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Mr. Glenn Campbell
Director, Financial Institutions Division
Financial Sector Policy Branch
Department of Finance Canada
James Michael Flaherty Building
90 Elgin Street, Ottawa ON K1A 0G5

To: LegislativeReview-ExamenLegislatif@canada.ca

Dear Mr. Campbell:

Re: A Consultation Document for the Review of the Federal Financial Sector Framework

Thank you for the opportunity to provide initial comments in response to the Department of Finance's Consultation Document, *Supporting a Strong and Growing Economy: Positioning Canada's Financial Sector for the Future* (the "Consultation Document") released on August 26, 2016. Our comments below supplement the submission filed by the Canadian Life and Health Insurance Association (CLHIA), which we support.

We appreciate the importance of periodic reviews of the financial sector legislative and regulatory framework, to ensure it continues to support a strong and stable financial sector that serves the needs of Canadian consumers and contributes to economic growth. We also join the CLHIA in commending the consultation process as outlined in the Consultation Document, which will provide opportunities for comment by financial sector and other stakeholders. Also, while we support the strong financial sector framework in place, which has worked well for Canadians, we also suggest targeted changes (see Question 5) to policy and legislation that could further improve Canadians' ability to achieve lifetime financial security.

We look forward to continued discussions on improving the financial sector framework for Canadians, and to providing additional input where helpful.

Sincerely,

About Sun Life

Sun Life Financial is one of Canada's largest financial services organizations, providing life and health insurance, retirement savings and asset management products and services that help millions of people in Canada and internationally meet their lifetime financial protection needs:

- We are the 16th largest publicly-traded life and health insurance and asset management institution globally and 8th in North America[1], with C$908 billion of Assets Under Management.[2]

- We are a strong, well-capitalized enterprise with a diverse group of businesses and solid underlying client franchises across multiple geographies, supported by robust risk management, corporate governance and sustainability practices.

- We serve over 37 million clients worldwide through our global presence, which includes Canada, the United States, the United Kingdom, Ireland, Hong Kong, the Philippines, Japan, Indonesia, India, China, Australia, Singapore, Vietnam, Malaysia and Bermuda.

- We are driving growth with a focus on four pillars: (i) financial protection and wealth solutions in Canada; (ii) U.S. group benefits and international high net worth solutions; (iii) Asia; and (iv) global asset management.

- We employ more than 10,000 colleagues directly and 4,000 financial advisors in high quality jobs in Canada,[3] and we sustain thousands of other jobs through external contracts.

- We make large, responsible long-term investments in the Canadian economy and public services, including government bonds and other debt securities, mortgages and loans, real estate and public infrastructure through public-private-partnership projects (P3s).

- In Canada, we help our clients achieve lifetime financial protection through:
    - individual life and health insurance, annuities, mutual funds and other wealth products, provided through multiple distribution channels–including nearly 4,000 Career Sales Force (CSF) advisors;
    - group retirement savings plans in the workplace (i.e. capital accumulation plans);
    - group benefits in the workplace (i.e. group life, group disability and extended health coverage);
    - defined benefit (DB) plan de-risking and investment management solutions; etc.

[1] Oct 31, 2016, Factset
[2] Sep 30, 2016
[3] Dec 31, 2015 – Sun Life Financial, 2015, *2015 Sustainability Report*

1. What are your views on the trends and challenges identified in this paper? Are there other trends or challenges that you expect to significantly influence the financial sector going forward?

We supplement the trends identified in the Consultation Document, and those cited by the CLHIA in its submission, with additional perspectives on the following:

- the macroeconomic environment;
- the regulatory environment; and
- individual financial responsibility and literacy.

- **Macroeconomic environment**:

  Supported by their prudent risk management, investments and governance, Canadian life and health insurers are well-equipped to manage the short- and long-term challenges and opportunities presented by evolving macroeconomic conditions.

  Persistent **low-for-long interest rates** have challenged insurers and pension funds in terms of mismatch exposure on liabilities and lower returns on capital invested in fixed income. Insurers have worked to reduce that exposure by shifting away from products with higher tail risk, adapting or re-pricing certain products, refining hedges and diversifying geographically. Low interest rates also challenge asset managers, which seek adequate returns through reliable asset allocations to serve end-clients' retirement saving and decumulation objectives.

  Soft or volatile economic growth[4] in Canada and globally impact the insurance and broader financial services sector through multiple channels and feedback loops—too numerous to list here—that range from fluctuations in asset values and investment allocations to shifts in consumer demand for financial products and services. Strategic diversification across complementary businesses (group, institutional and retail insurance and asset management) and key geographies (North America, Asia, etc.) will remain important vectors of growth for the life and health insurance sector, and moreover so in the current economic environment.

  Socioeconomic shifts, internationalization and technological innovation will continue to shape general economic growth trends and pose challenges and opportunities for the future development of many sectors of the economy. The life and health insurance sector is no exception. Impacts may be both foreseeable and incremental or unpredictable and disruptive. The acceleration and complexity of such shifts narrows the strategic windows for industries and enterprises to react and adapt. It also underscores the imperative for policymakers and regulators to keep abreast of developments and their consequences for the health of the economy, strength of the financial sector and choice and protection of consumers.

  - **Ageing demographics** raise the testing fiscal question of how to balance competing public service priorities in an economically viable and inter-generationally equitable manner. From a financial security perspective, this also raises the question of how retirees will ensure their retirement income lasts longer, including to meet health-related needs, where the public components of the retirement income and health care systems may not suffice. Given the life and health insurance sector's critical role within both systems as providers of accumulation and decumulation retirement

[4] International Monetary Fund, October 2016, *World Economic Outlook: Subdued Demand—Symptoms and Remedies*

products and health insurance products (prescription drugs, critical illness, long-term care, etc.), policy should be supportive of these financial protection products remaining accessible and affordable.

- **Internationalization** has marked the Canadian life and health insurance sector including Sun Life since the 1890s. Canadian insurers have grown vigorously in the United States and key Asian markets (ASEAN, China, India, Japan), organically and through strategic acquisitions and partnerships with local firms. The size of the U.S. market (with its large demand for health and retirement protection), rising middle classes in emerging Asian markets (with sophisticated financial goals, matched by low levels of insurance penetration), global appetite for active and liability-driven investment management solutions, and Canada's strong international reputation in financial services all provide ample room for Canadian insurers' international growth. Our sector will need to continue monitoring local market, political and broader geopolitical conditions and risks that could potentially impact the sector, including to the extent they shape national and regional economies and their openness and fair treatment of foreign-owned subsidiaries and joint ventures.

- **Fin-tech** and the application of new digital technologies to existing business models (e.g. data analytics, digital platforms and interfacing with clients, etc.) are significant opportunities for the financial services sector. Given the Canadian life and health insurance sector is already vigorously competitive, the benefits to consumers are less in the form of more competition, but rather in the new types of services and greater convenience digital technologies can bring to the consumer experience. However, absent strong regulation, fin-tech could also pose potential risks to consumer protection. While a "regulatory sandbox" approach could incent fin-tech innovation at the early development stage, fin-tech firms, products and operations should be included in the statutory frameworks that apply to the existing financial services sector, to avoid potential regulatory arbitrage and ensure consumers are protected.

- **Regulatory environment**:

  In parallel to substantial post-2008 initiatives in prudential regulation at the international level (i.e. under the G20 and Financial Stability Board), the financial sector worldwide has also witnessed a steady increase of far-reaching market conduct regulatory reforms, which are often implemented concurrently, and whose intent is to fill real or perceived gaps in transparency and protection for consumers. While national experiences with market conduct vary greatly, regulatory responses have demonstrated some striking commonalities of scope, scale and timing across borders. Many of these reforms have focused on standards of disclosure and conduct for financial advisor- / agent-centred distribution channels.

  For example, U.K. and Australian regulators have undertaken far-reaching, multipronged reforms under the Retail Distribution Review[5] and Future of Financial Advice[6] respectively, consisting in: increasing disclosures on advisor compensation, fund costs and performance; removing embedded commissions from the traditional client service and remuneration model of financial advice; distinguishing between "independent" and "restricted" advice channels; and / or having advisors adhere to statutory best interest standards of client care.

[5] I.e. with respect to investment / securities advice and product distribution
[6] I.e. with respect to both investment / superannuation and insurance advice and product distribution

More recently, the U.S. Department of Labour has proposed a fiduciary rule applicable to all retirement investment advice to plans, plan fiduciaries and individual retirement accounts.

Canadians demonstrate a generally high level of trust in financial advice channels that have served them well.[7] Also, several important regulatory changes to improve transparency and clients' understanding have been (or are being) implemented provincially and in cooperation with the financial sector; e.g. Client Relationship Model 2 (CRM2) and Point of Sale (POS) for mutual funds, and new Information Folder and Fund Facts requirements (2011) for individual variable insurance contracts. Additional regulatory reforms could pose transformative challenges for distribution channels. They prompt provincial policymakers and regulators to weigh the unintended negative consequences for consumers of far-reaching, cumulative market conduct reforms, as was witnessed in the United Kingdom, where it has become significantly more difficult for consumers with smaller accounts to access financial advice. Earlier this year the CLHIA released a report proposing several reforms designed to enhance market conduct regulation while ensuring financial advice continues to be broadly available to all Canadians.[8]

- **Individual financial responsibility and literacy:**

  In Canada, the United States, Hong Kong and other advanced economies where Canadian life and health insurers operate, governments and employers have tended to download the responsibility for retirement and health planning and saving to individuals. This macro-trend has accentuated the need to help fill the gap through products, services and education that empower individuals to take sensible, well-informed financial decisions for their futures. The following examples highlight this trend in the Canadian context:

  - DB-to-DC shift: While DB plan assets dwarf defined contribution (DC) plan assets in Canada (20 to 1),[9] virtually all new private sector pension plans are DC arrangements, and many DB plans have been converting to DC or hybrid plan designs, due to volatility of investment returns, increasing longevity and sustained low-for-long interest rates. Canadian DC plans require and enable more individual choice in pursuing savings goals.

  - Post-retirement health benefits: As group benefit plan sponsors, employers are facing difficult trade-offs in maintaining coverage for current employees while also supporting retired employees in the face of rising medical costs (dental and other) tied to old age. Post-retirement health plans have been largely scaled back.

  This underscores the imperative for public policy to support Canadian consumers' access to the protection and savings products and services they need to meet their financial objectives. We elaborate with several suggestions further below (see Questions 3 and 4).

  Finally, **financial and health literacy**, which are critical skills for Canadians' long-term prosperity and well-being, must be promoted at each stage in the life cycle. It is not only a matter of financial knowledge; a recent report commissioned by the Financial Consumer

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[7] Pollara, 2016, *Canadian Investors' Perceptions of Mutual Funds and the Mutual Fund Industry*; and C. Montmarquette, N. Viennot-Briot, August 2016, *Gamma Factor and the Value of Financial Advice*
[8] Canadian Life and Health Insurance Association, 2016, *Insurance Distribution in Canada – Promoting a Customer Focused Approach*
[9] Willis Towers Watson, 2016, *Global Pension Assets Study 2016*

Agency of Canada (FCAC) found Canadians with low financial confidence are more likely to experience poor outcomes in areas such as investing, saving for major purchases, knowing how much they need for retirement, and saving adequate amounts for retirement.[10] The report also found women tend to have relatively less financial confidence (even with high levels of financial knowledge).[11] Also, while many newcomers to Canada navigate financial, legal and tax systems effectively in their early years, others face cultural, linguistic and other accessibility barriers in seeking financial information, products, and services.[12]

Continued and coordinated efforts by individuals, governments, educators, employers, financial institutions (FIs) and other stakeholders, including efforts spearheaded by the Government of Canada under its Financial Literacy Leader, can help address financial and health literacy gaps. In our experience as providers of group retirement services and group benefits plans, the workplace is an especially important catalyst for both financial and health literacy (education on-site at the workplace, on-line webinars, on-line retirement planning tools and other financial calculators, wellness-related initiatives). The relationship with one's financial advisor in developing a holistic understanding of one's long-term financial plan and needs, is also vital.

2. ***How well does the financial sector framework currently balance trade-offs between the three core policy objectives of stability, efficiency and utility?***

Canada's financial sector is strong, diversified and stable. The Canadian life and health insurance sector in its current structure adequately meets the criteria set out by the Consultation Document of stability, efficiency and utility. The sector is well positioned to help Canadians achieve and maintain financial security as they face the challenges ahead that we have already identified. The legislative and regulatory framework that supports the financial sector is robust and, we submit, does not require any significant changes.

As the Consultation Document rightly acknowledges, the Canadian financial sector demonstrated its resilience during the 2008-09 global financial crisis and subsequent recession. Although the financial crisis did not originate in Canada, our financial sector was further reinforced through additional measures under the guidance of the Office of the Superintendent of Financial Institutions (OSFI), notably in the areas of governance and risk management and culture. Against the backdrop of difficulties that continue to afflict the financial systems—more specifically the banking sectors—of several countries (in Europe and Asia), the financial sector in Canada continues to perform strongly by comparison,[13] is well-governed and stable. We cite in particular the following sectoral strengths:

- The Canadian financial sector's architecture is characterized by strong, stable, longstanding and distinct banking[14] and insurance[15] pillars. It is supported by a risk- and principles-based, "twin peak" model of regulation, and the cooperative relationships Canadian financial

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[10] B. Palameta, C. Nguyen, T. Shek-wai Hui, D. Gyarmati, May 2016, *The link between financial confidence and financial outcomes among working-aged Canadians*
[11] Ibid.
[12] Prosper Canada: Centre for Financial Literacy, *Financial Literacy and Newcomers to Canada*
[13] Conference Board of Canada, July 2016, *Stronger Together. The Strengths of Canada's Four Global Financial Centres*
[14] I.e. Banking pillar: deposit-taking institutions, including banks, credit unions and caisses populaires
[15] I.e. Insurance pillar: including life and health insurers, and property and casualty insurers

institutions (FIs) uphold with their respective prudential and market conduct regulators, including OSFI. The significant number of market participants in the insurance pillar (including nearly 160 life and health insurers in Canada[16]) also helps ensure Canadian consumers benefit from the fruits of vigorous competition.

- The Canadian financial sector structured as such offers choice, clarity and protection for consumers to meet their financial needs. Consumers acquire their deposit, related personal savings, credit (mortgage, business or personal loan) and credit-protection products and services through banks and other deposit-taking institutions. In parallel, they acquire the long-term protection products they need to mitigate morbidity, mortality, longevity and catastrophe risk from insurers, through provincially regulated distribution channels. Restrictions under the financial sector framework that limit bank promotion of insurance uphold choice, clarity and protection for consumers in the insurance marketplace.

- The Canadian financial sector has avoided the sort of overconcentration that was experienced in several countries prior to the global financial crisis, thereby contributing to systemic risk, and which has generally fallen out of favour from a macro-prudential perspective since. Risks are largely carried and managed by those FIs that are best equipped to do so, from financial, risk and investment management and governance perspectives, under the prudential supervision of OSFI.

- The Canadian life and health insurance sector provides substantial financial and health benefits to the clients it serves countrywide, including (in 2015):[17]
    - C$11.1 billion in life insurance benefits (death benefits and payments to living policyholders);
    - C$32.2 billion in health insurance benefits;
    - C$40.9 billion in retirement benefits; and
    - the value of professional financial advice through regulated advisor channels for insurance and securities that encourage Canadians to save and plan for their financial futures, and the advancement of financial and health literacy through employer-sponsored capital accumulation and group benefits plans.

- The Canadian life and health insurance sector also contributes more broadly to the national and local economies, and to communities' quality of life, as:[18]
    - A critical source of long-term (i.e. "patient") capital in the economy and public services (including sovereign bonds, real estate and infrastructure projects).
    - One of the most internationally-active, services export sectors of the Canadian economy, with an especially strong presence and brand recognition in the United States, across Asia and worldwide in institutional and retail asset management.
    - A creator and sustainer of high-quality employment for some 150,000 people nationally (direct employment, financial advice channels and related professions).

Although the strength of the financial sector framework does not warrant that it be substantially changed, this in no way implies that the life and health insurance industry is not evolving—it should and already is. In fact, Canadian life and health insurers have been continuously innovating to improve the consumer experience under the existing statutory framework. Sun Life

[16] Canadian Life and Health Insurance Association, 2016, *Canadian Life and Health Insurance Facts: 2016 Edition*
[17] Ibid.
[18] Ibid.

and other insurers have been investing in fin-tech and integrating new features into product design, as well as new digital and other tools into client servicing platforms, irrespective of the presence or not of newer market participants. Such innovations foster choice in our competitive industry, as well as the financial understanding and empowerment of consumers.

Rather than contemplating any major changes to the strong financial sector framework, we submit that the Government of Canada should consider a series of very targeted yet effective changes to policy and legislation (see Question 5) that would reinforce access to and improve use of the financial products Canadian consumers rely on for their protection and retirement.

3. Are there lessons that could be learned from other jurisdictions to inform how to address emerging trends and challenges?

When comparing to other jurisdictions, it is important to retain that the Canadian financial sector framework is strong, not only owing to the strength and stability inherent in the sector overall (and in the life and health insurance sector in particular), but also due to the high quality of our risk- and principles-based regulatory frameworks at both the prudential level under the purview of OSFI, and at the market conduct level through our various provincial regulators in insurance, securities and other financial services sectors. It is a system that serves Canadian consumers well.

With respect to market conduct regulation (which is under the provincial purview for insurance, securities and other non-banking sectors), and further to our response to Question 1, the reality that financial responsibilities are increasingly being downloaded to individuals makes the value of financial advice more important than ever to Canadians, in allowing them to plan and take appropriate decisions for their financial futures. It is important that public policy and regulation avoid reducing access to advice when it is most needed.

In several developed countries, market conduct regulators have pushed forth far-reaching standards of financial advisor disclosure and conduct with the intention of enhancing the quality of the advice provided to retail consumers. When contemplating market conduct regulatory measures applied abroad, they must always be measured against the Canadian context and carefully consider the potential adverse consequences of cumulative regulatory reforms for consumers.

Standards adopted elsewhere may be unnecessary or duplicative relative to how Canadian regulatory frameworks perform. There is also a risk of smaller investors being priced out of the advice market as a result of fundamental changes to the regulation of financial advice, such as embedded commission bans. The United Kingdom's experience with the Retail Distribution Review may be informative; the unintended consequences of a well-intentioned policy include attrition in advisor numbers, many remaining advisors opting to focus on the higher net worth market (as the cost-benefit of serving the mid-market narrows) and smaller investors opting away from advice, given the high fee-for-service charges they would incur.

4. What actions could be taken to strengthen the financial sector framework and promote economic growth, including with respect to the identified themes? How should those actions be prioritized?

a) How should the financial sector framework support innovation and competition while maintaining stability of the system?

The life and health insurance marketplace in Canada is already vigorously competitive, with a large number of market participants; it offers choice and clarity to plan sponsors and individual consumers. It is vital that the financial sector framework continue to uphold a fair basis for competition, as it has until now. The framework is strong and does not require significant changes.

Product and service innovation should certainly be encouraged and supported by public policy, including within existing market participants. The market already innovates well now. For example at Sun Life, we are investing in this space through our partnerships with MaRS and Communitech in Canada, as well as Plug and Play in California. Internally, we have launched a significant initiative to invest in digital health solutions.

However, it is equally important that new entrants into the marketplace such as fin-tech ventures be held to the same prudential, governance and market conduct standards that apply to existing market participants, to ensure fair competition is preserved, regulatory arbitrage is avoided, and consumers remain protected irrespective of where they obtain their financial products and services. "Regulatory sandboxes" that facilitate start-up growth should position new entrants to comply with the regulation that applies to all industry participants. Policymakers will also need to monitor the cross-border provision of financial products and services through digital means.

It is also important for the financial sector framework to distinguish good innovation from the bad. Not all innovation is in the interest of consumers or the broader economy; the experiment of the 1990s and 2000s with "innovative" mortgage securitizations whose risk correlations were poorly understood offer a cautionary tale.

Also, while big data analytics and other digital technologies provide an opportunity for better, ever more refined understanding of a client's financial needs and objectives, innovation should not curb consumers' ability to research and choose among providers in the insurance marketplace. Public policy and regulatory support for innovation in the financial sector should not come at the expense of face-to-face advice channels that continue to serve clients well. Access to face-to-face advice should not become complicated for middle class households.

b) How can the financial sector framework best promote competition, including by encouraging new entrants and fostering the growth of small entities and other players?

Please see response to (a) above.

c) **How can the benefits of an internationalizing financial sector best be obtained while ensuring the safety and soundness of the sector?**

The current financial framework–including supervision and regulation under our prudential regulator OSFI–supports the international growth of Canadian life and health insurers while maintaining the safety and soundness of the sector. Canadian life and health insurers likewise maintain strong and cooperative relationships with regulatory authorities in all markets in which they operate.

Even as the Financial Stability Board (FSB), the International Association of Insurance Supervisors (IAIS) and the International Organization of Securities Commissions (IOSCO) have worked to advance new common prudential and market conduct standards and supervisory cooperation mechanisms since the 2008-09 global financial crisis, Canada's regulatory tradition and approach continue to stand out as very robust. While the interconnected nature of the international financial system and the experience of the global financial crisis do warrant inter-regulatory / -supervisory cooperation and an adequate level of consistency, due care should always be exercised in assessing international regulatory measures relative to the Canadian context: i.e., new prudential standards, including capital standards, should not be duplicative, nor should they be adopted ahead of jurisdictions that may implement them late or incompletely, as this could distort the playing field for Canadian life and health insurers with respect to international competitors.

The Government of Canada's active international engagement with key partners at the bilateral, regional and multilateral levels, through Global Affairs Canada, the Department of Finance and other departments and agencies, is also important to the growth of Canada's most internationally active sectors. With a presence and strong brand recognition spanning markets in North America and Asia, the life and health insurance is one such sector. It is a Canadian global champion

Canada's advancement of strong, cooperative ties with its largest commercial partner, the United States, remains essential to a well-functioning financial services sector, given the potential impacts of U.S. policy, legislation and regulation both on local operations and more globally, including "extra-territorial" impacts through capital markets. The same could be said of Europe, given strong transatlantic capital market ties and the continent's influence (after the United States') over international financial policy. With respect to Asia, Canada's work to engage the individual countries in that region as well as regional forums, organizations and institutions is also important, so as to better anchor Canada as an active and long-term participant and contributor to the Asia-Pacific region, and to ensure the regional economic rules and frameworks that will shape or govern the region (e.g. through APEC, ASEAN, etc.) remain consistent with Canadian interests.

Opportunities for the Department of Finance and OSFI to engage their counterparts in the United States, United Kingdom, other European and Asian markets, including Economic and Financial Sector Policy Dialogues with emerging Asian economies such as China, India and Indonesia and IAIS meetings, are practical conduits to support the international operations of the Canadian sector while maintaining stability. The negotiation of targeted and balanced bilateral and regional trade and investment protection agreements with key foreign markets can also help mitigate business risks and support a more level playing field for Canadian institutions in those markets, against the potential for measures that may defy fair national treatment, curb existing market access, or compromise the value of direct investment.

d) How can the financial sector framework support financial firms to best serve the evolving needs and interests of consumers?

The financial sector policy and regulatory system performs well today, notably with provincial insurance and securities regulators' focus on ensuring clients are treated fairly and coordination through the Canadian Council of Insurance Regulators (CCIR), Canadian Insurance Services Regulatory Organizations (CISRO) and Canadian Securities Administrators (CSA). Canadian life and health insurers have been proactively engaged and responsive partners on the fair treatment of clients, including through our support of targeted measures to improve transparency and client understanding such as CRM2 and POS for mutual fund investors, and a recent list of recommendations to the CCIR and CISRO by the CLHIA to strengthen the licensing requirements, oversight and remedying of client complaints for insurance agents.[19]

Given their own governance, and that they are held to account by the vigorous competition and choice within the marketplace, Canadian life and health insurers will continue to strengthen their focus on the client going forward through improved service and enduring, confidence-based client relations. As more Canadians are required to take on responsibility for their own financial futures, our sector has a responsibility to help fill the gap.

e) Are Canada's federal financial sector oversight bodies well-positioned to support the sector in the future?

Our federal financial sector oversight bodies including the Department of Finance and our prudential regulator OSFI are very well positioned to support the sector in the future. Assuris also works well, and helps ensure clients remain protected. As is the case with the sector itself, it is vital that oversight bodies keep abreast of developments in the financial sector nationally and internationally and that they continue to foster that expertise internally. They should remain adequately resourced to ensure they can perform to that end.

The life and health insurance sector and financial sector broadly have an important role to play in helping oversight bodies understand the business environment and market trends, including the potential trade-offs and consequences of proposed regulatory measures. The authentic, cooperative and constructive relationships between the Canadian financial sector and its oversight bodies, even where there are differing viewpoints from time to time, is commendable and must be preserved.

5. *What other actions should be taken to ensure the financial sector framework remains modern and technically sound?*

To foster the development of products and services that will help Canadians achieve greater financial security, the Government of Canada should take action in the following areas:

[19] Canadian Life and Health Insurance Association, February 26, 2016, *Insurance Distribution in Canada: Promoting a Customer-Focused System*

- **Raising the transfer limit for participating life insurance policies:** Par insurance provides permanent life insurance protection to policyholders and policy dividends in respect of their policies. Par policies are in high demand by Canadians for that unique combination of protection and policy dividends, which helps them prepare for retirement while protecting their families. In the 2012 reform, amendments were made to section 461 (1) of the *Insurance Companies Act* that would permit the par transfer limit to be moved to the regulations, rather than being specified in the *Insurance Companies Act.*

  Those amendments have not been proclaimed into force as yet. The amendments should be proclaimed and the transfer limit should be moved to the regulations. We would welcome the opportunity to work with the government and other stakeholders to address this outstanding issue

- **Ensuring DB plans' long-term solvency and inter-generational fairness as a matter of good public policy:** With 95% of existing Canadian pension assets saved and held in DB plans (nearly C$2 trillion in total assets), these represent a crucial component of retirement security for the baby boomer generation, their parents' generation and a significant number of the Gen X cohort who are still contributing to open plans.[20] Millions of Canadians are planning their financial lives before and after retirement with the expectation that the DB plans they saved in over a working lifetime will pay them as promised in retirement. While much of the jurisdiction over DB plans is provincial, it is concerning that DB plans can vary greatly (from excellent to poor) in terms of their governance, funding, investment management and hence long-term sustainability, given the enormous implications to individuals' financial security of plans not being able to fully pay expected retirement benefits. While changes to plan design (e.g. hybridization) can mitigate solvency issues, these together with questions of plan solvency relating to the financial health and viability of plan sponsors (employers) can also pose a question of inter-generational fairness if younger plan members fail to receive a full benefit down the line. The unrealistic generosity of certain plans today, where payouts are out of synch with a plan's financial standing in a low-for-long interest rate environment, pose a governance challenge for inter-generational equity as well.

  We suggest that all levels of government consider how long-term public and private DB plan governance and long-term solvency may be further strengthened as a matter of good public policy, also considering what has worked well in insurance through capital requirements and risk-management frameworks (mandated under regulation), as well as encouraging more de-risking of DB plans generally. It is encouraging that a number of governments in Canada have (or are) taking appropriate measures.

- **Enabling broader use of "smart default" features applied to the design of workplace retirement savings plans**: A 2015 McKinsey study of Canadian households shows the positive linkage between contributing sufficiently into a DC pension plan and better income replacement in retirement.[21] Yet while participation in DB plans is largely mandatory, workplace DC pension plans require employees to opt in, which due to inertia often results in subpar levels of participation and retirement saving through such plans. To encourage retirement saving disciplines, legislation at the federal—then provincial—levels should enable the application of auto-enrollment with an opt-out to DC pension plans generally, in the same way that "smart default" feature has been applied to Pooled Registered Pension Plans

[20] Willis Towers Watson, 2016, *Global Pension Assets Study 2016*
[21] McKinsey & Co., 2015, *Building on Canada's Strong Retirement Readiness*

(PRPPs) federally and across Canada, as well as successfully to pension plans in other countries (United States, New Zealand, etc.). Allowing plan member contributions to be increased automatically (within limits) with an opt-out would also greatly serve to increase the retirement readiness of consumers. In this instance a change to the *Canada Labour Code* and provincial employment standards legislation would be required.

In the same vein, PRPP legislation should consider the universal access provisions that to date have only been adopted in Quebec under the Voluntary Retirement Savings Plan (VRSP), to prompt more employers to offer a workplace plan to their employees but without having to incur plan administration costs.

- **Removing barriers to the acquisition of Advanced Life Deferred Annuities (ALDAs):** ALDAs provide Canadian seniors the benefit that for a reasonable premium, they can secure a comparatively large lifetime income late in life to protect against the risk of outliving other retirement assets. However, ALDAs face tax issues during the deferral stage that act as a punitive limitation for those seniors who would otherwise utilize them to ensure they have income for life. The issue is that policyholders are taxed each policy anniversary on the difference between the contract's accumulating fund and its adjusted cost basis, thereby essentially paying tax on the gain that accumulates in the policy each year. The taxable gain is added to the contract's adjusted cost basis for the subsequent year, and the process continues until the year the contract starts paying income.

  The challenge with this approach is that the customer is paying tax on income he / she does not (yet) receive, and income from the ALDA during the accumulation phase could result in a claw-back of Old Age Security (OAS) for the individual even though he / she is not receiving income from the annuity. Unlike accumulation annuities and some Guaranteed Investment Certificates (GICs), ALDAs are not commutable and annuitants only receive income from their ALDAs as of the income start age. For these reasons, there should be no taxation of deferred payout annuities such as ALDAs until annuity payments commence.

- **Incenting saving for Long-Term Care (LTC) insurance:** Shorter hospital stays, increasing outpatient treatment and an ageing population with longer life expectancy, will sustain the demand and need for LTC for some Canadians. According to a 2014 report by the CLHIA, structural reform to transition patients to the most appropriate LTC setting will improve patient care and generate efficiency savings to governments of well over C$130 billion.[22] In addition to measures that strengthen and optimize the capacity and delivery of LTC with a patient-centric outlook, in the preventive stage, more could be done to educate Canadians and incent them to save in LTC insurance coverage, so as to pool risk and protect them against the significant financial expenses relating to LTC.

  Although the *Income Tax Act* includes incentives to save for the future, they are under-utilized, particularly in the case of LTC protection. Tax incentives such as a non-refundable tax credit should be considered to encourage savings in LTC insurance coverage. Alternatively Registered Retirement Savings Plan (RRSP) withdrawals could be permitted to invest in premiums for a qualified LTC insurance policy.

[22] Canadian Life and Health Insurance Association, July 29, 2014, *CLHIA Report on Long-Term Care Policy: Improving the Accessibility, Quality and Sustainability of Long-Term Care in Canada*

- **Optimizing decumulation options and outcomes for Canadian DC plan members:** The Canadian pension sector is just starting a broad-based discussion on whether we have the right legislative environment in place in order for DC plan members to achieve optimal retirement income, or decumulation outcomes. Ideas such as allowing DC plan members to defer the purchase of an annuity to a time after the normal retirement date, variable payment life annuities as are made available in certain grandfathered DC plans and multi-component retirement vehicles (combining longevity protection, regular withdrawals and limited access to cash), which are also being considered in Australia and the United Kingdom, are being discussed.

  Each of these ideas would require some adjustment to the *Income Tax Act* and federal / provincial pension legislation. The Government of Canada should participate in these discussions and consider implementing key recommendations.