

The Fiscal Sustainability of Canadian Publically Funded Healthcare Systems

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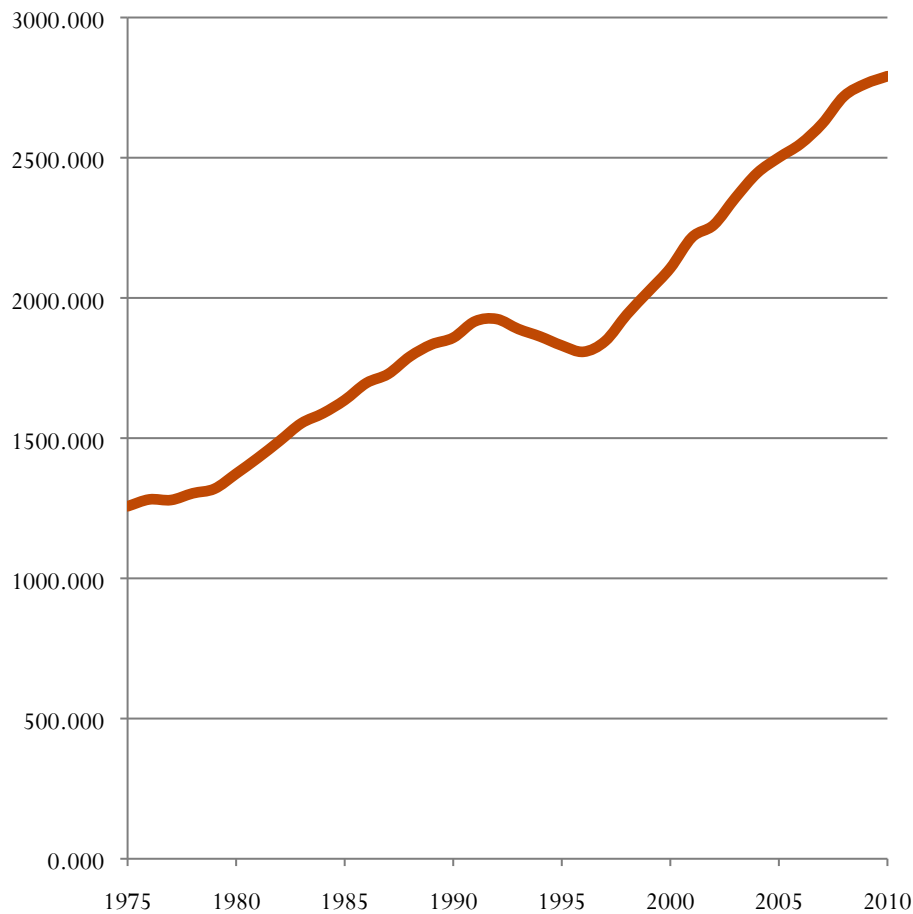
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The Issues

Real Per Capita Public Healthcare Expenditures (1997 dollars), Canada, 1975-2010



- Fiscal sustainability a persistent policy issue
- Public sector healthcare spending 2010 was 135.1 billion dollars (an increase of 5.1 percent from 2009).
- Since 1975, real per capita government health spending in Canada rose at an average annual rate of 2.3 per cent — faster than growth in real per capita GDP or government revenues.

Defining Sustainability

- Sustainability a term with many dimensions:
 - Maintaining a quality healthcare system
 - Fair access to healthcare
 - Being able to pay for equitable access and quality
 - *Fiscal sustainability* means having the money to pay for what you want to do both at present and in the future
- Marchildon et. al., (2004: 3)

“the sufficiency of resources over the long term to provide timely access to quality services that address Canadians’ evolving health needs.”
- Fiscally sustainable healthcare refers to the affordability of care in the long term without unduly restricting other government program expenditures.

Measures

- **General macro indicators of healthcare expenditures**

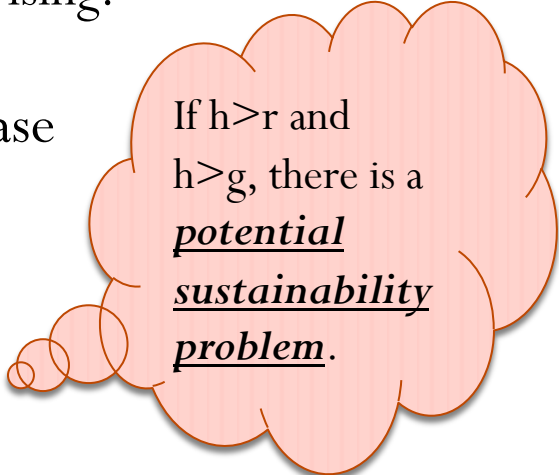
- m1: Is government healthcare expenditure-to-total government expenditure ratio rising?
- m2: Is government healthcare expenditure-to-GDP ratio rising?

- **Indicators of affordability:** compare healthcare expenditure real per capita growth rates (h) to resource base growth measures (r):

- r1: growth of real per capita provincial GDP
- r2: growth of real per capita total provincial gov. revenues
- r3: growth of real per capita federal cash transfers

- **Indicators of healthcare spending unduly restricting the availability of funds for other government expenditures:** compare healthcare expenditure growth rates (h) to government expenditure growth measures (g):

- g1: growth of real per capita provincial gov. total expenditures
- g2: growth of real per capita provincial gov. program expenditures
- g3: growth of real per capita provincial program expenditures net of health



If $h > r$ and $h > g$, there is a potential sustainability problem.

Evidence: historical data

Table 3.4: Public healthcare expenditure and sustainability indicators: Canada, 1975–2008

<i>Government health expenditure ratio (%)</i>	m1	m2					
1975	17.0	5.3					
2008	21.0	8.0					
2010	21.0	8.2					
1976–1990 Average	15.4	5.9					
1990–1996 Average	14.5	6.9					
1996–2010 Average	18.1	7.1					
<i>Annual growth rate (%)</i>	h	r1	r2	r3	g1	g2	g3
1976–2008	2.3	1.3	1.7	1.6	1.7	1.8	1.6
1976–1990	2.6	1.2	2.2	1.7	3.3	2.5	2.5
1990–1996	-0.2	0.0	1.2	0.0	1.7	1.5	1.9
1996–2008	3.1	1.9	1.6	2.1	0.0	0.7	0.1
<i>Source: Canadian Institute for Health Information (calculations made by the authors of this paper)</i>							

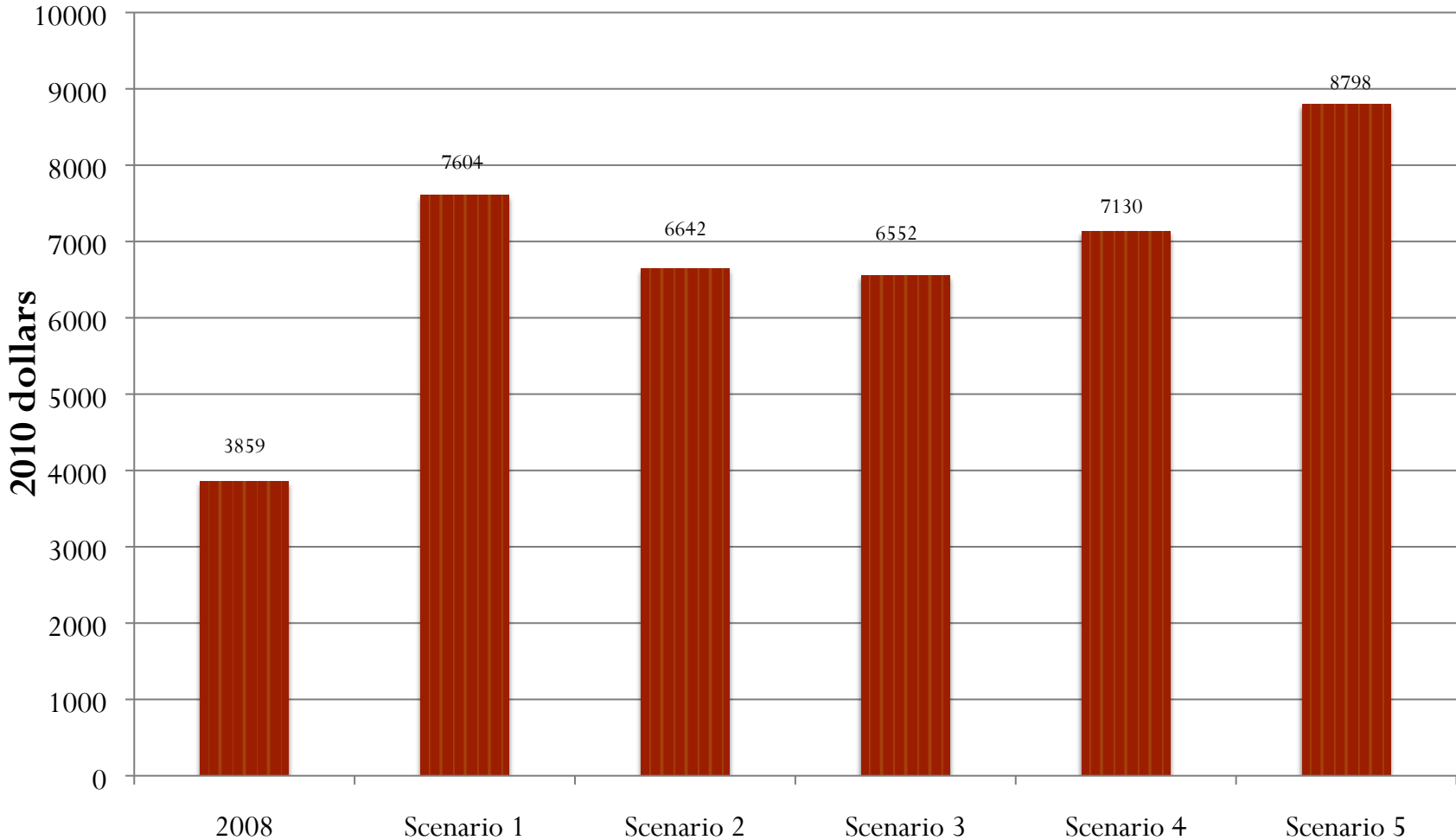
What Might the Future Look Like?

Five expenditure scenarios for real per capita public healthcare spending constructed.

- Using a regression-based approach:
 - Scenario 1: business as usual,
 - Scenario 2: low economic growth,
 - Scenario 3: rapid aging and low economic growth,
- Using simple growth-extrapolation approach
 - Scenario 4: healthcare spending assumes to grow at the average annual rate of the 1975-2008 period
 - Scenario 5: healthcare spending continues to grow at the high rates of the 1996-2008 period
- Forecast estimates for Canada as a whole, each of the ten provinces and the territories to 2035.

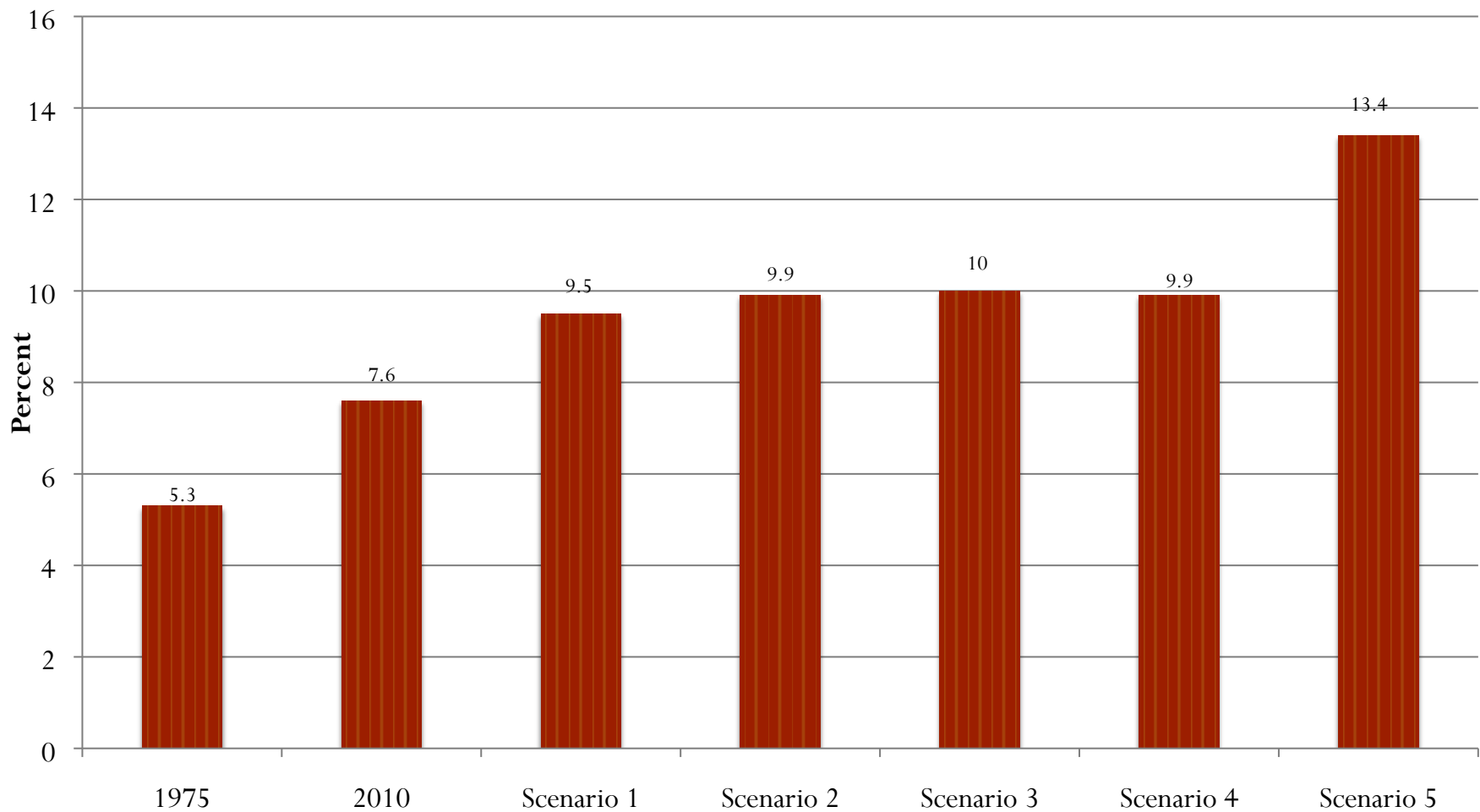
Canada

**Real Per Capita Public Sector Healthcare Spending (2010 dollars)
for Canada: Actual in 2008 versus Scenarios in 2035**



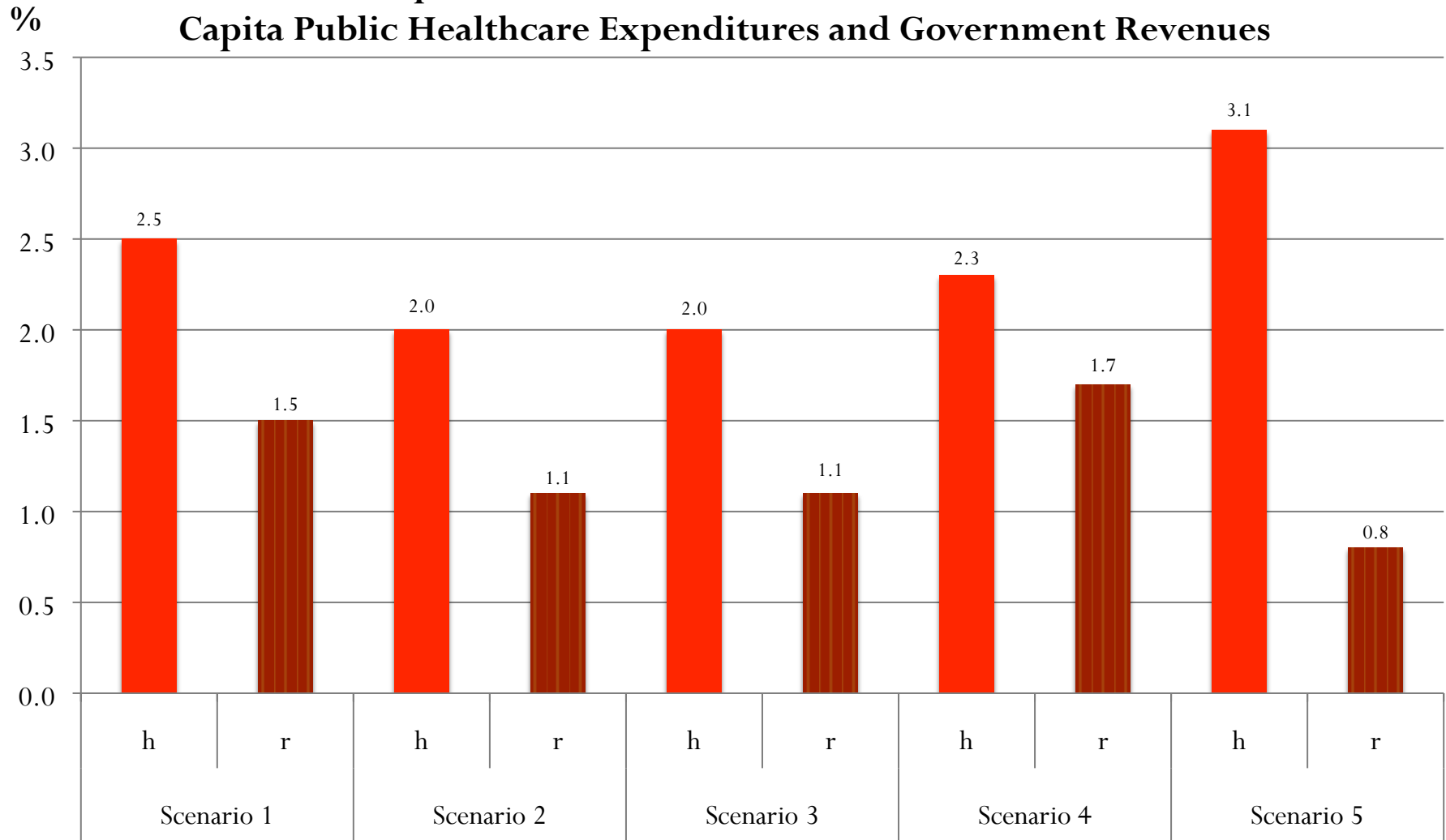
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Public Healthcare Spending Percent Share of GDP for Canada: 1975, 2010 and 2035 Scenarios



Canada

Canada: Compound Annual Growth Rates 2008-2035 for Real Per Capita Public Healthcare Expenditures and Government Revenues



Some Fiscal Implications

Scenario 5 (most extreme):

- Extrapolation assumption that health expenditure trends for the 1996 to 2008 period continue but with lower economic growth.
- Per capita government health spending in Canada in 2035 would hit 8,798 dollars and the public health expenditure to GDP ratio would hit 13.4 percent.
- This projected increase is equivalent to an increase in public spending today of about 2,797 dollars per capita— and would require a 15 percent increase in per capita revenues.

Potential Solutions for Fiscally Sustainable Public Sector Healthcare

- Reduce growth rate of expenditures
- Increase growth rate of revenues
- Or, a combination of both