

# WESTERN POLICY Analyst

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- 1 Resource Revenues and Heritage Funds
- 4 Employment Options for On-Reserve Populations
- 7 What does the New Canada Health Transfer Plan mean for Western Canada?
- 10 Out-of-pocket Prescription Drug Cost

## Resource Revenues and Heritage Funds



**By Stuart Wilson,**  
Associate Member,  
Johnson-Shoyama  
Graduate School  
of Public Policy,  
and Associate  
Professor and Head,  
Department of  
Economics, University  
of Regina

In October 2012, the Saskatchewan government released the “Saskatchewan Plan for Growth.” One of the plan’s core objectives is to maintain prudent management of government spending and continue the commitment to debt reduction. The Saskatchewan government has reduced the public debt from \$7.2 billion to \$3.8 billion from 2006 to 2011. Much of this may be attributed to strong growth in non-renewable resource revenues, especially during the 2008-2009 fiscal year when potash prices rose dramatically and government resource revenues surged above \$4 billion. A significant part of the recent economic boom in Saskatchewan has been due to growth in the non-renewable resource sector so the government is not only concerned with how Saskatchewan resources, with high investment and infrastructure requirements, will be developed, but also how to preserve the benefits of resource exploitation for future generations. At this point in time, some of these benefits are being marked for debt reduction. In the near future, the public debt may be fully retired. To meet its commitment

to future generations, the growth plan calls for the creation of the Saskatchewan Heritage Initiative, to investigate how other jurisdictions use and save their non-renewable resource revenues for future generations. The plan cites the resource revenue funds of Alberta, Alaska, and Norway for further study. The province of Saskatchewan had its own Saskatchewan Heritage Fund from 1978 to 1992. The funds of these governments are quite different and provide interesting contrasts.

The Alberta Heritage Savings Trust Fund was created in 1976. It was originally set to receive 30% of annual resource revenues. Funds were to be invested in crown corporations, private ventures, and loans to other provinces. The fund currently consists of a well-diversified portfolio of assets. However, during the 1980s, as a result of:

- changes in the energy sector with the 1980 National Energy Program,
  - the effects of the 1982 recession,
  - the consequences of the 1986 oil price collapse, and
  - the concerns with the massive growth of the deficit and debt,
- the share of annual resource revenues received by the fund dropped to zero and all investment income from the fund was diverted into the province’s general revenues. The Alberta government instituted major spending cuts starting in 1993, eliminated the deficit in 1995 and eliminated the debt in 2001.

While it benefitted from the resource boom during the first decade of the 2000s, the government failed to re-establish its

commitment to future generations, and the Alberta Heritage Savings Trust Fund has only served to boost general government revenues and spending. Fund equity has grown by just \$1.5 billion in nominal terms since 1986 and stood at \$14 billion in 2011. Many critics have pointed out that the Alberta government is heavily reliant on energy revenues, plans to overspend and draw down its wealth by \$13 billion in the coming years, and has neglected the heritage savings fund: the current government lacks vision to save resource revenues for future generations.

The Saskatchewan Heritage Fund was established in 1978 to invest a portion of resource revenues in financial assets for the benefit of future generations. All non-renewable resource revenues were deposited into the fund, and up to 80% of these revenues could be transferred to the government’s general revenue fund. During the 1980s, the Saskatchewan government ran into the same problems as those of the Alberta government: the 1980 National Energy Program, the 1982 recession, the 1986 oil price collapse, overspending, and growing deficits and debt. With the province near-bankrupt in 1992 with a debt over \$8.1 billion, the Saskatchewan government absorbed the fund balance, then just over \$1 billion, into the government general fund and terminated the fund. During the short life of the Saskatchewan fund, the overwhelming majority of its assets were investments and loans to the provincial crowns and short-term receivables of the consolidated fund. The portfolio was neither well-diversified nor managed at arms-length.

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**Johnson-Shoyama Graduate  
School of Public Policy**  
University of Saskatchewan Campus  
Diefenbaker Building  
101 Diefenbaker Place  
Saskatoon, SK Canada S7N 5B8  
Tel: 306 966-8525 Fax: 306 966-1967  
Email: jsjgs@usask.ca

University of Regina Campus  
3737 Wascana Parkway  
Regina, SK Canada S4S 0A2  
Tel: 306 585-5460 Fax: 306 585-5461  
Email: jsjgs@uregina.ca

**Outreach & Training**  
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**Figure 1: Alberta and Saskatchewan Fund Balances, 1977-1997**

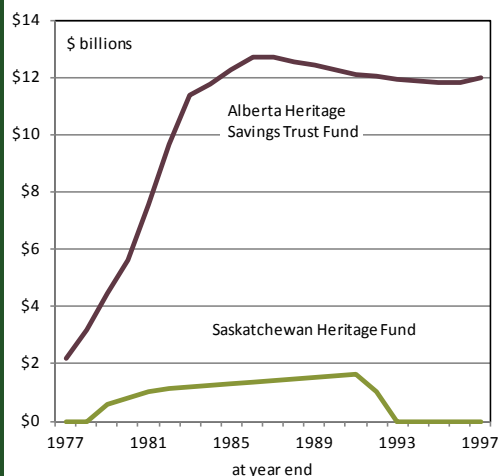


Figure 1 shows the Alberta and Saskatchewan fund balances at cost from 1977 to 1997. Both funds experienced growth from inception into the early 1980s. However, by the mid-1980s economic and fiscal challenges led to changes in fund operations. The Saskatchewan fund was terminated in 1992 while the Alberta fund languished into the 1990s.

Alaska launched the Alaska Permanent Fund in 1976 to preserve the benefits of resource wealth for future generations. The Alaska government is constitutionally mandated to deposit 25% of non-renewable resource revenues into the fund each year. Changes to this rule would require voter approval rather than simply the whim of the ruling party. The fund is operated at arms-length, is diversified, and is currently valued at U\$42 billion. Half of the cumulative income of the fund has been paid out to residents through an annual dividend while the other half has been reinvested. The fund is subject to financial market swings with losses in the market value of the fund during the financial market collapses and the recessions of 2001 and 2009 when the fund continued to pay out dividends to residents.

Figure 2 shows the more recent histories of the Alberta and Alaska funds. The Alaska fund is measured at market value while the Alberta fund is valued at cost. Equity in the Alberta Heritage Savings Trust Fund increased by 20% in Canadian dollars, over the 1996-2011 period. Equity in the Alaska Permanent Fund increased by 49% in Canadian dollars over the same period. The Alaska fund has shown periods of growth with inflows of resource revenues and market returns, but has suffered greatly from market collapses and recessions, and has needed time to rebuild its balances.

Norway created the Government Petroleum Fund in 1990 to invest the proceeds of oil extraction and sale for the future. The fund has since been renamed the Norway Pension Fund Global and is managed by an arm of the central bank under the supervision of the Ministry of Finance. The fund is well-diversified and has international holdings of equities, debt, and real estate. The fund has grown continuously since the first capital deposit in 1996, even during the 2008 financial collapse. Fund equity stood at 3.3 trillion kroner (C\$ 563 billion) in 2011. While the fund is relatively new, fund balances have grown quickly as the government has committed to preserving benefits of oil and gas reserves, primarily in the North Sea.

The government directs all petroleum revenues to the fund, and employs a normative fiscal guideline in which no more than 4% (the expected real return) of the fund's capital may be used to support government spending in any given year (provisions exist for surpassing this rate during economic declines). This has enabled the Norwegian government to maintain the long-term vision of the fund to preserve wealth for the future.

**Figure 2: Alberta and Alaska Fund Balances, 1996-2011**

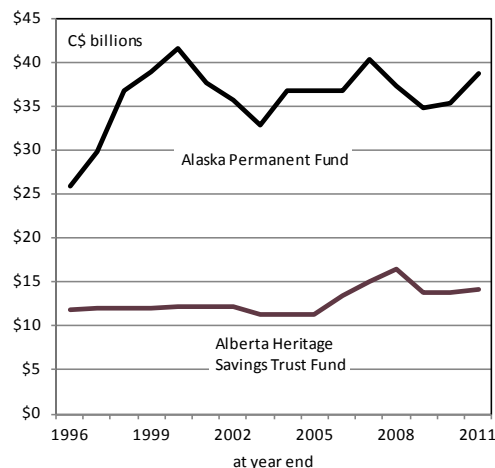


Figure 3 compares fund equity of the Norway fund with that of the Alaska and Alberta funds from 1996 to 2011. The Norwegian fund has experienced considerable growth and has benefitted from a strong government policy commitment to build the fund for future generations.

Figure 4 shows the 2011 fund values relative to the size of their economies. The Alberta Heritage Savings Trust Fund balance amounted to 5% of provincial GDP in 2011, while the balances of the Alaska and Norway funds stood at 78% and 120% of GDP respectively. At the peak in 1991, Saskatchewan's fund was approximately 8% of provincial GDP.

What then are some of the lessons for resource-dependent economies that can be learned from an examination of these funds?

- A government needs to maintain a vision of a resource revenue fund over the short term, allowing for boom and bust cycles in the resource sector due to price fluctuations, as well as for cycles in the overall economy, and entrench that commitment into policy.
- A government needs to maintain the vision over the long-term cycle of resource development, extraction and depletion to preserve benefits for future generations.
- A government needs to determine the appropriate policy for revenue deposits into the savings fund (or alternatively, the use of resource revenues for general government spending), allowing for variations over short-term and long-term cycles.
- A government needs to establish a fund that is managed at a distance from the government, and not subject to political cycles and the whims of the governing party of the time.

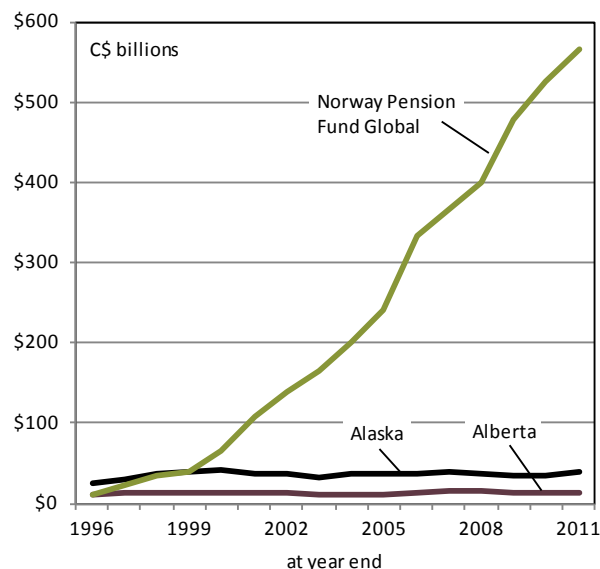
- The fund needs to be well-diversified and not a major source of funds for the government itself, nor for crown corporations.

Overall, a government needs to avoid the common pitfalls of resource booms by relying too much on resource revenues to fund general spending, and then falling into a trap during resource busts when the pressures on the government to deliver programs remain high, if not more pressing; this is the short-term problem. In the long term, the government needs to preserve some benefits of non-renewable resource extraction for the future, as future generations may see the resource wealth of the region drawn down.

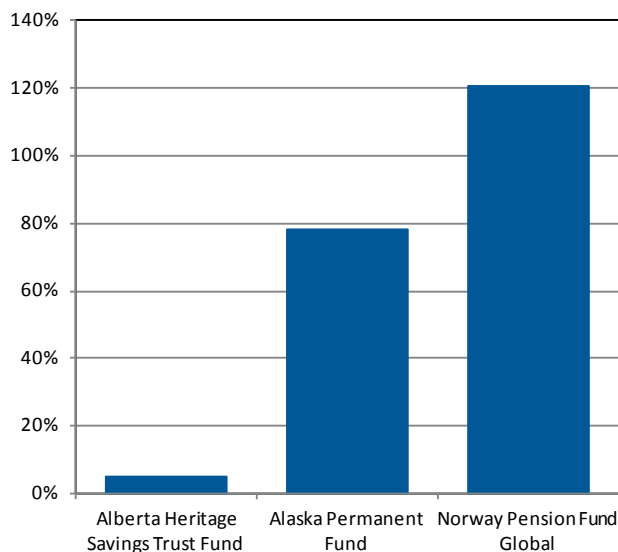
#### Sources:

- *Alberta Heritage Savings Trust Annual Report, 2010-11*
- *Saskatchewan Heritage Fund Annual Reports, 1978-1992*
- *Alaska Permanent Fund Annual Reports, 1998-2011*
- *Norway Government Petroleum Fund/Norway Pension Fund Global Annual Reports, 2000-2011*
- *US Census Bureau, Statistics Canada, Alberta Treasury and Finance, Statistics Norway*
- *A Call for a New Saskatchewan Heritage Fund* available at [www.uregina.ca/arts/economics/research/discussion-papers.html](http://www.uregina.ca/arts/economics/research/discussion-papers.html)

**Figure 3: Comparison of Fund Balances, 1996-2011**



**Figure 4: Fund Balances as Percentage of GDP, 2011**



# Employment Options for On-Reserve Populations



By M. Rose Olfert, Professor, Johnson-Shoyama Graduate School of Public Policy and Department of Bio-resource Policy, Business and Economics, University of Saskatchewan

## Introduction

On-Reserve population growth is outstripping growth in the

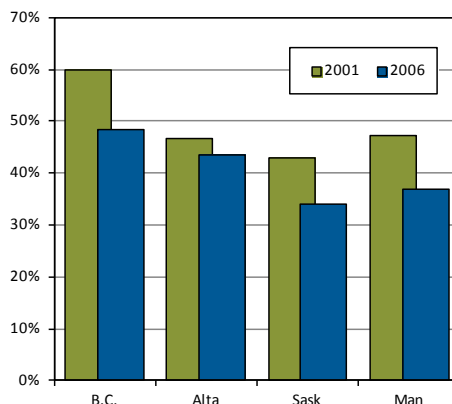
general population and is higher in the four western provinces than in Canada as a whole. The On-Reserve Aboriginal population in Western Canada grew by 8.3% between 2001 and 2006, according to the Statistics Canada census. Among the four western provinces, this growth rate was highest in BC and Alberta, each at 10% and lowest in Saskatchewan at 4%. The On-Reserve Aboriginal population in Canada increased by 7.8%. The general population of the four western provinces increased by 6.1% over the same period, and by 5.4% in Canada.

## The On-Reserve Aboriginal Labour Force

The labour force portion of the population, that share of the population that falls into the fifteen and older age group (called the “adult” population in this article), is both an indication of the labour supply that will earn employment income for the population and also represents the labour force members who will most likely be looking for jobs. Over the 2001-2006 period, the On-Reserve Aboriginal adult population grew by 13.9% and 12.6% in the four western provinces and in Canada respectively, compared with 8.2% and 7.3% for the general population. The On-Reserve adult population is thus growing even faster than the total On-Reserve population, with the most rapid growth again in BC and Alberta, over 15% in each, and the slowest growth (11%) in Saskatchewan.

Employment rates provide an indicator of the extent to which the On-Reserve Aboriginal population of labour force age is engaged in earning employment income. Employment rates are calculated as those with employment income divided by the adult population.

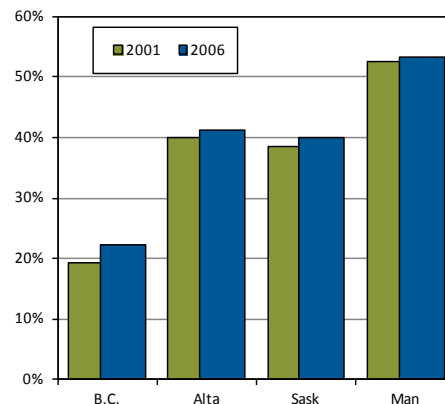
**Figure 1: Employment Rates for the On-Reserve Populations (percent of adults with employment income)**



The 2006 employment rates for On-Reserve Aboriginal population were 40.8% for western Canada and 45.4% for Canada as a whole. The comparable employment rates for the general population were 68.7% (western provinces) and 66.4% (Canada). The employment rates of the On Reserve Aboriginal population are only about two thirds those of the general population. As On-Reserve populations are growing rapidly, this gap is likely to have serious consequences in terms of income levels and poverty on Reserves.

Perhaps of even greater concern than the low levels of employment rates is the fact that they have declined between 2001 and 2006, for Canada as a whole and for every one of the four western provinces (see Figure 1). For the four western provinces combined the On-Reserve Aboriginal employment rate declined from 50% in 2001 to 41% in 2006; for Canada from 54% to 45%. To put this into context the employment rate for the general population declined as well, due to the fact that the denominator (the adult population) includes those 65+, even though many of these will be retired. However, since the Aboriginal population is much younger than the general population this effect would be smaller in the

**Figure 2: Percentage of Employment Among On-Reserve Residents that is Located On-Reserve**



Aboriginal population. For the four western provinces combined, the general population employment rate fell from 71.2% to 68.7%; for Canada from 68.8% to 66.4%.

## On- and Off-Reserve Employment Options

Many of Western Canada's 2,482 Indian Reserves (1,573 of these are in British Columbia, 534 in Saskatchewan, 257 in Manitoba and 118 in Alberta) are very small and have a very limited economic base. Indeed, of the 2,482 reserves, only 802 had positive population in both 2001 and 2006. Of these, 355 were in BC, 67 in Alberta, 105 in Saskatchewan and 71 in Manitoba. The average Aboriginal population on a Reserve is 385 in Canada and 331 in western Canada, ranging from 143 (British Columbia) to 800 (Manitoba) in the western provinces. The local population size is then seldom large enough to support local economic activity that may provide the needed employment. Of course, the Reserves that are near an urban centre will have access to a larger market and a wider range of opportunities. In some cases this has led to significant local economic development; casinos and golf courses are well-known examples.

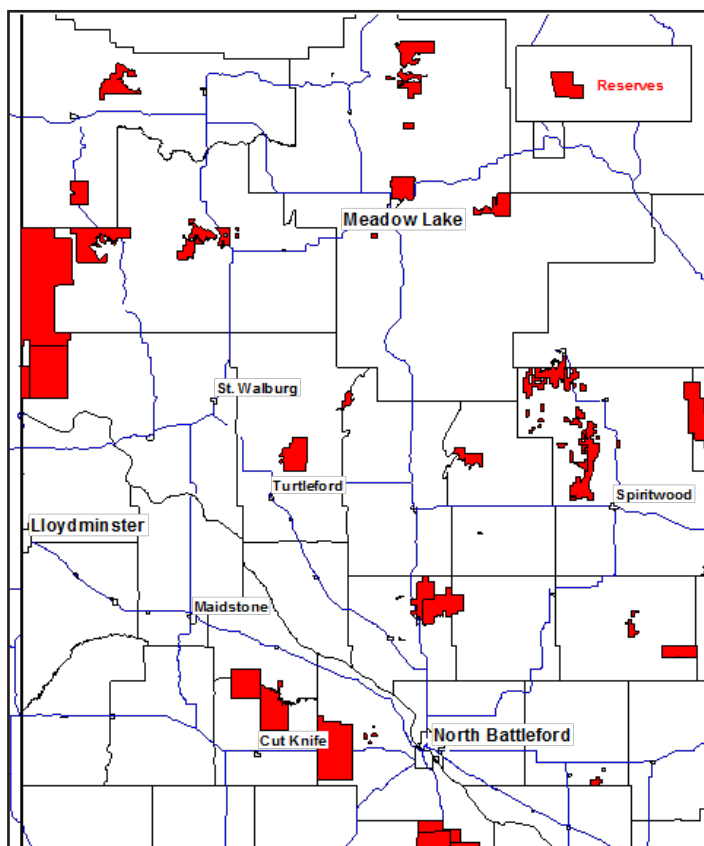
1 While the above discussion focuses on the Aboriginal Population residing on Reserves, the commuting information simple refers to residence On Reserve, irrespective of Aboriginal identity or ethnic origin. In Canada the Centre for the Study of Living Standards reports that 90% of Reserve residents are Aboriginal. We will proceed with the discussion as though all Reserve residents are Aboriginal. In doing so we assuming that the employment patterns of Reserve residents are the same as the Aboriginal population component.



The above employment and employment rates do not reflect whether the jobs are On-Reserve or Off-reserve. The census collects employment data by place-of-residence, not place-of-work. People residing On-Reserve and working Off-Reserve will be counted in totals for the employed Reserve population. It is, however, important to assess the extent to which the On-Reserve labour force can rely on On-Reserve jobs versus jobs Off-Reserve. Jobs in accessible Off-Reserve cities or towns may offer a very important additional source of employment income.

From special tabulations of Statistics Canada's employment data on place-of-work and place-of-residence it is possible to determine what fraction of the jobs held by those residing on Reserves are located on the Reserve and what percentage are Off-Reserve jobs.<sup>1</sup> The location of the job is recorded as the place that respondents identify their "usual place of work". In the four western provinces combined, Figure 2 shows that On-Reserve jobs made up 37% of all employment of Reserve residents in 2006, up slightly from 36% in 2001. That is, 63% of all jobs held by Reserve residents in the western provinces were not on the Reserve. These percentages vary considerably across provinces from a low of 22% On-Reserve in BC (78% Off-Reserve) and a high of 53% On-Reserve in Manitoba (47% Off-Reserve).

#### **An Example of Indian Reserves and Nearby Urban Centres, West Central Saskatchewan**



#### **Definitions and Notes**

Canada's Indian Act defines an Indian Reserve as a "tract of land, the legal title to which is vested in Her Majesty, that has been set apart by Her Majesty for the use and benefit of a band." Any given First Nation or Native band may occupy more than one reserve. Conversely, in some cases, more than one First Nation or Native band reside on a single reserve. This is most commonly observed in Ontario, Alberta and British Columbia. Where reserves are situated on or along provincial/territorial borders, a band originating from one province/territory may reside on a reserve in another province. This phenomenon is most commonly observed along the Ontario/Québec border and the British Columbia/Yukon Territory border.

For the purposes of this article, "Reserves" include the following.

**Indian Reserve (R)** – A tract of federally owned land with specific boundaries that is set apart for the use and benefit of an Indian Band and that is governed by Indian and Northern Affairs Canada (INAC). Statistics Canada only recognizes the subset of Indian reserves that are populated (or potentially populated) as census subdivisions. For 2001, of the more than 2,800 Indian reserves across Canada, there are 1,052 Indian reserves classified as CSDs (including the 60 reserves added for 2001). Statistics Canada works closely with INAC to identify those reserves to be added as CSDs.

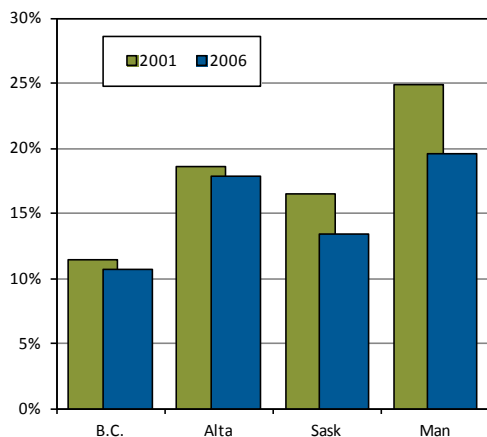
**Indian Settlement (S-E)** – A place where a self-contained group of at least 10 Indian (Aboriginal) persons reside more or less permanently. It is usually located on Crown lands under federal or provincial jurisdiction. Indian settlements have no official limits and have not been set apart for the use and benefit of an Indian Band as is the case with Indian reserves. Statistics Canada relies on INAC to identify Indian settlements to be recognized as census subdivisions, and their inclusion must be with the agreement of the provincial or territorial authorities. An arbitrary boundary is delineated to represent each Indian settlement as a census subdivision.

**Indian Government District (IGD)** – Sechelt reserve lands in British Columbia. The Sechelt Indian Band Self-Government Act is a transfer by Her Majesty in right of Canada to the Sechelt Band in all Sechelt reserve lands, recognizing that the Sechelt Band would assume complete responsibility for the management, administration and control of all Sechelt lands. The Sechelt Indian Government District Enabling Act (British Columbia) recognizes the district Council as the governing body of the Sechelt Indian Government District. The district Council may enact laws or by-laws that a municipality has power to enact under an Act of the province.

**Nisga'a Village (NVL)** – The four former Bands of the Nisga'a Nation that became villages with the Final Land Claims Agreement of 1998 between the Nisga'a Nation, the Government of Canada and the Government of British Columbia. These include the villages of Gingolx, Gitwinksihlkw, Laxgalts'ap and New Aiyansh. Note that the Nisga'a Village called New Aiyansh is delineated as two separate census subdivisions, which correspond to the former Indian reserves called Aiyansh 1 (currently unpopulated) and New Aiyansh 1.

**Nisga'a Land (NL)** – Part of the territory whose title has been transferred to the Nisga'a Nation by the Final Land Claims Agreement of 1998 between the Nisga'a Nation, the Government of Canada and the Government of British Columbia. Together with the four Nisga'a Villages (NVL), this territory makes up the Nisga'a Lands defined by the land claims agreement.

**Figure 3: On-Reserve Employment as a Percentage of the Adult (15 & older) Population**



In assessing the adequacy of the Reserve economies in providing employment for their labour force, it is important to also consider the On-Reserve jobs relative to the total adult population, not just those that are currently employed. Figure 3 shows the percentage of the adult population that is employed On-Reserve.

Overall, On-Reserve jobs relative to the adult population declined from 17.8% to 15.3% between 2001 and 2006. Again, Figure 3 shows that there is considerable variation among the provinces. The number of On-Reserve jobs relative to the adult population ranges from 11% in BC to 20% in Manitoba. In every province, this ratio declined between 2001 and 2006.

### Policy Implications

To address employment needs of the On-Reserve labour force, policy options include:

1. supporting economic development initiatives on Reserves;
2. facilitating migration of the labour force to urban centres of employment; and
3. facilitating access to employment through commuting to Off-Reserve jobs.

Each of these options has advantages and limitations. Given the size of the Reserve and their location the viable alternatives

under #1 will be limited. Investments in economic initiatives that are not ultimately sustainable will be costly and will not produce the necessary results. Migration to urban centres (#2) is already occurring and may indeed be the best option for individuals with the requisite education/skills and support network. Given the geographic re-location required, however, there are not only moving costs but also social, cultural and psychological costs associated with this option. So for some Reserves, where there are places of employment within commuting distance, ensuring that the Reserve is a desirable place to live with good transportation access to Off-Reserve places of employment may be an attractive option (#3). The data suggest that this option may be a very important component of future employment strategies for On-Reserve populations.

### Sources:

- Canadian Centre for Living Standards
- Statistics Canada Census – Special Tabulations

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# What does the New Canada Health Transfer mean for Western Canada?



By Gregory P. Marchildon, Canada Research Chair in Public Policy and Economic History (Tier 1), Johnson-Shoyama Graduate School of Public Policy, University of Regina Campus and Haizhen Mou, Assistant Professor, Johnson-Shoyama Graduate School of Public Policy, University of Saskatchewan Campus

## Introduction

On December 19, 2011, the federal government announced its revised plan for the Canada Health Transfer (CHT), the single largest federal transfer to the provinces. Starting from 2017-18, the 6% annual automatic increase for the CHT will be replaced by a formula that links growth of the CHT to a three-year moving average of nominal gross domestic product (GDP) growth rate, with a floor of 3% per year. However, a more immediate and potentially more important change is the replacement of the previously “equalized” CHT formula with a pure per capita formula starting in 2014-15. Except for Alberta, all the Canadian provinces end up losing as a result of the change; British Columbia loses the most among western provinces.

In what follows, we will explain the distributional effects and implications of the proposed CHT for the four western provinces. We will then discuss the challenges posed by the new “equal per capita” for Western Canada, including the labour input cost in Alberta, the age profile of British Columbia, and the geographical distribution of population in Saskatchewan and Manitoba.

## From the 2004 CHT to the 2011 CHT

In September 2004, following an intense period of intergovernmental negotiations, Prime Minister Martin announced *A 10-Year Plan to Strengthen Health Care*. In response to years of complaints of insufficient and unpredictable federal health transfers, the federal government committed itself to increase the cash portion of the CHT by 6% annually from 2006-07 to 2013-14.

In 2006, the newly elected Conservative minority government introduced its policy of “open federalism” and expressed its desire

to have the provinces take more responsibility and accountability for health care. Although the terms of the 10-Year Plan were respected, the government chafed at the continuing fiscal obligation imposed by the 6% escalator in the agreement. In addition, some provincial governments, most notably Alberta, argued that the equalization component should be eliminated from the CHT. At a meeting of finance ministers in December 2011, Prime Minister Harper announced revisions to the CHT.

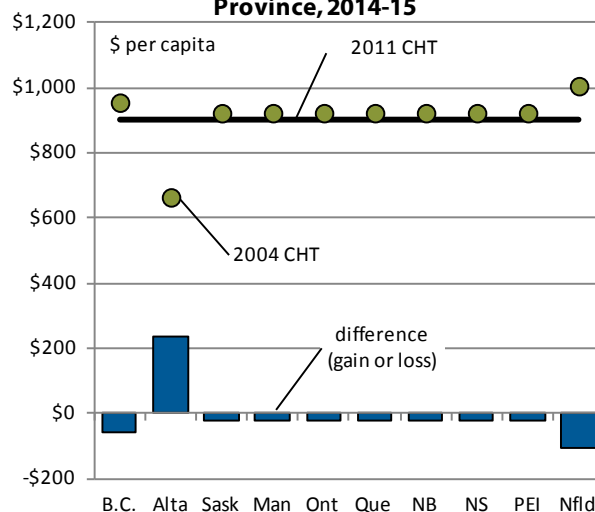
While the media focused on the decision to replace the 6% annual escalator with a formula linked to a three-year moving average of nominal gross domestic product (GDP) growth rate, with a floor of 3% per year, more attention should have been paid to the replacement of the previously “equalized” CHT formula with a pure per capita formula, a change that fundamentally alters the distribution of the transfer among provinces.

## The Distributional Impact

Under the 2004 formula, provinces and territories received equal per capita total CHT transfer, which included a tax point<sup>1</sup> transfer and a cash transfer. The higher the income tax capacity and the higher the equalized tax point transfer of a province, the lower its CHT cash transfer. Therefore, there is an embedded redistribution component in the old CHT formula; wealthier provinces subsidize the provinces with lower taxation capacity.

Unlike the new escalator, which will not be phased in until 2017-18, the new non-equalized formula will be introduced in 2014-15. We will therefore use estimates for the 2014-15 fiscal

**Figure 1: The Distributional Impact of the 2004 and 2011 Formulae for CHT, by Province, 2014-15**



Source: Based on first estimate for 2012-13 of the Department of Finance's Federal-Provincial Relations Division

year to compare the distributional impact of the 2004 CHT to the 2011 CHT (see Figure 1). Under the old CHT, all the have-not provinces including Manitoba and some “have” would receive a “normal” rate of CHT cash transfer of \$923 per capita based upon an average estimated value of \$432 for the imputed tax transfer. However, due to the lower estimated value of the imputed tax transfer portion of the transfer for B.C. and Newfoundland and Labrador, those provinces end up receiving a larger cash transfer - \$955 per capita for B.C. and \$1,006 for Newfoundland and Labrador as compensation. By the same token, since the estimated value for the imputed tax transfer for Alberta is much higher (\$691), it would receive a much-reduced CHT per capita (\$664) relative to the “normal” rate.

As can be seen in Figure 1, all provinces will lose under the 2011 CHT except for Alberta, which will gain almost \$954 million, or an increase of \$235 per resident. In absolute terms

1 The tax point transfer originates with the original (1977) Established Programs Financing agreement between the federal government and the provinces, when Ottawa agreed to transfer from tax room to the provinces by reducing its own income tax and corporate tax rates by a designated amount, thereby leaving it up to the provinces to collect additional income and corporate taxes using the room vacated by the federal government. Ever year since, this tax room has been calculated by the federal government.

or per capita term, the most significant loser among western provinces is British Columbia, which drops \$272 million (\$56 per capita). Saskatchewan and Manitoba both lose 24 dollars per capita, the same loss experience by most other provinces.

### The Fiscal Implication of the New Allocation of CHT on Health Care Financing

While the 2011 CHT does provide some policy clarity by eliminating the equalization component and the anomalies it created through the imputed tax point transfer benefit, it will make it much more difficult for provinces with weaker revenue capacity to fund health care. While this is mainly a challenge for central Canada and the Maritimes, it is still worth examining the impact in Western Canada. Figure 2 illustrates share of the equal per-capita CHT in projected per-capita health expenditure for the four western provinces during the ten-year period between 2014-15 and 2024-25, the year when the 2011 CHT is up for renewal.

In 2014-15, the CHT will contribute roughly 22-23% of health expenditure in British Columbia, 20-22% in Manitoba, 18-21% in Alberta, and only 16-18% in Saskatchewan. Therefore, an equal per capita CHT does not translate into an equal level of contribution to health spending in the four provinces.

### The Challenges of Funding Health Care under the Equal Per Capita Formula

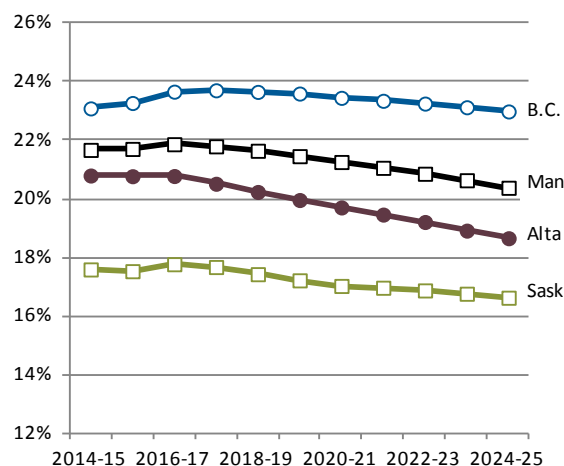
Shortly after the new CHT formula was announced, the Premier of British Columbia proposed an alternative, age-adjusted per capita formula for CHT. The alternate proposal was based on two concerns: first, the fact that cost of health care rises with age; and second, the demographic profiles vary considerably across the Canadian provinces and territories. The B.C. formula was motivated by the fact that the province has an older and more costly population to serve relative to the Canadian average. Figure 3 illustrates the projected percentage of population 65 years-of-age and older relative to the total population.

According to the B.C. government, its proposal would better reflect the actual service costs of health care and therefore allow CHT to more directly address the health care needs of Canadians at various ages. However, there are also factors beyond age that have

a major impact on service costs (including, for example, input costs, geography, the prevalence of high-need groups), and these are not addressed through this single age variable. Below we will describe the other factors that may make health care cost more in one province than in the others.

As Figure 3 illustrates, British Columbia will have the oldest population among the four Western provinces. Figure 4 shows the average weekly wage rate of all the health occupations (in constant dollars) during the most recent

**Figure 2: Share of New CHT in Projected Health Expenditure, 2014-15 to 2024-25**



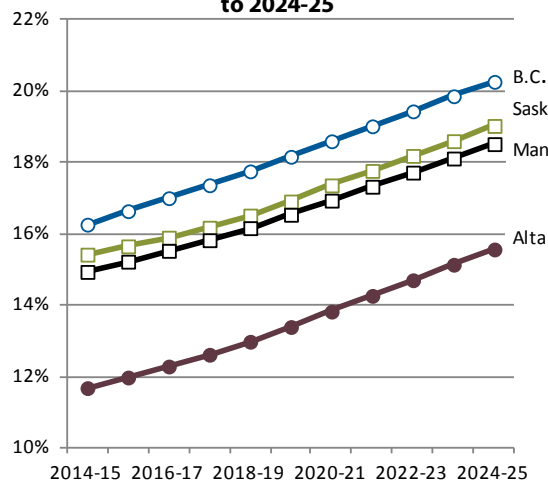
Source: Per-capita health expenditure is based on the projection methodology listed in Office of the Parliamentary Budget Officer (September 29 2011), *Fiscal Sustainability Report 2011, Chapter 2*

The new pure equal per capita CHT formula is more transparent than the previous formula, but it does not take into account the various challenges faced by each jurisdiction in delivering and funding health care.

decade, 2001-2011. The purpose of this figure is to show how labour input costs for health care also varies across provinces.

During recent years, Alberta has paid the highest wage rate to health occupations, with Saskatchewan reaching almost the same high wage level by 2011. Adjusted for inflation, the largest increases have also been in Saskatchewan and Alberta. This trend is likely to continue after 2014 because remuneration generally grows with wealth, and both Alberta and Saskatchewan are projected to have the highest GDP growth rates in Canada.

**Figure 3: Projected Percentage of Senior Population in Total Population, 2014-15 to 2024-25**



Data source: Statistics Canada CANSIM Table 052-0005, Projection scenario M2: medium-growth, 2006 to 2008 trends



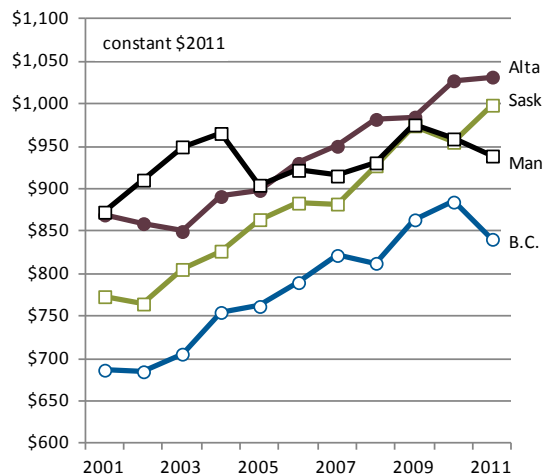
There are challenges beyond high wage rates. To illustrate just one particular challenge faced by Saskatchewan (and to a lesser extent, Manitoba), we focus on the percentage of population living in rural areas relative to total population, an indicator of dispersion of population. The lower the density of population and the more spread out the population, the higher the cost of delivering health services. We use the period 1997-2007 because it is the most recent decade for which data are available.

Figure 5 shows a quite different geographical distribution of population in the four provinces. Only 15-18% of the populations in British Columbia and Alberta lived in rural areas in 2007, while 35% of Saskatchewanians and 28% of Manitobans did so generating higher cost for health delivery in both provinces.

### Conclusion

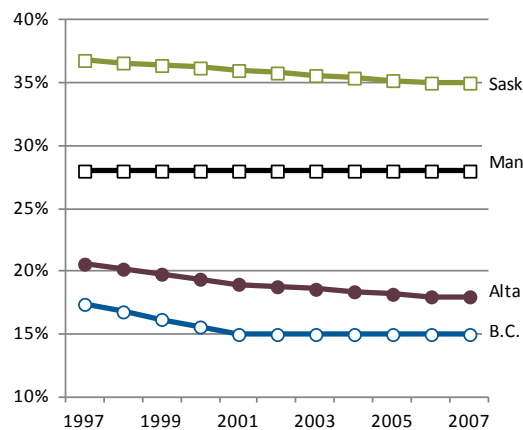
The new pure equal per capita CHT formula is more transparent than the previous formula, but it does not take into account the various challenges faced by each jurisdiction in delivering and funding health care. As a consequence, there may be others that call for a new CHT formula that takes into consideration factors such as aging and population dispersion so that higher-cost jurisdictions receive the transfers needed to deliver comparable health services.

**Figure 4: Average Weekly Wage Rates for Health Occupations, 2001-2011**



Source: Statistics Canada CANSIM Tables 282-0070 and 326-0021

**Figure 5: Percentage of Population Living in Rural Areas, 1997-2007**

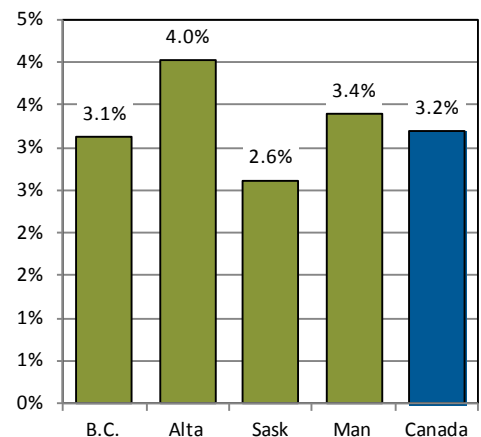


Source: Statistics Canada, Census of Population, 1981 to 2006. Rural population refers to persons living outside centres with a population of 1,000 and outside areas with 400 persons per square kilometre.

## STAT FACTS

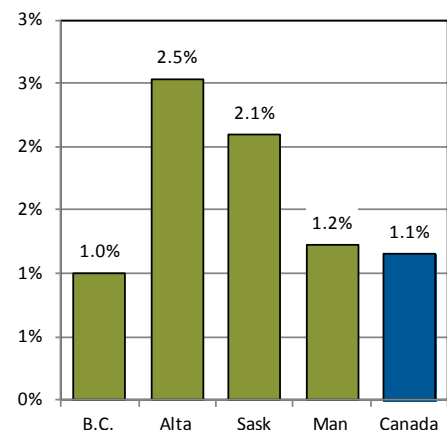
Earnings for paid employees are increasing at well above the rate of inflation both in the West and in Canada as a whole. Compared with a year ago, average weekly earnings in September were up 4.0% in Alberta and 3.4% in Manitoba. The year-to-date increases range from 2.4% in Manitoba to 5.0% in Saskatchewan. A tight labour market is the main reason.

**Annual Increase in Average Weekly Earnings Including Overtime, Sept 2012**



The population in the four western provinces grew by 1.7% from July 2011 to July 2012. This is the fastest rate of growth in several years and well above the national average of 1.1%. Alberta and Saskatchewan are growing more quickly than Manitoba or B.C. International and interprovincial migration are the main drivers.

**Annual Increase in Population, July 2012**



# Out-of-pocket Prescription Drug Costs



By Jonathan Harris, Master of Public Policy Candidate, Johnson-Shoyama Graduate School of Public Policy, University of Regina, Wallace Lockhart, Assistant Professor, Faculty of Business Administration, University of Regina, and Lihui Zhang, Assistant Professor, Johnson-Shoyama Graduate School of Public Policy, University of Regina

Prescription medications used outside of hospitals are not part of the *Canada Health Act* so there is no requirement for provincial governments to provide “first-dollar” coverage for them. This has resulted in a patchwork of individually developed public drug insurance programs across provinces, usually targeted at subpopulations such as seniors or social assistance recipients. This interprovincial variation in drug coverage leads to variances in out-of-pocket costs for prescription medications depending on the province of residence. In this article, we look at the out-of-pocket prescription drug costs across the four western provinces as well as relative to the national average. A household survey conducted by Statistics Canada is used as the data source so the figures are based on respondent’s recollections of their spending on prescription drugs.

As shown in Figures 1 and 2, residents of Saskatchewan and Manitoba spend substantially more on prescription drugs than the national average and more than their western counterparts in British Columbia and Alberta. This is true for both gross spending

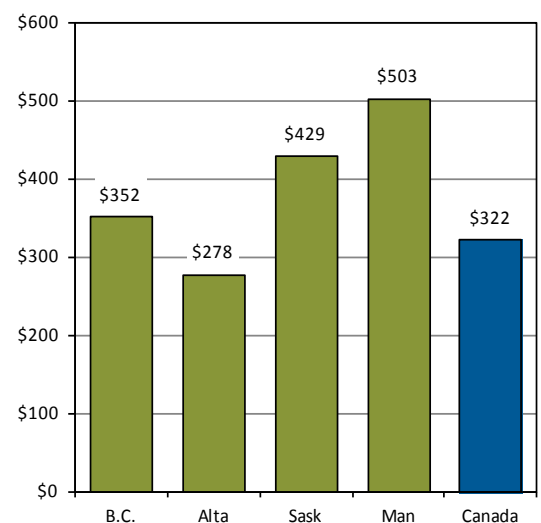
and for spending as a percentage of household income<sup>1</sup>. Such variations across provinces may be caused by a myriad of factors, most notably, policy differences.

For the general population, Alberta offers premium-based public drug insurance for those who are unable to obtain private coverage. British Columbia offers only catastrophic drug coverage with a fixed deductible. Saskatchewan and Manitoba also have only catastrophic drug plans, but these are based on a percentage of household income rather than a fixed deductible.

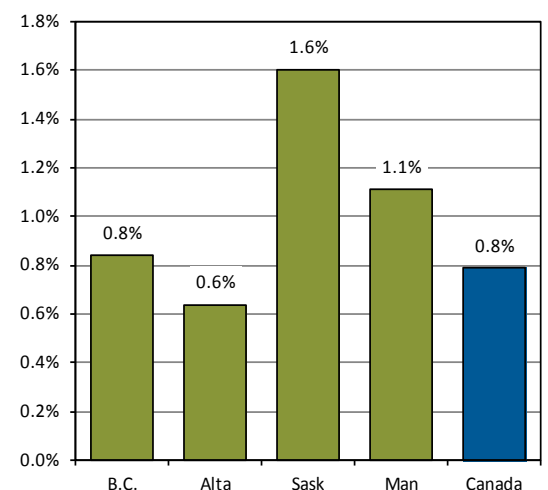
Some of these differences may also relate to prescription drug prices. While there are federal regulations for pricing of patented name-brand drugs, generic drug prices vary from province to province. B.C. is the only western province that regulates the price of generic drugs, currently at 35% of the list price for the name-brand equivalent.



**Figure 1: Annual Out-of-Pocket Prescription Drug Spending per Household, 2009**

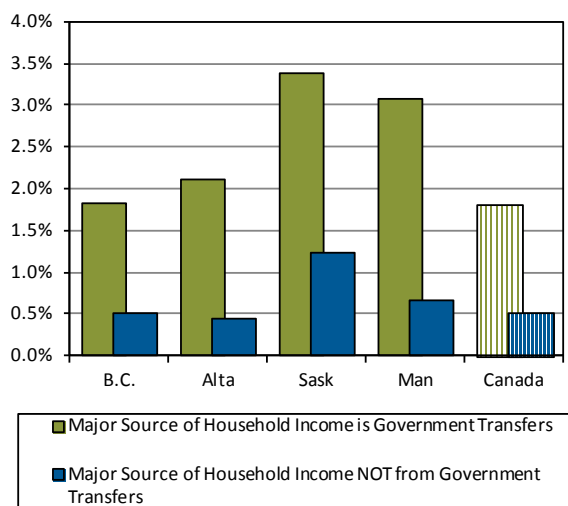


**Figure 2: Annual Out-of-Pocket Prescription Drug Spending per Household, Percentage of Gross Household Income, 2009**

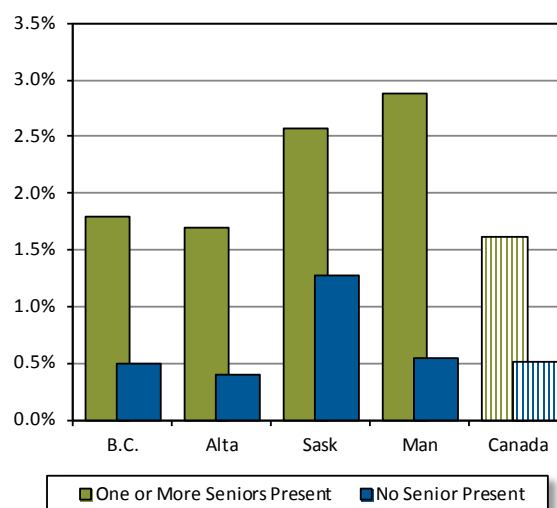


<sup>1</sup> The “percentage of gross income” is calculated by dividing the annual prescription drug spending by gross annual income for each survey respondent and then averaging the results.

**Figure 3: Annual Out-of-Pocket Prescription Drug Spending per Household, Percentage of Gross Household Income, 2009**



**Figure 4: Annual Out-of-Pocket Prescription Drug Spending per Household, Percentage of Gross Household Income, 2009**



Large spending burdens for prescription drugs by vulnerable population, for example, seniors and social assistance recipients, may present a policy problem that warrants further attention.

The Council of the Federation has recently agreed to a nationwide purchasing agreement for generic drugs to take effect next year; it will be interesting to see what effect this has on generic drug prices in Western Canada.

Figure 3 shows that those in households where the major source of income is government transfers (social assistance, employment insurance, old age security, for example) pay substantially more for prescription drugs as a percentage of income than those with other income sources. Again, those in Manitoba and Saskatchewan pay more than those in other western provinces. This may be explained by the fact that Saskatchewan is the only western province that does not currently provide first-dollar coverage. That is, they are the only western province that requires a copayment

for individuals receiving social assistance. Although the copayment is quite small (less than \$4 per prescription), it may explain the discrepancy between Saskatchewan and the other western provinces. Social assistance recipients in Manitoba also pay a relatively high share of their income on prescription drugs, despite their first-dollar coverage. The reason for this is not clear from existing evidence. One possible area to look into might be whether highly-utilized drugs are listed on the Manitoba provincial formulary.

Households in Saskatchewan and Manitoba that include at least one person 65 years or older also pay substantially more as a percentage of household income than B.C., Alberta, and the national average, as shown in Figure 4. There is even more divergence

in policy around public coverage for seniors than in other population groups. B.C. and Alberta both have first-dollar universal public coverage for all seniors. Saskatchewan provides means-tested coverage for seniors. Seniors eligible for the federal old age tax credit (those with household incomes below \$75,480 in 2010) receive zero-deductible coverage with a \$15 copayment. Seniors in households with income above this cut-off receive the same catastrophic coverage as the general, non-senior population. Manitoba has no public insurance specific to seniors, and seniors receive the same catastrophic drug coverage as other residents based on household income. This lack of public insurance for seniors may explain why the spending burden for Manitoba seniors is the highest in Western Canada.

**Figure 5: Annual Out-of-Pocket Prescription Drug Spending per Household, Percentage of Gross Household Income, 2009**

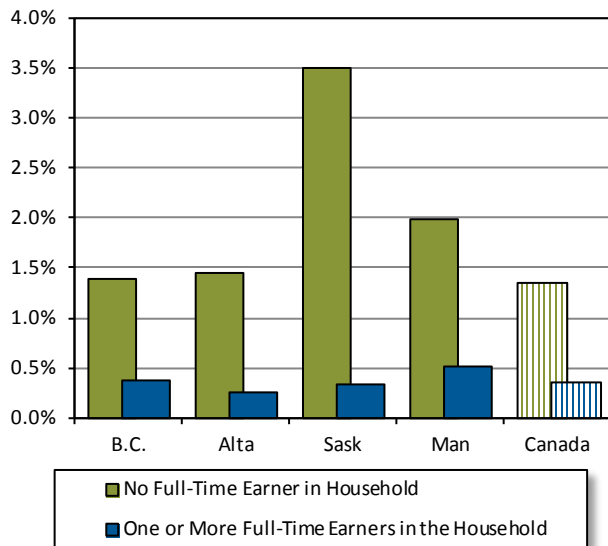


Figure 5 suggests that the inter-provincial differences in out-of-pocket drug cost burden are mainly among those households without a full-time earner. This will be partly because those who are employed typically have good access to comprehensive private drug insurance through an employer.

Large spending burdens for prescription drugs by vulnerable population, for example, seniors and social assistance recipients, may present a policy problem that warrants further attention. Vulnerable groups have higher rates of prescription medication use than the general population, often as a result of compromised

health status. In all population segments, cost is a meaningful predictor of adherence to drug treatments. This effect, coupled with the fact that vulnerable groups are on a fixed and/or low income, may lead to further compromise in their health status.

If Manitoba and Saskatchewan wish to bring the burden of out-of-pocket prescription drug spending in line with the provinces in the West, one option might be to pursue coverage for those who are unable to obtain private insurance in order to reduce this inequity. This could be done, for example, by providing better public coverage for social assistance recipients and seniors. Moreover, provinces may also examine regulating the prices of generic drugs in addition to pursuing purchasing agreements with its Western counterparts, potentially through the New West Partnership in the case of Saskatchewan.

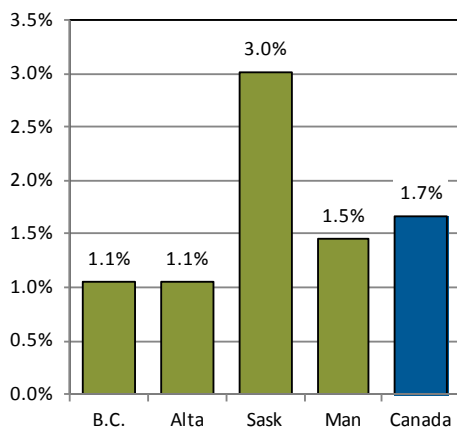
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- Statistics Canada Survey of Household Spending, 2009
- Daw, Jamie, and Steven Morgan. 2012. "Stitching the gaps in the Canadian public drug coverage patchwork? A review of provincial pharmacare policy changes from 2000-2010." *Health Policy* 104: 19-26.
- Law, Michael, Lucy Cheng, Irfan Dhalla, Deborah Heard, and Steven Morgan. 2012. "The effect of cost on adherence to prescription medications in Canada." *Canadian Medical Association Journal* 184 (3): 297-302.

## STAT FACTS

Employment continues to grow more quickly in the West than in other parts of Canada. Led by Saskatchewan, employment was 1.6% higher in November than in the same month a year ago. This brings the year-to-date increase in the West to 2.1% compared with 1.0% nationally.

**Annual Employment Increase, November 2012**



The rate of inflation for western consumers remains low, ranging from less than 1.0% in B.C. and Alberta to 1.7% in Manitoba. Transportation and shelter costs are still increasing but much more slowly than in the past. The rate of inflation is expected to end the year near 1.5%.

**Annual Rate of Consumer Price Inflation, October 2012**

