

# The Health Care Cost Curve – Can it Bend? Will it Snap?

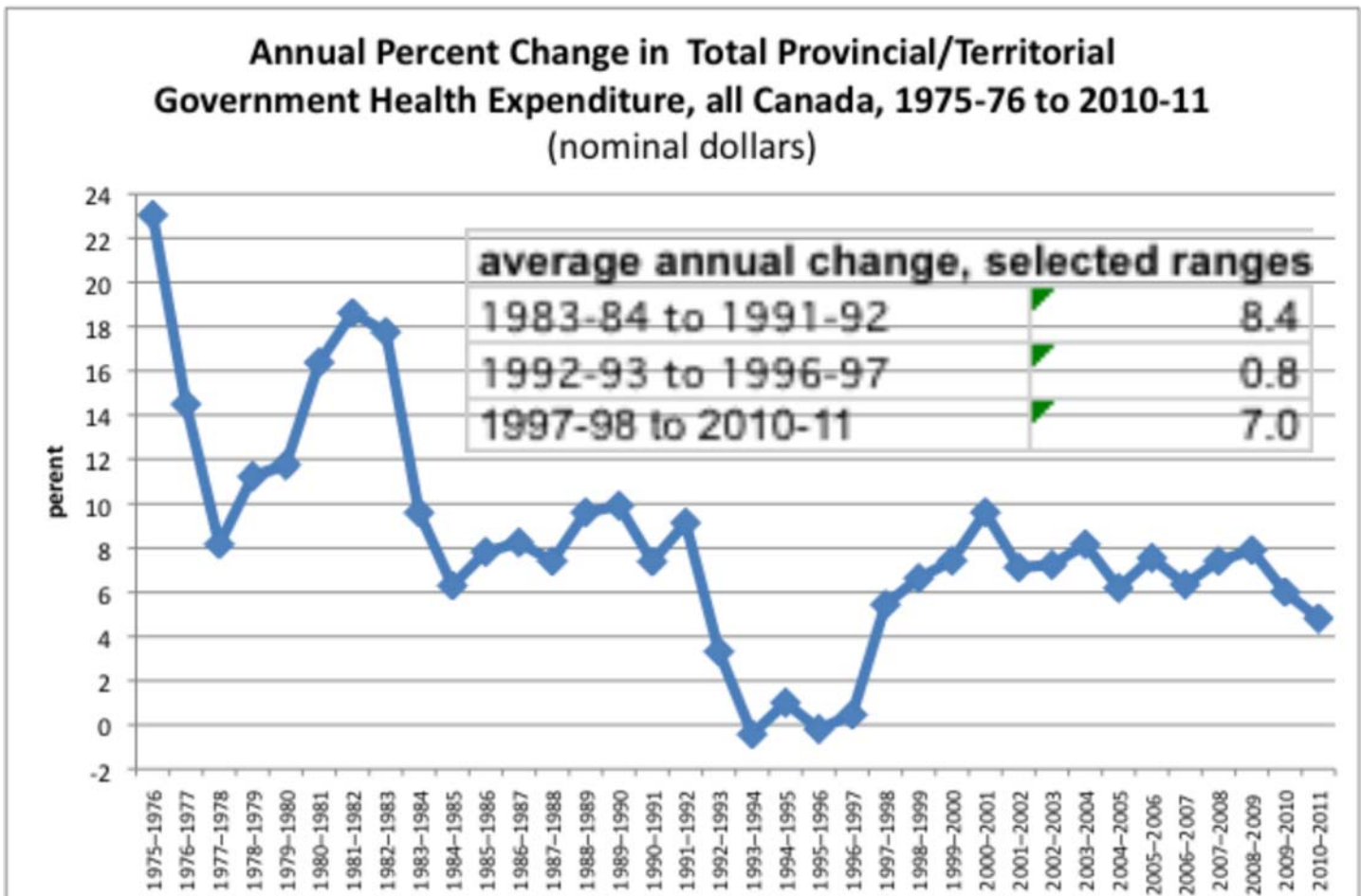
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# The fiscal requirements of running a “single payer” system

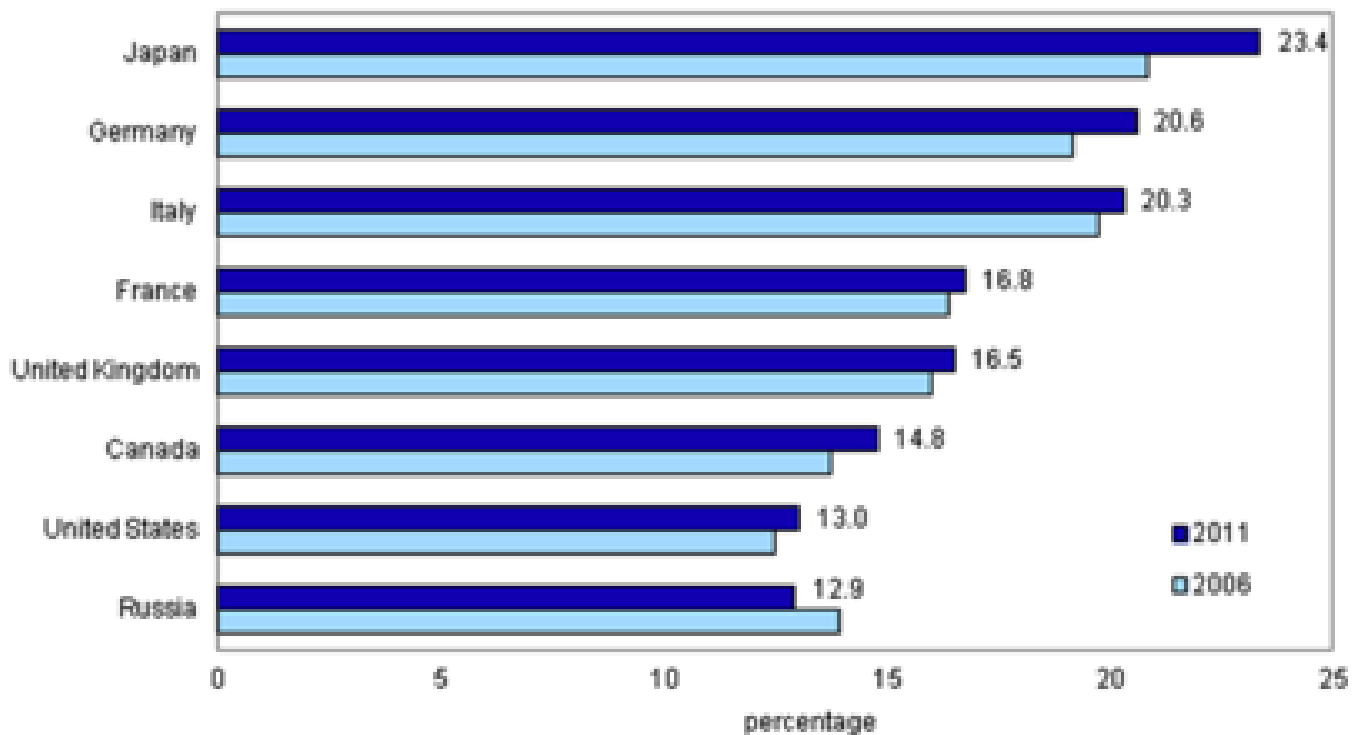
- The equity and efficiency case for a single-payer health insurance system is powerful, but ...
- In the long run, the survival of “single payer” systems depends on the ability and willingness of politicians and senior officials not only to make reasonably good “cost-utility” decisions but also to maintain fiscal discipline ...
- Which Canadian provinces have not been doing for the last 15 years.

# Summarizing four decades of fiscal history: “drift, crisis, drift”



# Canada is a relatively “young” country ...

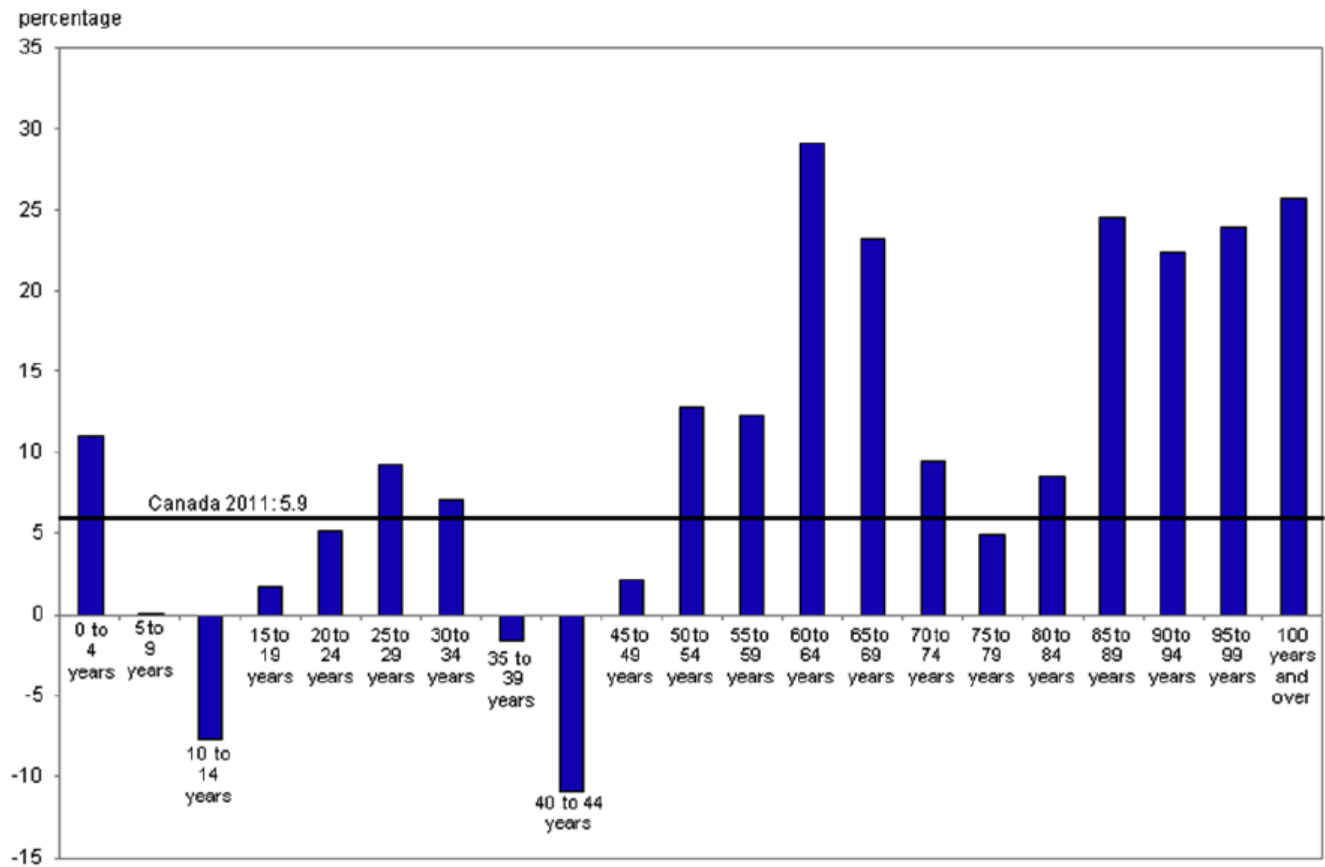
**Figure 3** Proportion (in percentage) of the population aged 65 and over, G8 countries, 2006 and 2011



**Sources:** Statistics Canada, censuses of population, 2006 and 2011; U.S. Census Bureau, 2006 and 2010; National Institute of Statistics (Italy), 2006 and 2011; National Institute of Statistics and Economic Studies (France), 2006 and 2011; Statistics Bureau of Japan, 2006 and 2011; Russian Federation Federal State Statistics Service, 2006 and 2010; and Human Mortality Database for Germany, 2006 and 2010, and for United Kingdom, 2006 and 2010.

# ... but is now aging quickly ...

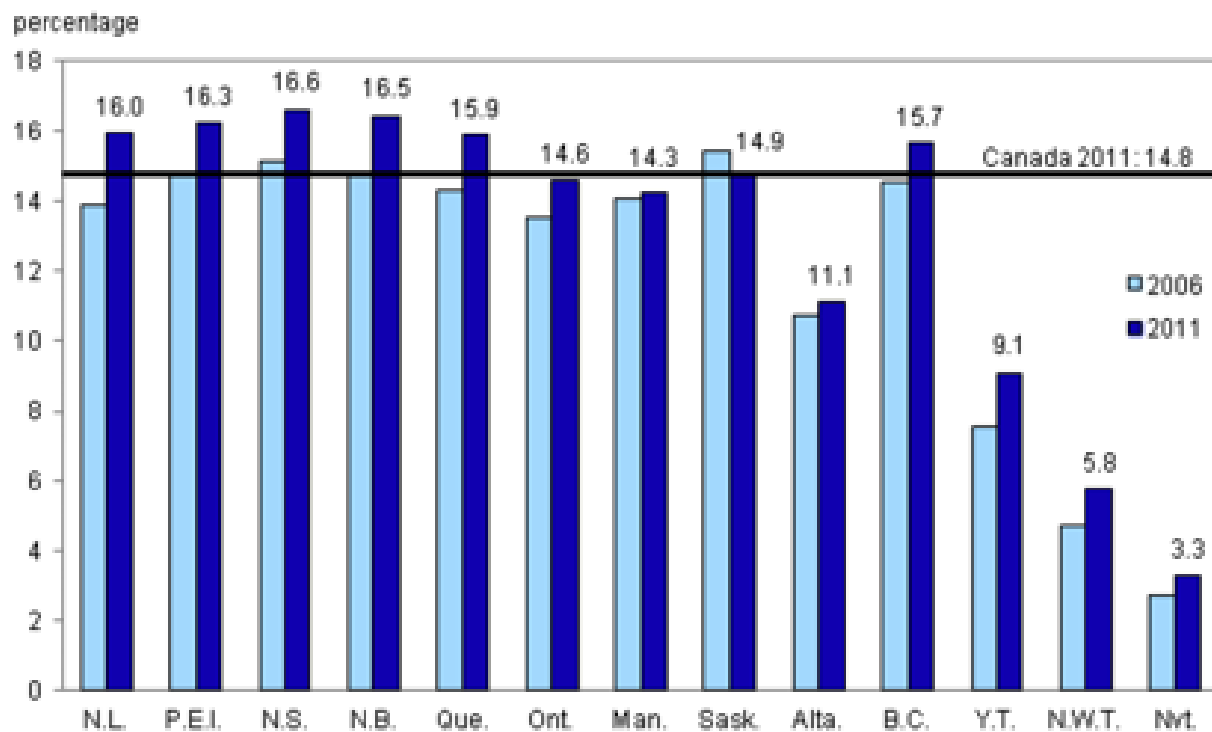
**Figure 2 Growth rate (in percentage) of age groups between 2006 and 2011, Canada**



**Sources:** Statistics Canada, censuses of population, 2006 and 2011.

... more in some provinces than others.  
(over-65 in NS = 150% x over-65 in AB)

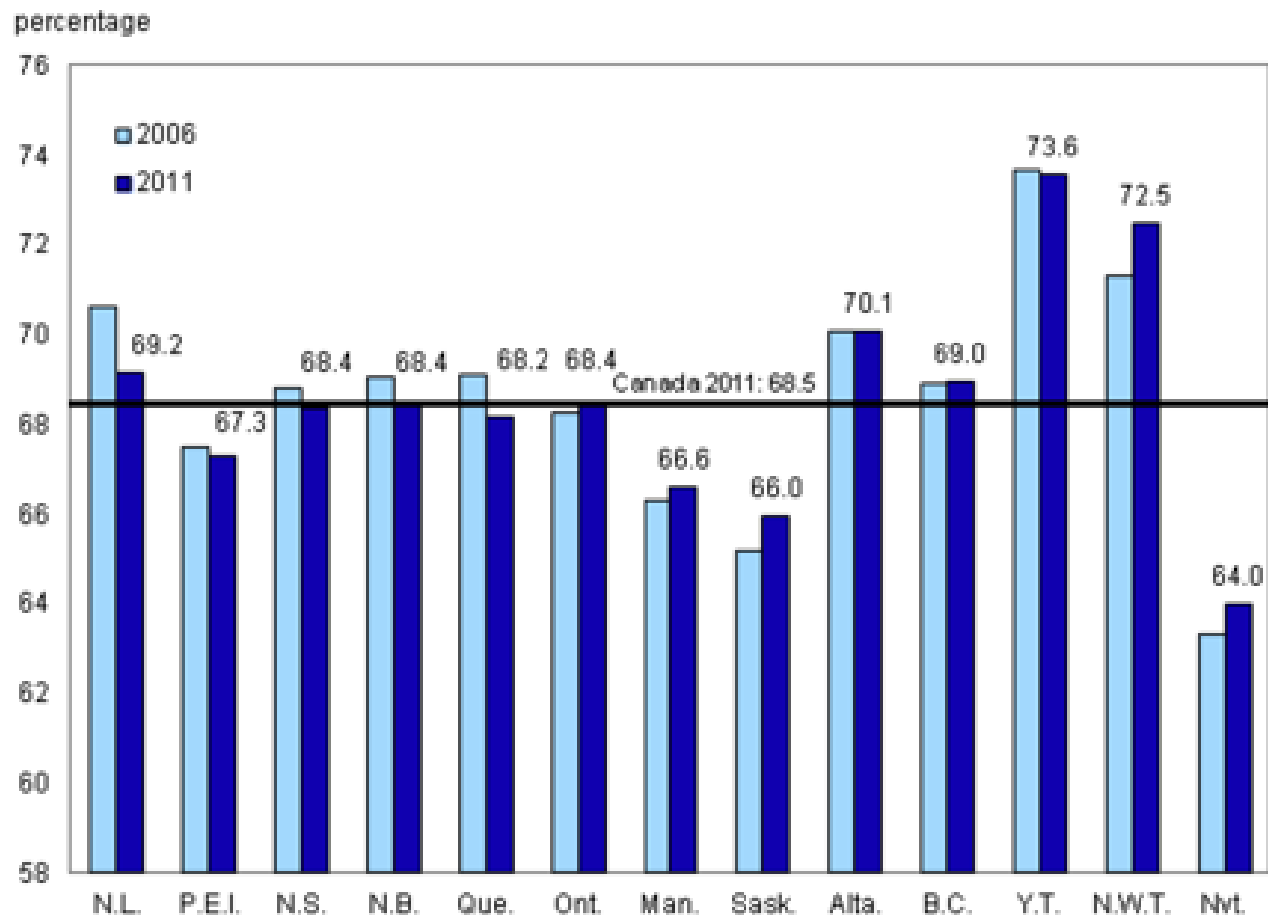
**Figure 7 Proportion (in percentage) of the population aged 65 and over, Canada, provinces and territories, 2006 and 2011**



Sources: Statistics Canada, censuses of population, 2006 and 2011.

While not mathematically inevitable, an above-average over-65 share is correlated with a below-average working age share

**Figure 8 Proportion (in percentage) of the working-age population (aged 15 to 64), Canada, provinces and territories, 2006 and 2011**



Sources: Statistics Canada, censuses of population, 2006 and 2011.

# Projection Assumptions (1)

- **Provincial health care spending**

- Key to our projection is rate of growth of “intensity of service”, defined as the increase in average public spending per person after allowing for changes in age distribution. (In real terms, the 1998-2009 average annual service intensity growth rate was 2.3%.)
- The future rate of growth of service intensity is a parameter to be varied.
- Intensity of service for all age cohorts is assumed to grow at a uniform rate post-2011.



# Projection Assumptions (2)

- **Population projection to 2050**

- Total fertility rate: 1.5 (2009 rate)
- Life expectancy: rises by 2050 to 82.5 for men, 87.5 for women
- The number and age-sex distribution of international migrants remains unchanged relative to the 1996-2011 average. (For provincial projections – not shown – interprovincial migration is phased out over ten years.)

# Projection Assumptions (3)

- **Economic growth**

- Real GDP per person of working age (18-64) grows at average rate in Canada, 1997-2011: 1.37%
- The working age share of the population is determined by the population projection assumptions.

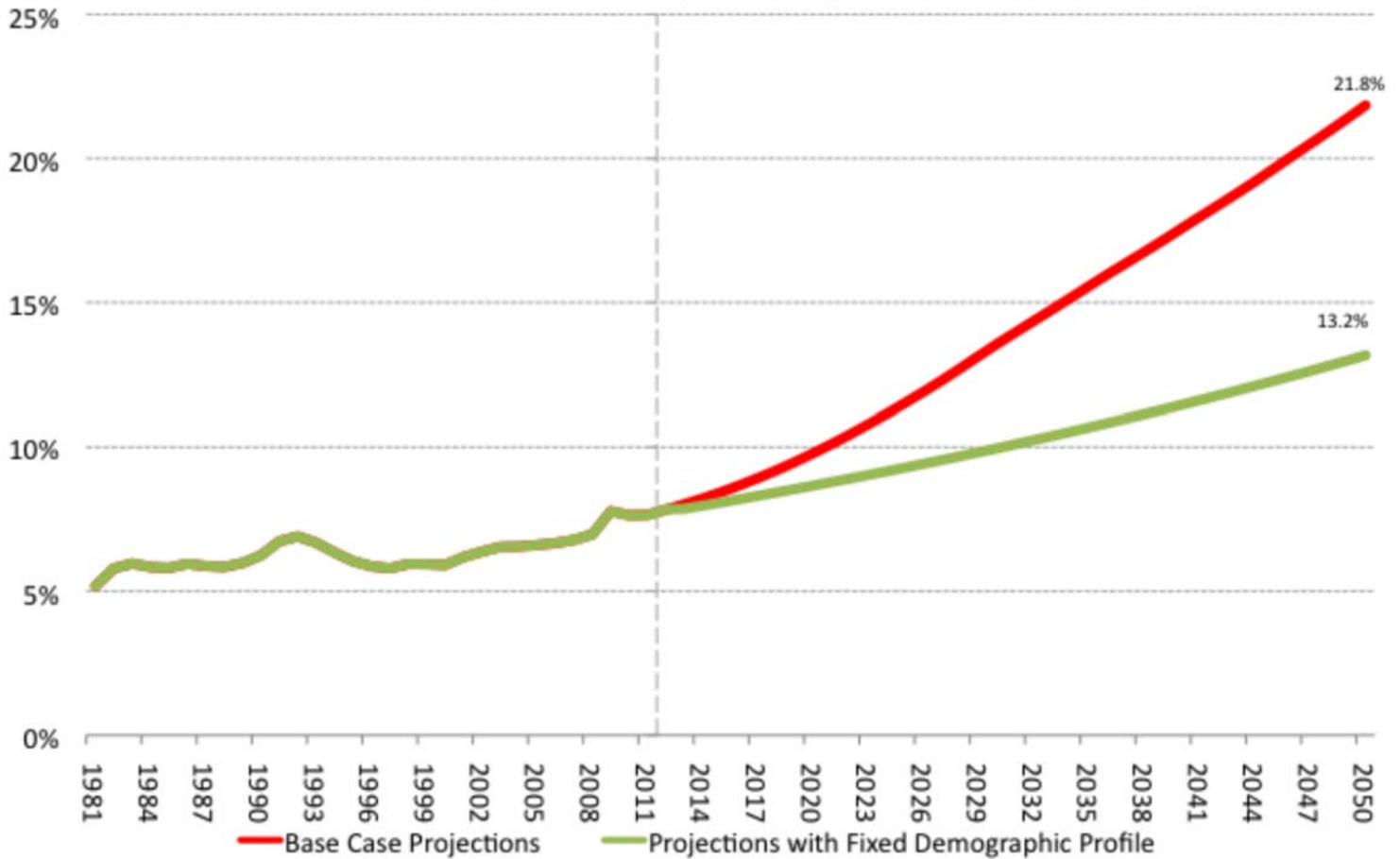
# Projection Assumptions (4)

- **Effect of population aging on public health spending as share of GDP**
  - The “fixed demographic projection” incorporates intensity growth rate and productivity assumptions but assumes no change in age distribution of population from the 2012 base.
  - Aging has two effects that increase spending/GDP:
    - Induces higher average per capita spending.
    - Reduces the working age (18-64) population share and hence GDP.

## Scenario 1

(Annual service intensity increase = 1998-2009 average)

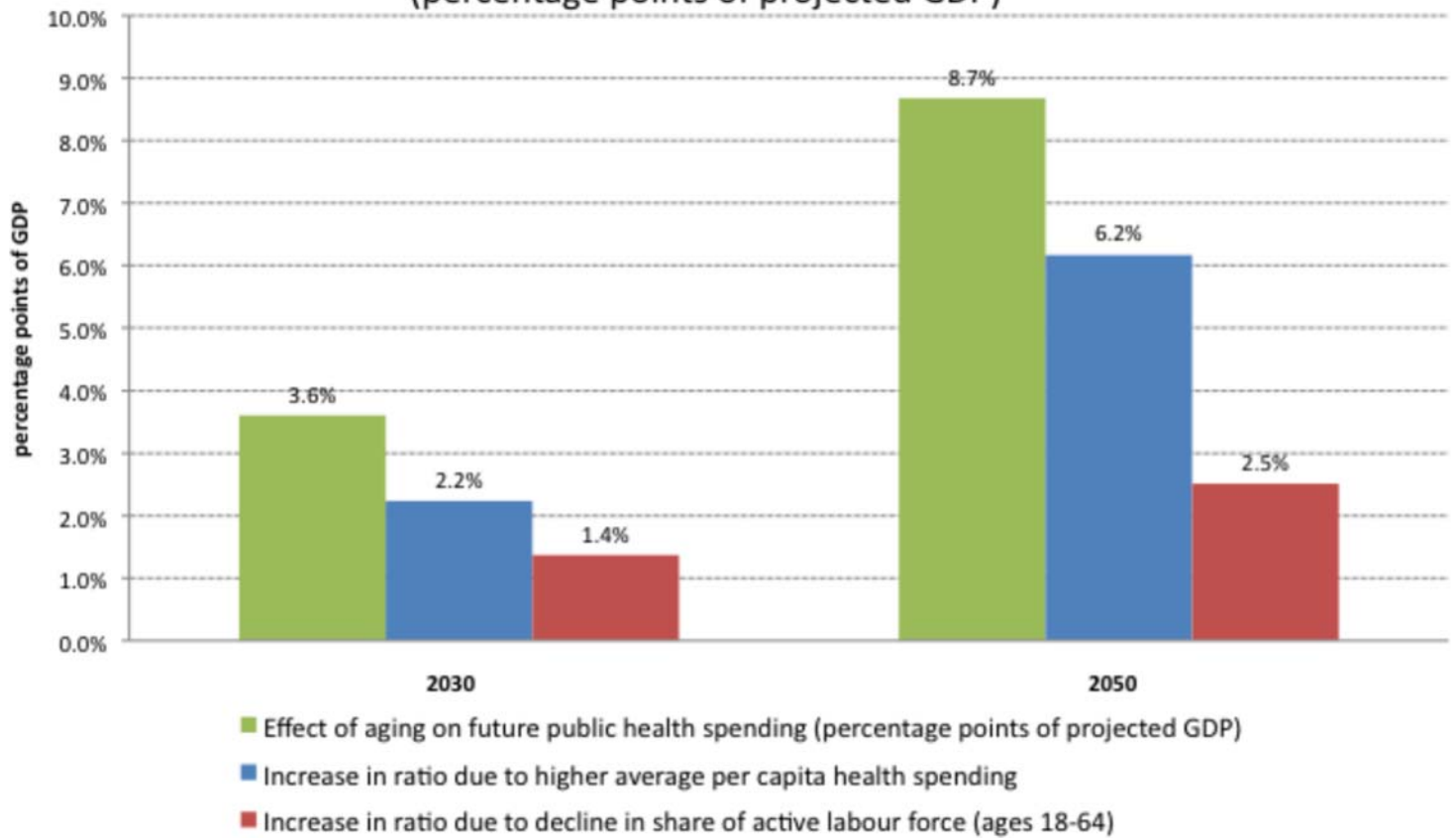
### Public Provincial Health Spending as Share of GDP



## Scenario 1

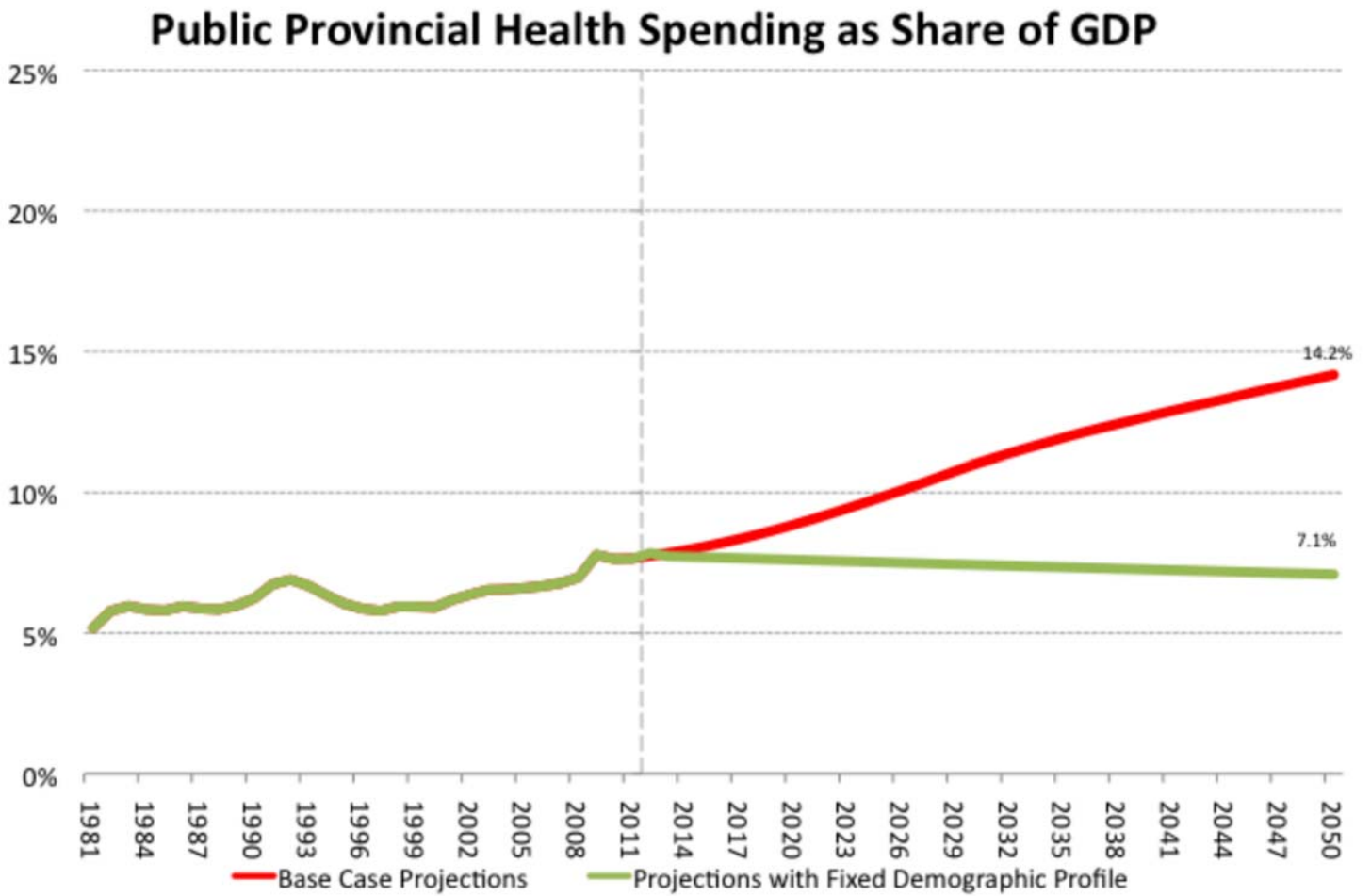
(Annual service intensity increase = 1998-2009 average)

### Projected Effect of Aging on Provincial Health Care Spending as Share of GDP, 2030 and 2050 (percentage points of projected GDP)



## Scenario 2

(Annual service intensity increase = 50% x 1998-2009 average)

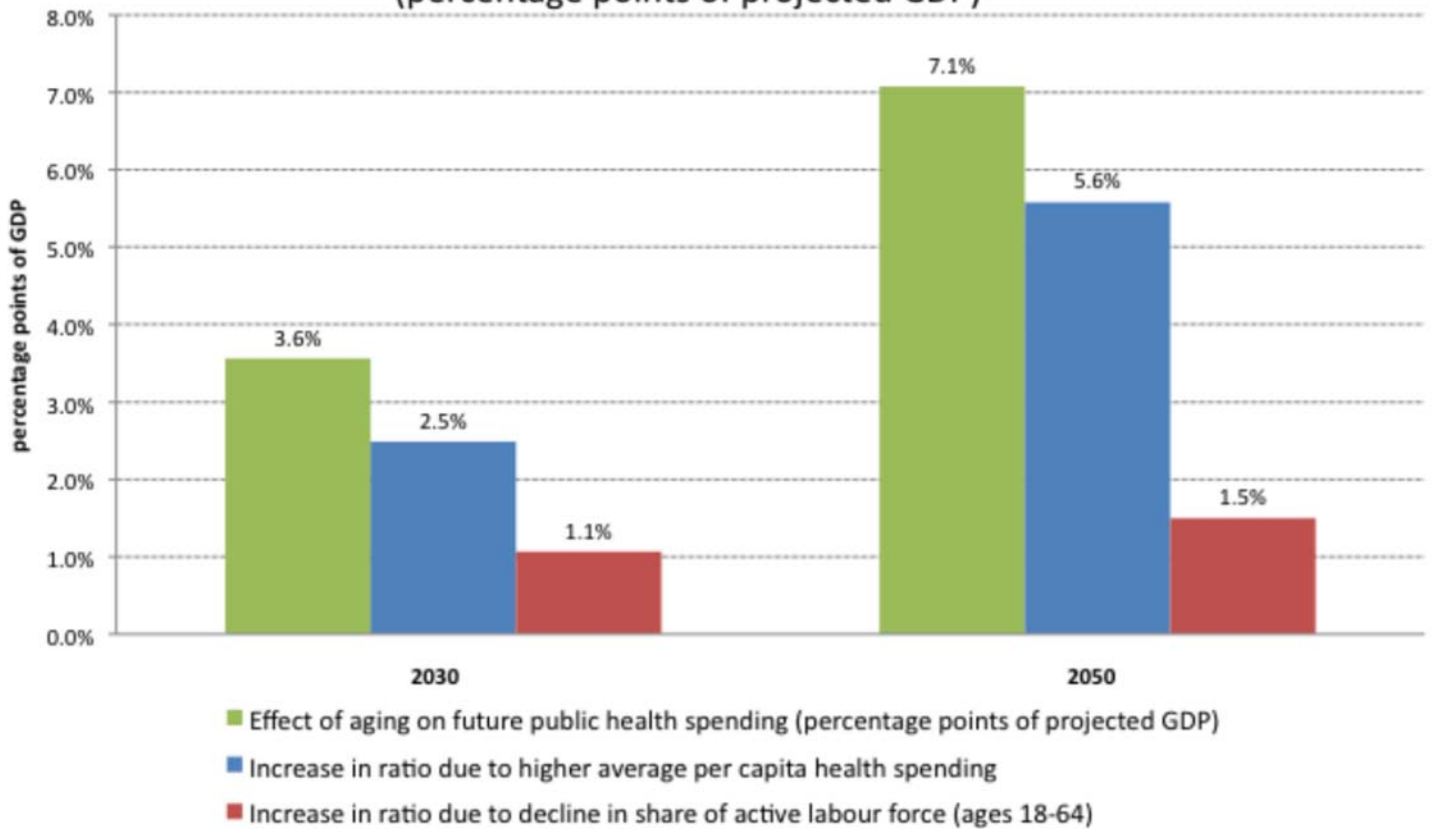


## Scenario 2

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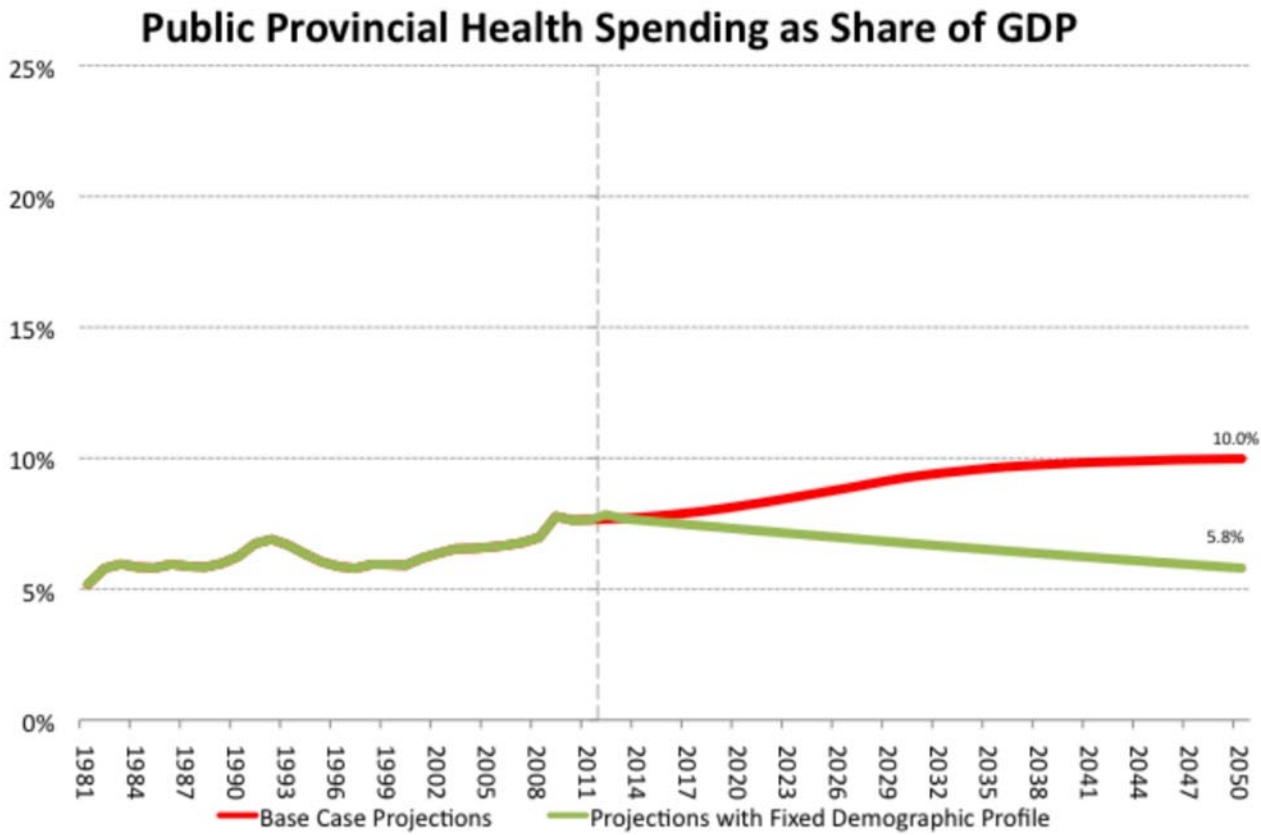
### Projected Effect of Aging on Provincial Health Care Spending as Share of GDP, 2030 and 2050

(percentage points of projected GDP)



## Scenario 3

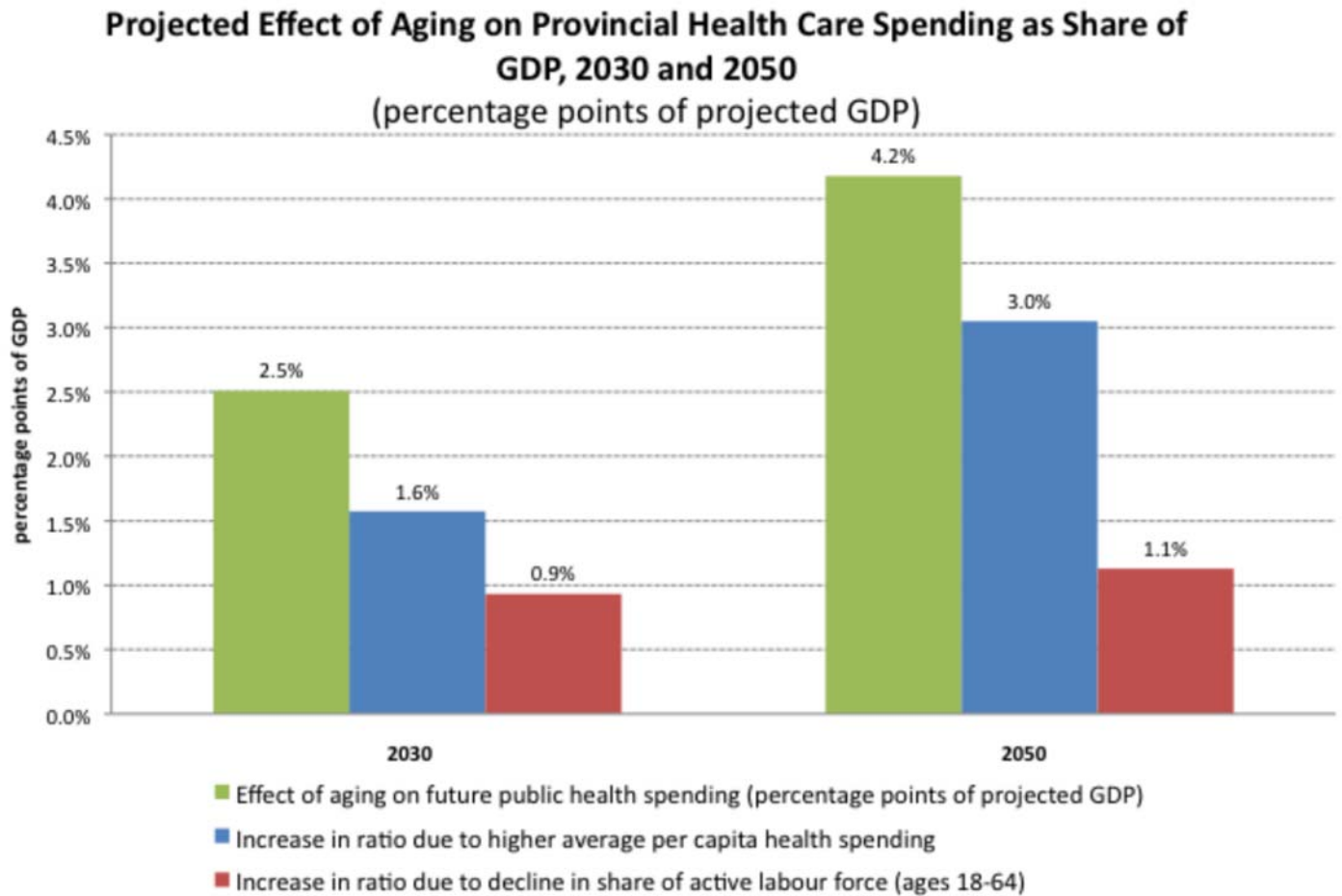
(Annual service intensity increase = 10% x 1998-2009 average)



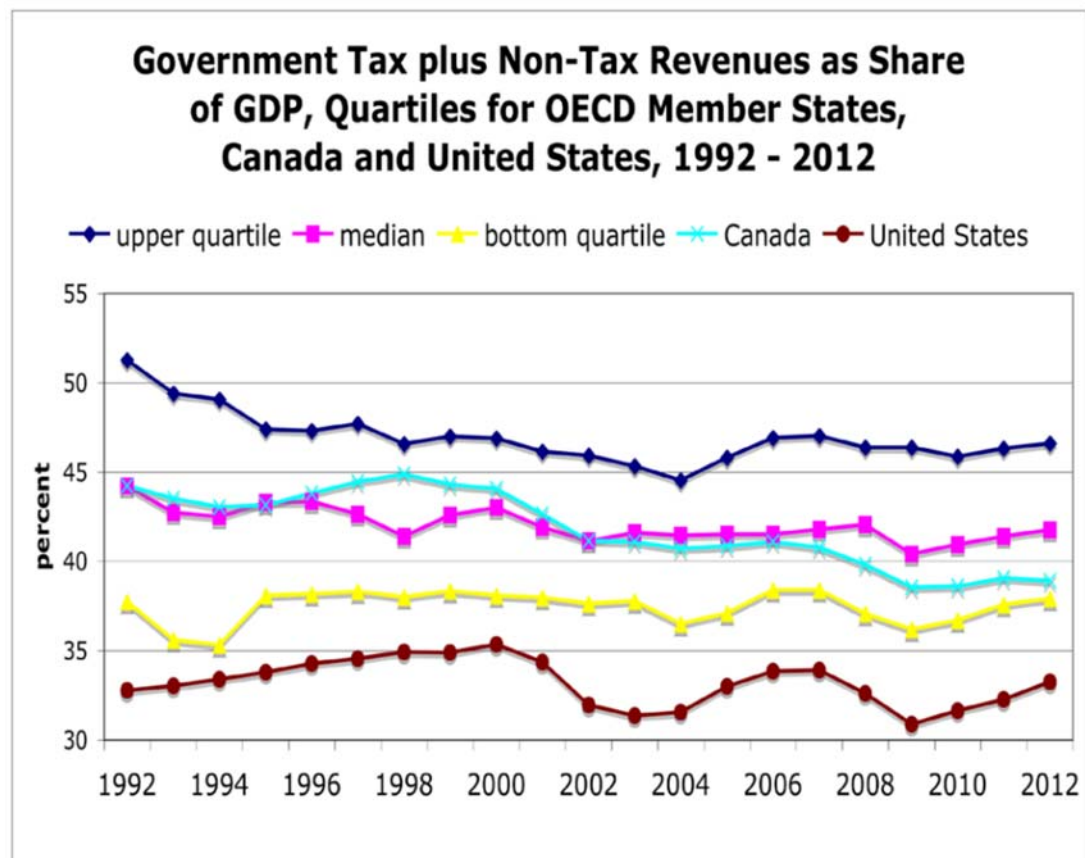


## Scenario 3

(Annual service intensity increase = 10% x 1998-2009 average)



# What's to be done? (1)



**There is – some – tax room:**

- Canada reduced its tax/GDP ratio from about 45 percent to below 40% since mid-1990s.
- Thereby, Canada approximately halved its “tax wedge” relative to US since mid-1990s.

# What's to be done? (2)

1. **Tax/GDP increase (probable):** An increase of 2 – 3 percentage points makes sense this decade – primarily to accommodate boomers' health care needs.
2. **Intensity of service growth target (unlikely):** Provinces should target a rate of increase for health service intensity – at a rate well below half the rate of service intensity growth over the previous decade.
3. **Prefunding boomers' health care (highly unlikely):** The more ambitious provinces could adopt the C/QPP precedent and undertake some prefunding of boomer public health care.