

Resuscitating the Dialogue on Health

There has been a recent resurgence of discussions around the long-term funding of health care in Canada, with current conversations revolving round two main issues. The first is the extension of the six percent annual increases in transfer payments to the provinces by the federal government through to 2017—a level said by some to be necessary to support aging populations. The second is the announcement by the Federal Minister of Finance that after 2017 the formula for annual health care transfers to the provinces would be simplified, linking transfer payments to annual increases in provincial nominal Gross Domestic Product growth (real GDP growth plus the rate of inflation). While some provincial health ministers welcomed the certainty of the new funding scheme, most saw it as equivalent to a lump of coal being delivered to their health care stockings just before Christmas.

In light of these discussions we thought it would be helpful to resuscitate some of the research we have undertaken on the long-term sustainability of health care spending in British Columbia. With respect to the issue of requiring six percent annual increases in health care transfers to support aging populations, our research showed—contrary to popular belief—that BC's health care system would *not* be swamped by the aging of the post-World War II baby boom generation and could be sustained if we experience long-run economic growth in the range of two to three percent per year (see [Sustainable: British Columbia's Health Care System and Our Aging Population](#) on our website).

In considering Canada as a whole, a similar situation was seen. Given the current age specific profile of health care spending, and if future growth in the national economy follows historical trends (averaging real increases of two to three percent per year over the longer-term), demographic change alone will not, on average, cause provincial government health care expenditures to crowd out other aspects of provincial government spending. Similarly, it will not cause the system to become so expensive that it would render it unsustainable in its current form.

The real challenge for our health care system in BC and across Canada is the continued increases in age specific spending across all age groups in excess of population growth and inflation. While the rush of the boomers into the system may not in itself cause health care to become unsustainable, everyone using the system more and more certainly will. A continuation of the past decade's increases in real per capita age specific expenditures in BC would result in a doubling of provincial government health care spending as a share of BC's GDP, from around nine percent today to 18 percent by 2041. A similar outcome would be seen Canada-wide, with health care spending as a share of national GDP increasing from just under eight percent today to almost 19 percent by 2041. These increases reflect the fact there have been few incentives for health care providers to find better approaches to health care delivery—rather than merely more expensive ones—and even fewer incentives for patients of all ages to use the system more efficiently.

While it may not be aging populations alone that will push our health care system into arrest, the landscape of demographic change across Canada should certainly be considered as part of future funding strategies, as demographic change in Atlantic Canada, for example, will be much different from that in Alberta. This point also brings us to the issue of linking future transfer payments to increases in provincial nominal GDP: demography will also play a significant role in the future landscape of economic change across Canada. To the degree that an aging population will put downward pressure on economic growth due to a relatively slowly-growing (but rapidly-aging) stock of workers, simply linking future health care transfers to economic performance may very well penalize the regions that will be the most challenged in terms of meeting future health care needs.

Current projections show that while Atlantic Canada is expected to see its 65-plus population grow by 80 percent, the working-age population is expected to contract by almost 12 percent. Quebec would be in a similar situation, with an 88 percent increase in its seniors' population and a two percent decline in those of working age. While not the primary driver to increasing health care costs, the landscape of changing demography across the country should be recognized, as it will also influence the ability of provincial economies to grow, thereby impacting future levels of health care funding.

While the post-2017 funding scheme has been a controversial one, the call to tie health care transfers to provincial nominal GDP growth may well be an important step towards ensuring the future sustainability of the Canadian health care system. This is not necessarily because it is the right move, or even a good one, but because it will force discussions about the viability of current health care spending patterns to be had, hopefully focusing us towards developing a plan for our current system.