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The Public-Private Mix of Health Care Spending



By Haizhen Mou,
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There is a general belief that health care in Canada is provided “free” by the government, especially when compared with the neighbouring United States. In fact, health expenditure is financed by both the public and the private sectors in all OECD countries. In Canada, only around 70% of health care expenditure is funded by the public sector; the other 30% is financed by the private sector. This article studies the recent trend in the public-private mix of health expenditure in the four western provinces, and the factors behind the mix.

Before addressing the data analysis, it is important to clarify the definition of public-private mix of health care expenditure, and to understand the major sources of funding for health care.

The current Canadian health care system uses a sectorally-based model: medically necessary services, including hospital and physician services, are almost entirely publicly financed, while dental care, vision care, and drugs are generally privately financed.

Note that medically necessary services are mostly publicly funded but privately delivered in Canada. For example, doctors directly bill provincial governments for their services,

but medical clinics are small businesses and doctors are often self-employed. In this article, we divide total health expenditure into public expenditure and private expenditure according to its source of funding, ignoring the way the service is delivered.

Public health expenditure is from four major sources:

- direct spending by the federal government (e.g. the military, Registered Indians);
- direct spending by provincial and territorial governments, using federal transfer payments in part; and
- spending by municipal governments and social security funds (including workers’ compensation boards and the Quebec Drug Insurance Fund).

Among these sources, provincial/territorial government expenditures are the largest, accounting for 92.5% of public health expenditure in 2009.

Private health expenditure has three components:

- household out-of-pocket expenditure;
- commercial or not-for-profit insurance expenditure; and
- non-consumption expenditure.

To better understand private health expenditure, it would be useful to look at what an average household spends on health care.

The balance of spending on health care has tilted to the public sector in the last few years although B.C. is an exception.

Household Spending on Health Care

Figure 1 shows that 31% of households’ spending on health care is premiums for public and private health insurance plans. The private insurance plans include dental insurance, drug plans, accident and disability insurance, and supplementary coverage to public hospital and medical plans.

The remaining 69% of household health expenditure is out-of-pocket payments. Out-of-pocket payments refer to direct costs incurred by household members. According to Figure 1, the largest out-of-pocket spending by households is on dental care (18% of total out-of-pocket payments). The second largest spending is the cost of prescription drugs (16%). Eye care goods and services and non-prescription drugs account for 12% and 11% of the out-of-pocket payments, respectively.

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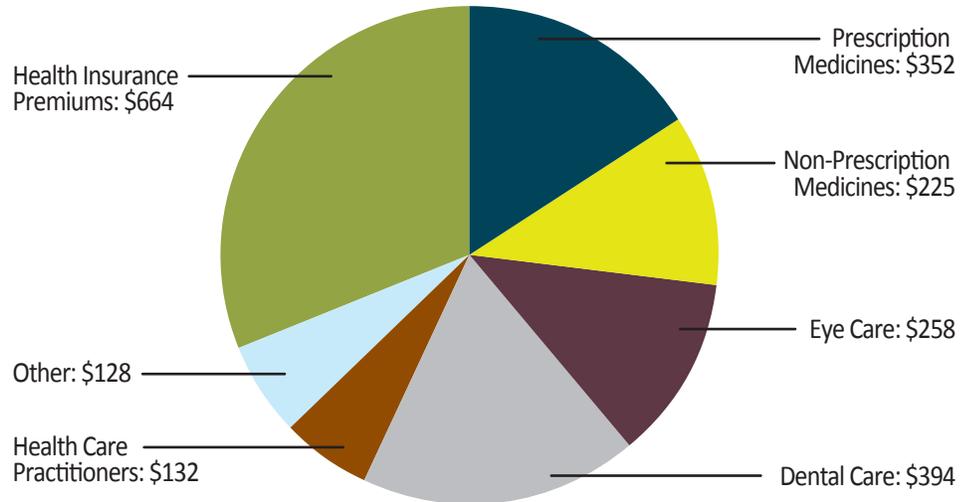
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Figure 1: Types of Private Spending on Health Care, Western Provinces, 2009, Average per Household (total= \$2,154)



Spending on health practitioners (e.g. chiropractors) and other medical services each share 6% of the out-of-pocket payments.

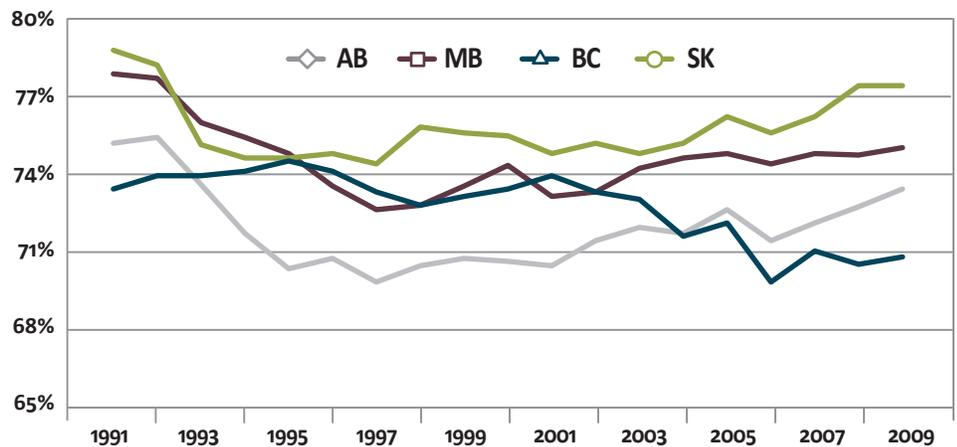
Statistics Canada's Survey of Household Spending (SHS) indicates that high-income households spend more on health care than low-income households, rural residents spend more than urban residents and families with seniors spend more than those without seniors¹.

With a clear understanding of how private health expenditure is spent, we will look at the recent trend in the public-private mix of health expenditure in the four western provinces.

The Mix in Health Care Expenditure in the West

Figure 2 shows public sector health expenditure as a proportion of total health expenditure in the four western provinces over the period of 1991 to 2009².

Figure 2: Public Sector Spending as a Percentage of Total Spending



¹ The SHS is based on the respondents' recollection of their spending.

² 2009 is an estimate.

After declines throughout the West in the 1990s, the share of public expenditure in total health expenditure rose slightly in Manitoba, Saskatchewan and Alberta. The exception is B.C. where the public share declined from 73.5% in 2000 to 70.8% in 2009. Between 2000 and 2009, the average of the public share of total health expenditure in the four western provinces fluctuated near 73%, well above the average of the other six Canadian provinces, which was approximately 71%.

The slight increase in the public share of health expenditure runs counter to the general perception that private sector financing is playing a more important role in recent years. What has caused the shrinking of the private share of health expenditure?

Figure 3 provides some insights, showing that both public and private health expenditures in the four western provinces have been increasing since 2000. The slopes of the public health expenditure lines, however, have been steeper than those for the private health expenditure; public health expenditure is growing at a rate greater than that for private health expenditure. This pattern is especially noticeable for Saskatchewan and Alberta, the two fastest growing provinces.

As shown in Figure 4, average family income in the two provinces has grown rapidly from 2004 to 2009, coinciding with the much faster growth of public health expenditure in Figure 3.

In contrast, B.C. was the province with the slowest growth in median income from 2004 to 2009. Relative to the other provinces, public health expenditure in B.C. has slowed since 2003. This helps to explain the decreasing public share of health expenditure in B.C. after 2003 which we saw in Figure 2.

Political Influences

In addition to the economic factors discussed above, the public-private mix of health expenditure is often a political decision reflecting the ideological orientation of governments and citizens. Generally speaking, people with an egalitarian view support a stronger public health care system, while

Figure 3: Per Capita Private and Public Sector Spending on Health Care

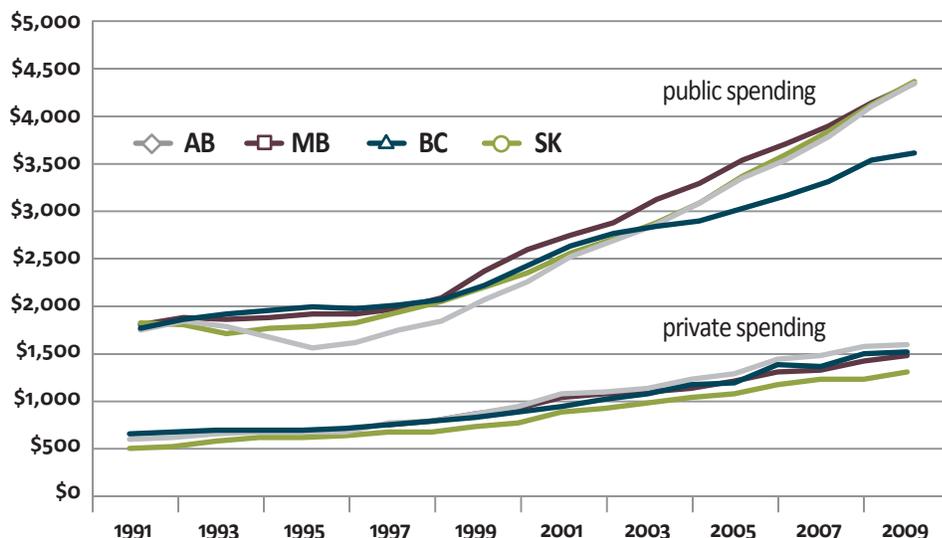
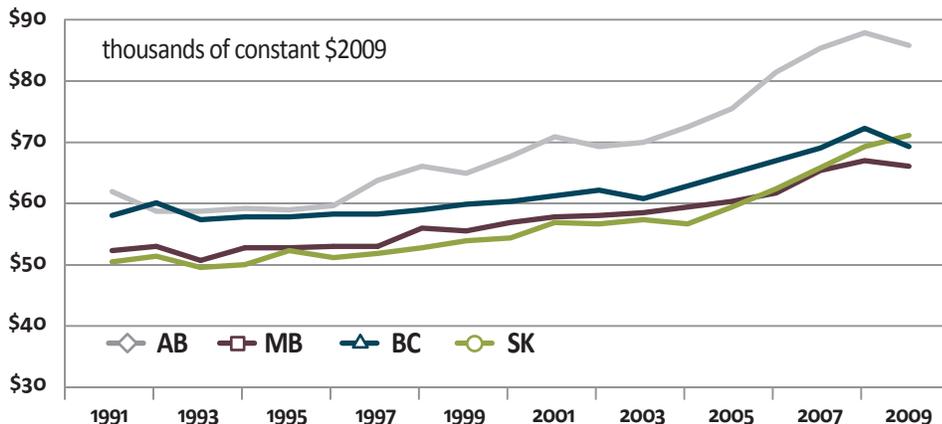


Figure 4: Average Family Income Before Taxes



proponents of the libertarian view prefer greater involvement of the private sector in health care.

For example, Saskatchewan and Manitoba had the highest shares of public health expenditure which is consistent with the strong and constant presence of left-leaning NDP parties in the two provinces. Alberta's low public share, on the other hand, is partly explained by the right-leaning Conservative party's long-standing dominance in this province.

In summary, the share of public health expenditure in total health expenditure has

slightly increased in most of the western provinces in the last decade, and this share varies across provinces. Both economic and political factors may be behind the public-private mix of health expenditure. Opinion polls and the increasing use of private clinics suggest that private care will play a greater role in the future.

Sources: Canadian Institute of Health Information. (2010), *National Health Expenditure Trends, 1975 to 2010*; Statistics Canada (2009); *Survey of Household Spending (SHS)*.

Pension Membership



By Jim Marshall, Senior Policy Fellow, Johnson-Shoyama Graduate School of Public Policy

Recently released membership data for

Canadian registered pension plans provide a snapshot of pension coverage in the western provinces. The data also call into question some of the conventional wisdom about who belongs to what kind of pension plan.

Membership Growth

The data show that between January 2009 and January 2010, membership in registered pension plans grew slightly by 0.2% nationally. In the West, growth was the highest in Saskatchewan at 2.7% and in Alberta at 1.0%, while membership numbers actually fell in Manitoba by 0.9% and in B.C. by 1.0%.

These growth rates in memberships tend to mirror the growth in employment in the various jurisdictions, although at slightly higher levels since losing one's job may be reflected in employment rates but may not affect pension enrolments. This is because one remains a member of a pension fund even after leaving employment. Thus, employment grew by 1.3% in Saskatchewan between 2008 and 2009, while pension memberships grew by 2.7%.

Coverage Rates

There is also substantial variance in coverage rates among the jurisdictions. This is illustrated in Figure 2 which examines the number of members of pension funds as a percentage of the labour force. In this case the labour force size serves as a proxy for the population base for pensions although one need not be in the labour force at any point in time to be a member of a pension plan.

In this case it can be seen that while the membership in pension plans was equivalent to 32.9% of the labour force nationally, the

Registered pension plans are established by either employers or unions to provide retirement income to employees. They are registered with the Canada Revenue Agency for tax purposes and with the federal or a provincial pension regulatory authority.

A **defined benefit plan** defines the benefits to be paid according to a formula stipulated in the plan text, typically based on years of service and salary. A defined contribution plan specifies the contributions made by the employer and employee with benefits paid as a function of accumulated contributions and investment returns.

Figure 1: Growth in Total Registered Pension Plan Membership, 2009 to 2010

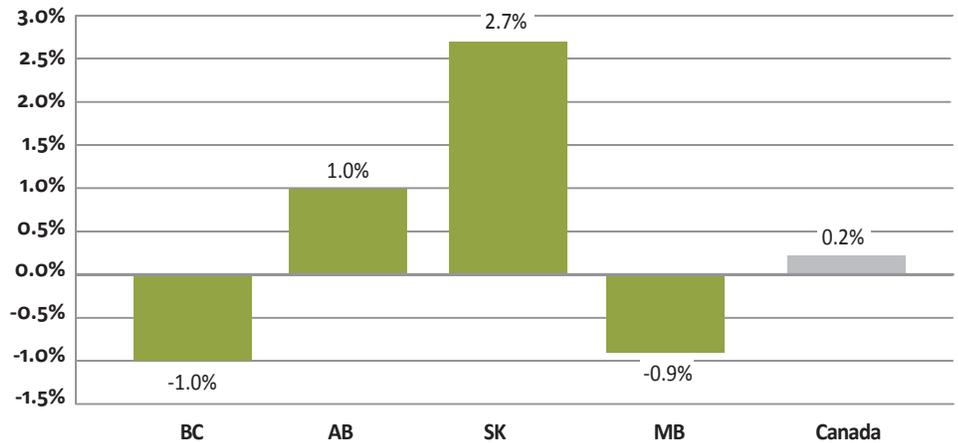


Figure 2: Registered Pension Plan Membership, January 2010, as Percentage of 2009 Labour Force



membership in the West varied considerably from a low of 29.0% (B.C. and Alberta), to 39.5% (Manitoba), to 40.2% (Saskatchewan).

From 2009 to 2010, pension membership in Saskatchewan was the highest among the western provinces.

Public Sector versus Private Sector

The data also examine the split in pension plan membership between the public sector¹ and the private sector. In Figure 3, the share of the total membership that is in the public sector is examined.

In this figure, it can be seen that, nationally, the public sector makes up about half the total membership of pension funds.

Manitoba, Saskatchewan and B.C. have a larger-than-average share of public sector plans at 56.4%, 62.4% and 53.2%, respectively. In Alberta, the public sector makes up only 46.2% of the total membership in pension plans.

Benefit Structures

An examination of the membership levels by benefit structure begins to call into question some conventional wisdom about the nature of pension benefits, as shown in Figure 4.

As demonstrated, defined benefit plans constitute 75.2% of the total membership on a national basis. The only western province with a higher rate of defined benefit coverage is B.C. at 80.3% of total membership.

Alberta, Manitoba and Saskatchewan have below-average defined benefit

Figure 3: Public Sector Membership as Percentage of Total Registered Pension Plan Membership, 2010



Figure 4: Membership in Defined Benefit Plans as a Percentage of Total Registered Pension Plan Membership, 2010



coverage at 69.3%, 65.7% and 54.3% of members, respectively.

In Alberta, only 46.2% of pension plan members are in the public sector, but 69.3% of pension plan members have a defined benefit plan. In Saskatchewan, on the other hand, where 62.4% of pension plan members are in the public sector, only 54.3% of members have a defined benefit plan.

It is most notable that the western provinces with the highest rate of public sector coverage (Manitoba and Saskatchewan) have the lowest rate of defined benefit coverage. This

questions the widespread belief that defined benefit plans are common to the public sector and uncommon in the private sector, or that defined contribution plans are unique to the private sector and nonexistent in the public sector. Unfortunately, the data released do not allow a fine enough examination to ascertain this relationship, but certainly cause one to question the conventional wisdom.

Source: Statistics Canada CANSIM Tables 280-0008 and 280-0010

¹ The public sector is broadly defined to include health and education services, crown corporations, as well as government proper.

Internet Access



By Lihui Zhang,
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For many of us, it is unarguable that the information technology revolution and its continuing development in the past few decades has fundamentally reshaped our economy and deeply affected our everyday lives. Nowadays, the internet is one of the most important outlets for information dissemination, service delivery, business transactions, entertainment, and social participation. As a result, having access to the internet is often deemed an indicator of quality of life. This article will provide an overview of home internet access by western Canadians and brainstorm where internet policy should head next.

According to the *2010 Communications Monitoring Report* provided by the Canadian Radio-television and Telecommunications Commission (CRTC), broadband internet service is available through landline facilities (cable and DSL) to about 95% of Canadian households. The prevalence of internet service supply is even higher considering that the internet can also be accessed through dial-up, satellite facilities, and handheld mobile devices. Furthermore, as part of Canada's Economic Action Plan following the 2008 financial crisis, the federal government injected \$225 million to extend broadband coverage across Canada. The biggest component of this strategy is to connect rural Canadians. This, along with some on-going provincial initiatives, means that the availability of internet infrastructure will be almost universal in the near future.

However, basic economic theory tells us that the actual uptake of internet services depends on both supply and demand. If internet service and/or related products (e.g., computers) are too costly, if people do not know how to get

In spite of increases, internet access is still limited for those with lower levels of education and income and to older westerners.

on the internet, or if internet access is simply not considered necessary, then the actual subscription for internet services might be significantly lower than its availability.

As of 2009, 69% of households in western Canada used broadband services, up from 56% in 2005. In addition to broadband services, about 3% of the households accessed the internet through dial-up and 9% through other means, such as satellite and hand-held mobile devices, taking the total percentage of western Canadian households that subscribed to internet services to 81% in 2009. In other words, 19% of western Canadian households still did not have internet services at home.

Looking at western Canada as a whole masks some differences among the four provinces as well as across subgroups within the provinces. Indeed, Figure 1 shows that though internet subscription has increased steadily from 2005 to 2009 in all four western provinces, Manitoba and Saskatchewan persistently lagged behind Alberta and B.C. by nearly 10%.

Comparing internet usage by community size is another important dimension of the "digital divide". As Figure 2 suggests, western communities of different sizes have all experienced significant expansions of internet penetration since 2005, with large urban communities leading small urban communities by 9% and rural communities by 17% in 2005. By 2009, the gap between large and

Figure 1: Internet Access by Province

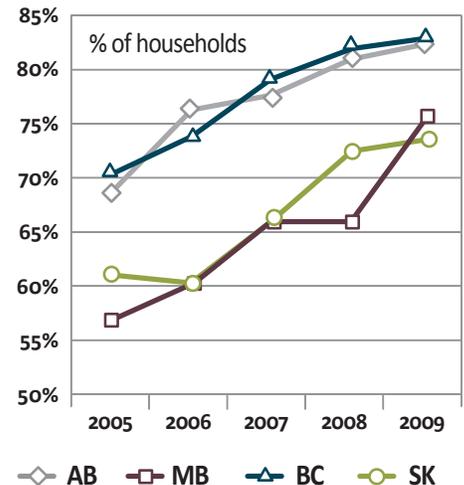
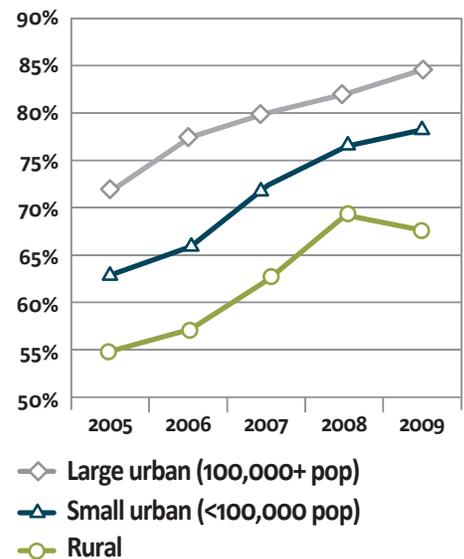


Figure 2: Internet Access by Community Size



small urban communities narrowed to 7%, whereas the gap between large urban and rural communities remained at its 2005 level.

The presence of seniors (i.e., those 65 years or older) in the household is another dimension along which internet usage is often compared. As depicted in Figure 3, there are large differences in internet subscription rates between households without and with seniors. The internet service rate among households with only one senior was the lowest in all years from 2006 to 2009 and, despite growth, is not catching up with that experienced by households with two or more seniors.

Further information is also revealed by comparisons of internet subscription by socioeconomic status (SES). Figures 4 and 5 plot rates of internet subscription by household heads' education levels and by household income, respectively. In 2005, the internet subscription rate among those with less than a high school education was less than half of the rate among those with a high school or college certificate/diploma, and about one-third of the rate among those with a university degree. Even though internet subscription among this least educated group grew the fastest, by 2009 there were still only about half of these households, compared to 94% of those with a university degree, that had internet services at home.

Figure 5, comparing internet access by income groups, paints a similar picture. Those with the lowest yearly income (less than \$40,000) were the least likely to pay for home internet services, and the gap between the lowest and second lowest income groups was the largest. For example, in 2009, the gap between the "under \$40,000" and the "\$40,000 to \$59,900" groups was 26%, compared to 15% between the "\$40,000 to \$59,900" group and the top income group "\$150,000 or more". This is not surprising because education is the best predictor of income.

Government subsidies for internet services could be justified on at least two grounds. First, private companies may not have the incentive to extend services to remote areas with sparse populations that would impose large costs. Governments could step in to ensure more equitable access by that population. Second, the nature of networking is such that there can be a positive spillover effect when more people use it – social networks are more effective (and fun) when there are more people in them to interact with.

Besides creating jobs through large-scale infrastructure expansion, the effect of the broadband initiative rolled out in 2009 with the Canada Economic Action Plan on actual uptake of internet services at home is yet to be seen. However, with currently available statistics we observe larger gradients for socioeconomic status (i.e., by education and income) than for demographic (i.e., by jurisdiction, community size and age) characteristics. Moreover, the author's conjecture is that "the demographic divide" may be largely explained by "the SES divide".

The policy implication is that, if the goal is to have more families use internet services, governments might want to supplement the broadband initiatives with policies that target low-SES groups. Such policies might include improvements in affordability, for example, by providing internet user-fee tax credits or subsidies for related products (e.g., computers or hand-held internet devices); alternatively, governments might provide short-term training programs to promote internet and/or computer literacy.

Source: Statistics Canada Survey of Household Spending

Figure 3: Internet Access by the Number of Seniors (65 and older) in the Household

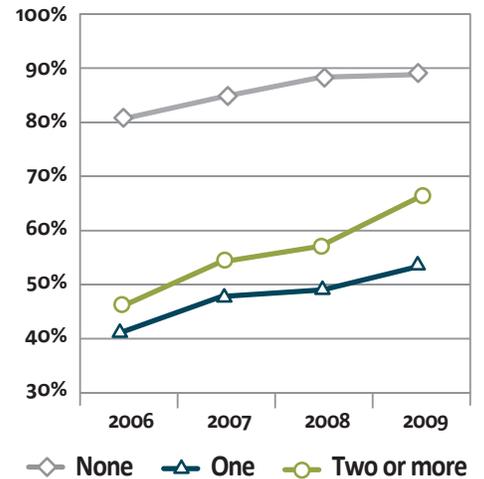
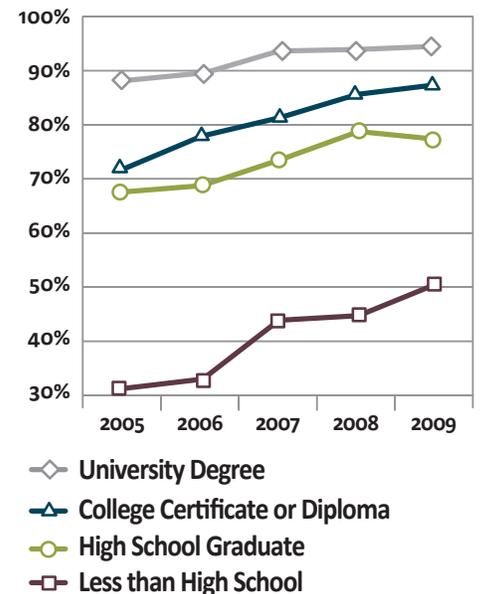


Figure 4: Internet Access by Education Level of Household Head



Trends in the Western Labour Force



**By Rose Olfert, Professor,
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The Baby Boomer cohort and its impact on the labour force is the subject of a recent Statistics Canada report in the *Canadian Observer*. The report highlights the consequences of aging Baby Boomers for the labour force and for the relative size of the retired population to 2031.

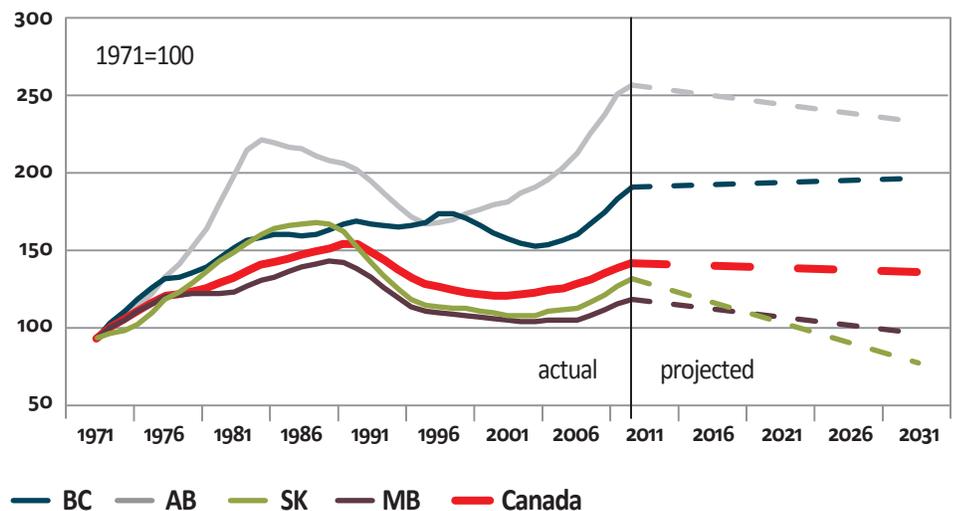
There are two main stories about the impact of the Baby Boom generation on the labour force. First, the increased birthrates following the Second World War extended to the early or mid-sixties, resulting in a rapid increase in labour force entrants as they reached labour force age in the 1960s and 1970s. The official labour force age cohort used by Statistics Canada are those fifteen years of age and older, but certainly in the youngest part of this cohort, many are still in school. For the purposes of this paper, the age group of prime interest is that composed of 25-29 year olds. By the age of 25, the vast majority will have finished post-secondary education and will have joined the labour force. The Baby Boomers born in 1946 turned 25 in 1971, and over the next 20 years or so this age cohort grew at an unprecedented rate, shown in Figure 1. The number of 25-29 year olds is indexed to 100 in 1971 for Canada and for each of the western provinces. For Canada the number of these labour force entrants was 60% higher in 1991 than in 1971. The growth in this cohort then tapered off, showing some recovery in 2001 as the 'echo generation' (the children of the Baby Boomers) began to arrive.

Patterns for the western provinces vary somewhat, with Saskatchewan's and Manitoba's growth rates reflecting those of Canada more closely, while B.C.'s and (especially) Alberta's reflected high in-migration to these provinces, as well as the effect of the Baby Boomers coming of age.

The second main story, illustrated in Figure 2, is the increase in female participation rates beginning in the 1970s. Female participation rates (the percentage of the labour-force-age population that is either working or looking for work) in the four western provinces

In *Boom, Bust and Echo*, David Foot defines the Baby Boom years in Canada as extending from 1947 to 1966, beginning and ending a little later than in the United States. If we take 1946 (Census year) as the beginning, then the oldest of the Baby Boomers are turning 65 in 2011—they are becoming the Golden Boomers (Boomers in their 'Golden' years). Over the next 20 years, these Golden Boomers will greatly increase the size of the 65+ cohort, as they once did the labour force. Policy challenges lie ahead in mitigating the negative impacts of the exodus of the Boomers from the labour force into retirement.

Figure 1: Labour Market Entrants (Population 25 to 29 Years of Age)



combined increased dramatically from about 53% in 1976 (the first year for which these data are available) to close to 76% in 1991. This increase alone, even without the Baby Boom females turning 25, would have increased the female labour force by 50% and the total labour force by almost 20%. This dramatic increase in participation rates, combined with the increase in the labour force due to the entrance of the Baby Boomers led to a very rapidly increasing labour force during the 1970s and 1980s. Though Canada, and especially the West, enjoyed some very robust economic growth, it was not adequate to absorb all of the new labour supply. The result was an increase in unemployment rates to the double-digit levels through much of the 1980s. B.C.'s unemployment rate peaked at nearly 18% in

1984; Alberta's rate was 12.9% in the same year. Manitoba and Saskatchewan maintained somewhat lower unemployment rates, mostly because interprovincial out-migration as the unemployed sought jobs in other provinces. For Canada, unemployment rates peaked at 12.9% in 1983, subsiding and then returning to 13% in 1993. Double-digit unemployment rates lingered until the mid-1990s.

Beyond 2011, Figure 1 shows the Statistics Canada projections to 2031. The new entrants into the 25-29 age group is gradually declining in Canada from current levels, declining more rapidly in all three prairie provinces, though showing some gains in B.C.. For Canada, the projected entrants show an absolute decline of about 5% between 2011 and 2031.

Starting in 2011, what used to be the Baby Boomers are approaching retirement or becoming the Golden Boomers. Figure 3 shows these potential exits (as those aged 60-64) from the labour force. After exhibiting modest increases through to about 2000, this cohort takes off as the Baby Boomers arrive. For Canada, the numbers in the 60-64 cohort increased by 50% between 1971 and 2000, and then increased sharply by nearly 70% over the 10 years from 2001 to 2011. Again, beyond the data period, Statistics Canada provides projections to 2031. According to these projections, the number of labour market “exits” in 2031 will be 40% to 50% higher than at present.

The comparison between labour market entrants and exits for the combined four western provinces is summarized in Figure 4. Dramatic differences are apparent, with entrants growing more rapidly than exits between 1971 and 1991. For a short interval, from about 1992 to 1996, the growth rates in the two groups were about the same. Then we see the exits increasing much more rapidly than the entrants with this trend continuing through the projection period, where the entrant numbers decline precipitously while the exits increase by more than 40%. By 2031, the 60-64 group is more than three times the size it was in 1971 (and growing), while the 25-29 group is only 1.8 times as large (and declining).

The transformation of the Baby Boomers to the Golden Boomers has a number of implications for policies relating to labour force size, participation rates and productivity. Of major concern is the potential impact on economic growth. There is stiff global competition for the increasingly scarcer labour force entrants, especially in the developed world. The most highly educated labour force members are also generally the most mobile. It will be a challenge to make western Canada their location of choice. While every economy needs the appropriate mix of skills for their industrial structure, economic growth is increasingly concentrated in the “knowledge economy”, making “knowledge workers” especially coveted. Successful policy responses will include providing a work environment and quality of life that is attractive to them.

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Figure 2: Labour Force Participation Rates by Sex, 25 to 59 Years of Age, Four Western Provinces

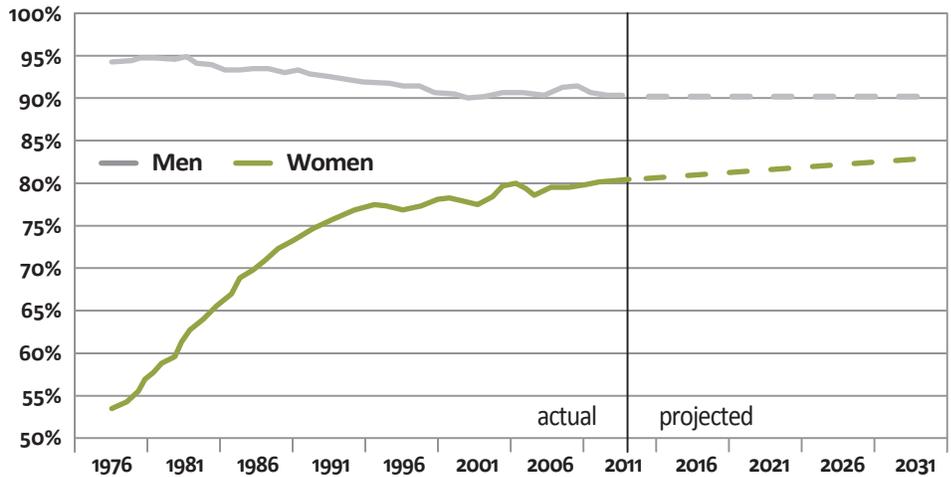


Figure 3: Labour Market Exits (Population 60 to 64 Years of Age)

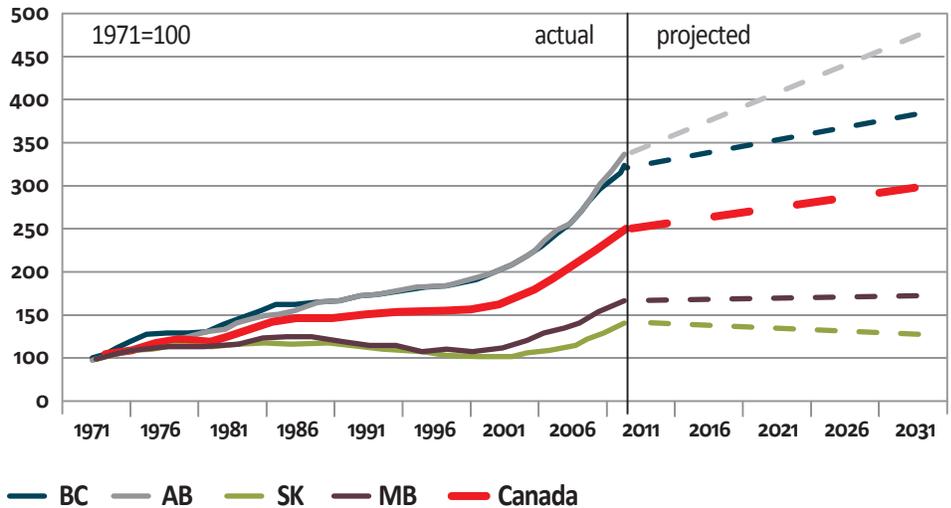
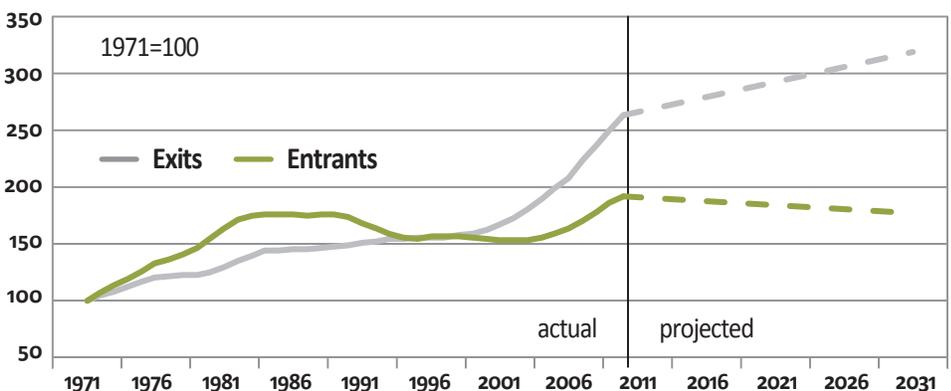


Figure 4: Comparison of Labour Market Entrants and Exits (Four Western Provinces Combined)



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As is abundantly evident from the experience of the 1970s, participation rates can make a substantial difference to labour force size. Given the current participation rates of 80% or more, it is not possible to replicate the rapid increase of participation rates of the 1970s. However, while female participation rates have increased, those of males have gradually fallen from a high of almost 100% to rates just over 90%. Further, Statistics Canada labour force projections point to lower participation rates among the immigrant labour force, a segment of Canada's labour force on which we are increasingly dependent. For women especially, public policies to improve child care services may be an important contributor to higher labour force participation. For immigrants, policies that facilitate their integration into the labour force may include recognizing comparable credentials

from other countries, language and cultural assistance, and specifically tailored education and training.

Of course, economic growth potential resides not only in the numbers of labour force members, but also in their productivity. Education and training policies can improve the matching of labour force skills with what is being demanded by not just the current economy, but also the economy of the future. Amenable working conditions, appropriate technology and work-place support are other ways of increasing economic growth beyond the growth of the labour force numbers.

Another concern regarding the rapid exit of the Golden Boomers is the level of skill, experience and knowledge that they will take with them into retirement over the next 10 to 20 years.

Appropriate policy responses to these concerns may be the facilitation of internships or on-the-job training arrangements that allow transfer of some of this knowledge and experience to entrants. An overlap between entrants and leavers of a year or two may go a long way towards transferring this valuable knowledge. This should be in the interest of employers in both the private and public sectors. On the other hand, a highly trained and appropriately educated cohort of entrants can bring new knowledge and technologies to the labour force and "lingering" potential retirees may be offered incentives to exit as a way of opening up opportunities for newly minted skills.

Source: Statistics Canada, "Projected trends to 2031 for the Canadian labour force," in the Canadian Observer.

STATISTICALLY SPEAKING...

○ CONSUMER PRICE INDEX (CPI) (AUGUST 2010 TO AUGUST 2011)

Higher food and gasoline prices continue to drive the rate of inflation.

□ EMPLOYMENT GROWTH (AUGUST 2010 TO AUGUST 2011)

Alberta's employment growth continues to lead the nation.

