Submission to the Standing Committee on Finance (FINA) in advance of Budget 2025

The Conference for Advanced Life Underwriting (CALU)

July 2025

List of Recommendations

That the federal government:

Recommendation 1: Promptly begin its promised review of the corporate tax system, including a focus on small business taxation.

Recommendation 2: Promptly update RRSP and RRIF rules to better support the financial needs of those saving for retirement and retirees.

Recommendation 3: Provide a temporary 35 percent refundable tax credit relating to the cost of dental care programs for employees of small businesses to be reviewed for effectiveness after three years.

Recommendation 4: Develop pharmacare using the same general approach as the federal dental plan: supporting those without prescription drug coverage while leaving workplace benefit plans intact.

Who we are

The Conference for Advanced Life Underwriting (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.

This submission considers the context of the federal government's mandate letter including geopolitical risks, and weak domestic productivity which is straining government finances, making life less affordable for Canadians, and threatening the sustainability of social programs.

CALU's recommendations for Budget 2025 support the government's priority of "bringing down costs for Canadians and helping them to get ahead" and focus on small business owners, the retirement savings of Canadians of all ages, and health care.

Supporting small business owners

CALU believes that small businesses are the backbone of Canada's economy. Accordingly, the federal government should help them grow their contribution to Canada's GDP, employment and affordability through changes to the tax system.

Small business tax reform

In recent years, the federal government has implemented or proposed several new tax rules governing small business owners and their private corporations including:

- Expansion of the tax on split income (TOSI) rules
- New passive investment rules
- New rules on intergenerational business transfers
- New Employee Ownership Trusts (EOT) regime
- Proposed introduction of the Canadian Entrepreneurs' Incentive
- Proposed modifications to the capital gains rollover rules

When considered individually, some of these tax measures have benefitted businesses. Collectively, however, they have had – and are expected to continue having – adverse effects on many businesses and the broader Canadian economy. Impacts include the inequitable treatment of different types of businesses; a significant increase in business planning complexities and compliance costs; and disincentives to establishing and growing small businesses in Canada.

Canada's corporate tax system hasn't been fully reviewed in nearly 60 years. It is therefore timely for the federal government to undertake a comprehensive review of Canada's small business taxation to reflect current economic, business and other realities. Doing so would also support the election commitment to

“Conduct an expert review of the corporate tax system based on the principles of fairness, transparency, simplicity, sustainability, and competitiveness.”

Recommendation 1: The federal government should promptly begin its promised review of the corporate tax system, including a focus on small business taxation.

Enhancing Canada’s retirement system

Millions of Canadians rely on Registered Retirement Savings Plans (RRSPs) to save for retirement, and on Registered Retirement Income Funds (RRIFs) to provide retirement income. **Both those saving for retirement and retirees have been negatively impacted by Canada’s recent affordability challenges.**

Many younger people are challenged to save for their retirement because of competing financial needs 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.

Seniors may also find 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 into a higher tax bracket and result in the loss of government benefits such as the Guaranteed Income Supplement (GIS). Forcing the withdrawal of funds from a RRIF during declining equity markets can also diminish retirement savings.

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. While the report did not offer specific recommendations, it contains valuable information on how RRSP/RRIF rules might be modified to best meet the needs of retirees in the future, indicating 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 only take minimum RRIF withdrawals.
- The average retirement age for Canadians has been increasing, particularly for the self-employed, and more people continue to work into their 70’s.
- Life expectancies continue to increase, with more retirees living well into their 90’s.

The federal government has not yet moved on this report – but the need for action is greater than ever before. **Notably, the global and domestic economic environment has changed dramatically in recent months increasing financial uncertainty for those who rely on their RRSPs and RRIFs to support their retirement needs.**

The federal government has reacted to past market downturns with temporary measures relating to RRIF minimum payout rules. **We believe more permanent measures are required, both for those saving for retirement and for retirees, by expanding retirement saving options and permitting greater control over RRIF withdrawals.** This will support the federal government’s stated objective of making life more affordable for all Canadians.

Recommendation 2: The federal government should promptly update RRSP and RRIF rules to better support the financial needs of those saving for retirement and retirees by:

3.1 Allowing 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 Permitting RRSP contributions to continue past age 71.

3.3 Modifying 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 $180,000 (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 Making 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 broad intention to assist those who need, but cannot afford, dental care or prescription drugs through two new initiatives – the Canadian Dental Care Plan (CDCP) and pharmacare.

However, **we have concerns with both initiatives for their potential impact on private insurance plans, and in turn, Canada's public finances and the sustainability of those programs.**

According to the Canadian Life and Health Insurance Association (CLHIA), over 27 million Canadians have supplementary health insurance plans, including prescription drug coverage and dental plans, largely through their workplace. These plans make life more affordable for the majority Canadians. We believe that gaps in dental and prescription medication coverage should be addressed by preserving what works well today for most and avoiding undue strain on public finances.

A) Dental care

The CDCP is now available to Canadians of all ages who do not have access to dental insurance, and with annual family income less than $90,000. In spring 2025, Canadians of working age (18-64) became the last group of individuals eligible for the program.

We believe that the extension of eligibility to this age group may inadvertently incentivize some businesses to drop their existing employee dental plans in favour of the CDCP. Surveys conducted by Abacus Data for the Canadian Dental Association substantiate our concern:

- 14 percent of Canadians reported their employer had communicated about potential changes to their dental care plan as a result of the CDCP.

- 43 percent of employers said the CDCP will encourage them to reduce the dental coverage provided to employees.
- Half of Canadians workers are concerned about losing their employer-provided dental coverage because of the CDCP

These figures will likely increase over time as the CDCP becomes better known and employers have opportunities to change the dental care plans they offer.

We expect that small businesses will be most likely to discontinue their insurance coverage as they tend to incur higher costs for health and dental benefits and generally provide less generous benefits than larger corporations.

Inevitably, the offloading of private dental coverage to the CDCP will increase costs to the federal purse. 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.

We believe the federal government should mitigate the unintended consequences of the CDCP on working Canadians and the public purse by offering a temporary financial incentive to employers to keep their plans.

The broad objectives of the financial incentive should be to ensure 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.

Recommendation 3: The federal government should provide a temporary 35 percent refundable tax credit in respect of the cost of dental care programs for employees of small businesses to be reviewed for effectiveness after three years. 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

Bill C-64, "An Act respecting pharmacare," became law in October 2024 with the stated purpose of improving the access and affordability of prescription drugs and related products for Canadians. The legislation is currently in the early stages of implementation with the federal government negotiating agreements with provinces and territories to provide universal access to some contraceptive and diabetes medications. The legislation commits the Minister of Health to "continuing to work toward the implementation of national universal pharmacare."

The full implementation of universal pharmacare will be a long and complex process with many potential challenges. Still, we support the government's continued efforts to help those without prescription drug coverage – while ensuring that the private plans that most Canadians have stay intact and public funds used judiciously.

The CDCP should serve as a general blueprint for the future of pharmacare as it fills the coverage gap for Canadians who need it while limiting eligibility to those already covered by private plans. Keeping employer health plans undisturbed helps more Canadians with more health conditions, while ensuring public funds are used to help those without prescription coverage.

Recommendation 4: 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.

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