that:

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

The federal government has not yet acted on this report.

Recommendation 3: The federal government should quickly update RRSP and RRIF rules as follows:

3.1 Allow unused RRSP contribution room to be annually indexed to partially compensate for the loss of tax deferred savings due to delayed contributions resulting from other financial priorities.
3.2 Permit RRSP contributions to continue past age 71.
3.3 Modify RRIF payout requirements by:
   3.3.1 Reducing the minimum payout formula so more funds can remain tax-sheltered over a RRIF holder's lifetime.
   3.3.2 Allowing RRIF holders to exclude up to $170,000 (indexed) from the application of the RRIF minimum payment formula until the individual attains age 85 similar to the purchase of an Advanced Life Deferred Annuity (ALDA).
   3.3.3 Deferring 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 its review to ensure it continues to meet the income needs of older retirees.

Strengthening Canada's health care system

CALU supports the federal government's recent efforts to assist those who need, but cannot afford, dental care or essential medications. The Canadian Dental Care Plan (CDCP) is now available to eligible seniors, children, and disabled adults with access expanding to the general adult population in 2025. Bill C-64, *"An Act respecting pharmacare",* has also been introduced to improve the access and affordability of prescription drugs and related products for Canadians.

CALU has concerns with both initiatives for their impact on workplace insurance plans. In the case of the CDCP, we are concerned about its indirect consequences on the plans of small businesses while pharmacare could directly reduce or eliminate the drug coverage most Canadians currently enjoy.

We believe that the gaps in dental and prescription medication coverage affecting some Canadians should be directly addressed without putting at risk what works well today for millions and result in unnecessary budgetary outlays.

A) Dental care

As the CDCP becomes available to Canadians of working age in 2025, we are concerned that it may incentivize some businesses to drop their existing employee dental plans in favour of the federal plan. We expect that small businesses would be most likely to do this as they generally face higher costs for their employee health benefits (including dental benefits) than larger corporations, and typically offer less generous benefits to their employees.

The offloading of private dental coverage to the CDCP will inevitably increase costs to the federal purse. Program costs will also increase as some businesses that do not currently offer dental benefits will choose not to do so in the future given the availability of a public plan for their employees.

Research conducted by Abacus Data for the Canadian Dental Association substantiates these concerns. It concluded that "*The implementation of the plan could lead employers to reduce or eliminate the dental coverage offered to employees but could be persuaded otherwise by a financial incentive and specifics about how the plan works*."

Their survey found that 95 percent of employers that currently offer a dental plan could be encouraged to keep it if a financial incentive was available. This includes 20 percent who would unconditionally do so, 52 percent who would do so with the appropriate financial incentive, and 23 percent who may do so depending on how well the CDCP works.

The federal government could avoid some of the unintended consequences of the CDCP by ensuring that:

- Small business dental plans are maintained and potentially enhanced.
- More small businesses offer dental coverage as an employee benefit to help their competitive position in the marketplace and the health of their employees.
- Budgeted CDCP program costs are not exceeded (and/or expanding benefit coverage to those who already qualify for the CDCP at the same budgeted cost).

Recommendation 4: The federal government should meet these objectives by providing a 35 percent refundable tax credit in respect of the cost of dental care programs for employees of small businesses. The credit should be designed to support small businesses with employees earning less than the $90,000 family income qualifying limit under the CDCP.

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.
- **Access to coverage** – employer must offer dental benefits to employees as reported on T4 slips.
- **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.

B) Pharmacare

One of the eligibility requirements for the CDCP is that individuals must not have access to any type of dental insurance or coverage including through employment benefits. We fully support this approach which fills the coverage gap for Canadians who need it without intentionally disrupting workplace benefit plans that most Canadians currently enjoy. The Globe and Mail recently praised this approach by noting that "the design of the dental care plan is a blueprint for a modernization of social programs. (…) The program's design recognizes the importance of the private sector. It does not displace existing private-sector dental plans."

We propose a similar approach for pharmacare. However, it is currently unclear whether the legislation before Parliament, Bill C-64, would provide drug coverage exclusively to the small number of uninsured, or whether it would reduce or cease coverage for those with workplace benefit plans. We believe greater legislative clarity is needed in this respect given the different interpretations that have been presented – including by federal authorities.

Where legislation references “universal, single-payer, first dollar coverage,” as does Bill C-64, insurance companies are not permitted to pay for any treatment or drug that is covered under a public system. We believe the federal government should address this situation if its intention is in fact to allow Canadians to retain coverage under their employer paid plan. According to the Parliamentary Budget Officer (PBO), the single payer system would also result in approximately $4B of costs currently paid by employer plans shifting to government.

Recommendation 5: The federal government should develop pharmacare using the same general approach as the CDCP: supporting those without prescription drug coverage while leaving workplace benefit plans intact.