



A Snapshot of Health Care Spending – In Canada and Around the World

Highlights

- Health care spending continues to outpace economic growth in most developed countries. Mounting pressure is being put on health systems from aging populations, the rising incidence of chronic disease and greater use of expensive technologies.
- Governments are straining to meet demands for health care at a time when economic and labour force growth rates are slowing; some relatively affluent countries may soon reach a crossroads with health care.
- Under the prevailing Canadian model for organizing and paying for health care, there is little incentive to introduce better systems, new products or innovative services. It is difficult to see how the system can be sustained indefinitely in its present form.
- A re-examination of the status quo could help policy-makers and health administrators introduce greater efficiencies into the system, leverage Canada's global advantages in some areas of health-related innovation, and – most significantly – improve services and quality of care for Canadians.
- On the upside, BC has managed to make some progress by introducing efficiencies to improve health outcomes and balance costs. BC does better than the other provinces on a number of indicators of health system performance.

Health care in Canada consumed more than 40% of aggregate provincial government revenues in 2015, with the public and private spending necessary to provide the full suite of health services amounting to 10.7% of national GDP.¹ Despite being a relatively big spender, compared with other advanced countries Canada scores poorly on a number of measures of health system performance, including the timeliness and safety of care, efficiency, and the coordination and integration of health services to patients.²

As the demands for services continue to grow, Canada's health system is increasingly plagued by long wait times, limited integration of services across the continuum of care, and a host of other challenges associated with an aging population. Without broad scale reform, it is hard to see how the system can be sustained indefinitely in its present form.

That said, Canada—and BC in particular—is an international leader in some innovative health practices and the use of certain types

¹ 2015 Canadian Institute for Health information.

² See the reports comparing health system performance across a group of developed countries produced by the Commonwealth Fund, most

recently Mirror, Mirror on the Wall, 2014 Update: How the U.S. Health System Compares Internationally, June 2014.

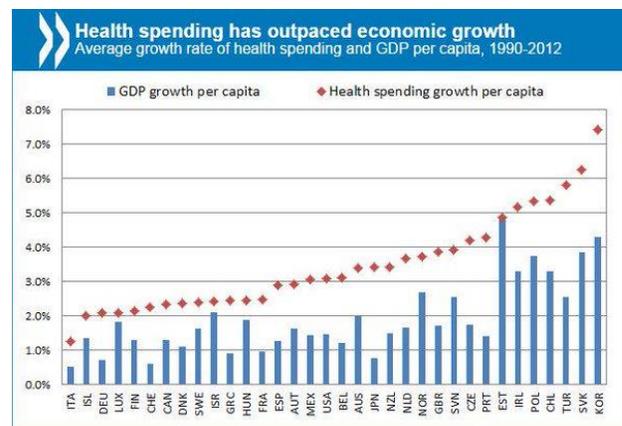
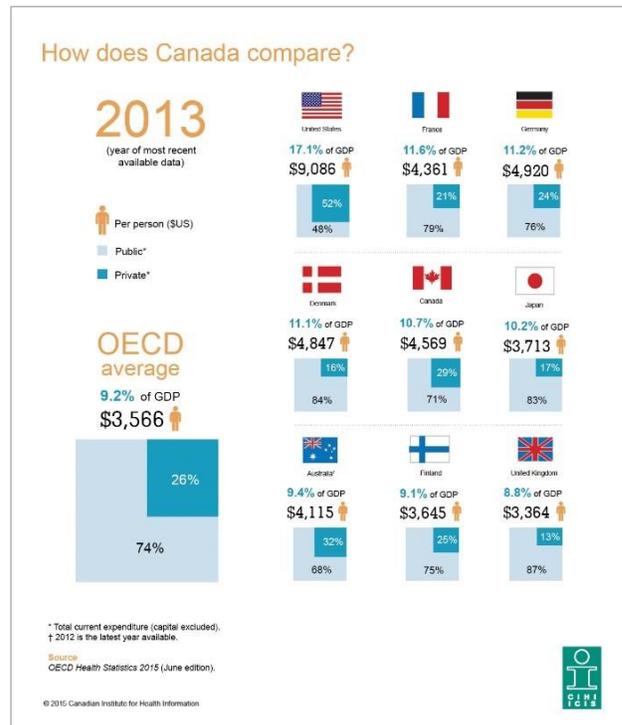
of technology. But the present single-payer/single buyer system provides few incentives to experiment with new technologies or to incorporate innovation. Where there is a will to improve performance, there is a way. By fostering a more consumer-driven health environment and leveraging Canada’s global advantages in selected areas of health-related innovation, it may be possible to redesign how services are delivered to improve outcomes – at an affordable cost.

International Trends

Health Spending Generally Outpacing Economic Growth

According to the latest data from the Organization for Economic Cooperation and Development (OECD), health care spending in the developed world averages 9.2% of GDP and costs \$3,566 (\$US) per person.³ In Canada, health spending represented 10.7% of GDP and \$4,569 per person at the time of the OECD’s most recent review. Canada spends more on health, relative to GDP, than Japan (10.2%), Australia (9.4%), Finland (9.1%) and the UK (8.8%). On this measure, the United States is a true outlier, devoting 17.1% of its GDP to health care, equal to US\$9,086 per person. There is little evidence that population health outcomes in the United States are better thanks to this high level of expenditure.

Looking over a 20-year time period, health spending as a percentage of the GDP has continued to edge up across the developed world, generally outpacing economic growth.⁴



³ OECD Health Statistics 2015 (June edition). The most recent data in the OECD study is from 2013.

⁴ Economic growth is measured by increases in nominal GDP, which captures both “real” economic growth as well as the effect of inflation.

Aging Populations

Life expectancy is perhaps the most common indicator of health, although it only measures the length of life, not the quality. There have been significant gains in life expectancy over the past 50 years, although it is unclear to what extent this reflects improvements in access to and/or the quality of health services. On average, life expectancy at birth is now 80 years across the OECD, an increase of more than 10 years since 1960⁵ — consistent with advances of ~3-4 months every year.⁶ In 2013 (the latest year available), life expectancy in Canada was ~82 years. The countries that beat Canada on this indicator are Japan, Iceland, Spain and Switzerland, all with an average life expectancy of 83 years. At the other end of the spectrum, life expectancy in Turkey, Mexico and Hungary is around 75 years, while in the Russian Federation it is just 70 years.

Chronic Disease

The four major chronic diseases (cancer, cardiovascular diseases, chronic respiratory conditions and diabetes), along with obesity, are now the main causes of disability and death globally. The World Health Organization has projected \$7 trillion (\$US) in economic losses world-wide from chronic diseases over the period 2011-2025.⁷

In Canada, 21.4% of the adult population has at least one of the four major chronic diseases, while one in four adults are categorized as obese.⁸ On the upside, many chronic diseases are preventable (or at least manageable), as they are linked to modifiable lifestyles. Up to 80% of heart disease, stroke, and type 2 diabetes, and over a third of all cancers, could be prevented by eliminating tobacco use, overconsumption of alcohol, unhealthy diets and physical inactivity.⁹ Health care systems in some OECD countries may be unable to manage the financial strain from chronic disease unless there is much greater progress in prevention.¹⁰

National Trends

Health Care Spending in Canada

While the final numbers have not yet been tallied, in 2015 Canadian health expenditures are estimated to have amounted to 10.9% of GDP (\$219.1 billion), or Cdn\$6,105 per resident.¹¹

Similar to other OECD countries, Canada has seen a slowdown in health care spending growth since 2010. Analyzing health spending over the last 40 years, trends in the expenditure-to-GDP ratio can be organized into the following segments:¹²

⁵ <http://www.oecdbetterlifeindex.org/topics/health/>.

⁶ http://www.keepeek.com/Digital-Asset-Management/oecd/social-issues-migration-health/health-at-a-glance-2015_health_glance-2015-en#page11.

⁷ http://apps.who.int/iris/bitstream/10665/148114/1/9789241564854_eng.pdf, p. 13.

⁸ <http://www.phac-aspc.gc.ca/publicat/hpcdp-pspmc/35-10/assets/pdf/ar-03-eng.pdf>, p. 194.

⁹ http://apps.who.int/iris/bitstream/10665/44009/1/9789241597418_eng.pdf, p. 2.

¹⁰ <http://www.oecd.org/health/healthcare-improving-too-slowly-to-meet-rising-strain-of-chronic-diseases.htm>.

¹¹ https://www.cihi.ca/sites/default/files/document/nhex_trends_narrative_report_2015_en.pdf, p. 4.

¹² CIHI Series A-2015, NHEX <https://www.cihi.ca/en/spending-and-health-workforce/spending/national-health-expenditure-trends>.

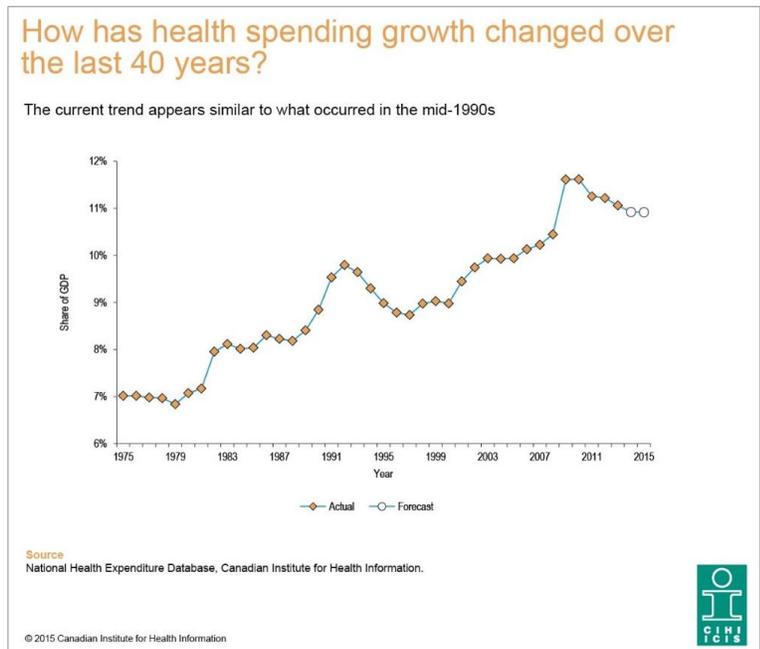
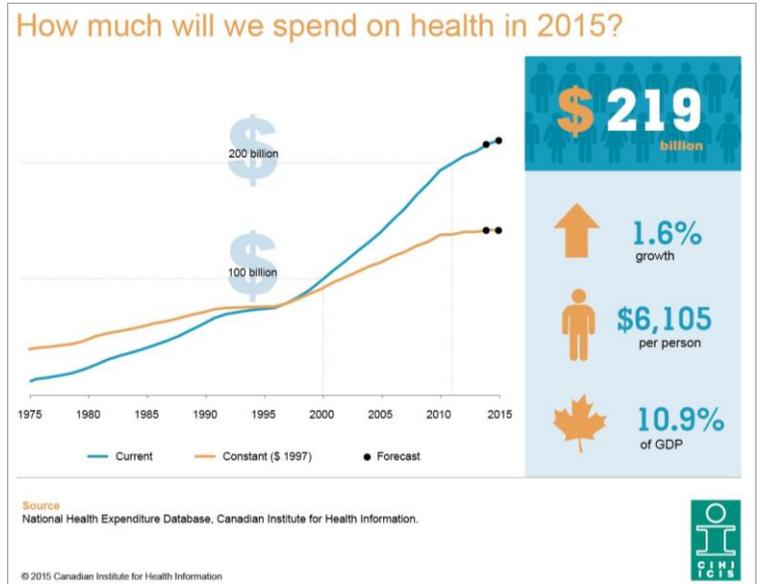
- 1975 to the early 1990s: In 1975, health expenditures in Canada stood at 7.0% of GDP. This spiked to 8.2% of GDP by the early 1980s. By 1992, the health spending-to-GDP ratio had risen further to 9.8%.
- Mid-1990s: Health expenditures grew much more slowly during this period of government fiscal restraint, with the health spending-to-GDP ratio slipping to 8.7% in 1997.
- Late 1990s to 2010: These years saw sizable reinvestments by governments in health care, with spending trending higher to peak at 11.6% of GDP (\$5,680 per capita) by 2010.
- 2010 to 2015: Mirroring a similar trend in the mid-1990s, this period has seen renewed fiscal restraint as governments have focused on managing their deficits. In 2015, health spending represented 10.9% of Canada’s GDP.

Composition of Health Care Spending in Canada

A majority of Canadian health expenditures in 2015 was spent on hospitals (29.5% in 2015), drugs (15.7%) and physicians (15.5%).¹³ In recent years, physician spending has outpaced the combined growth of drugs and hospitals, a trend that’s likely to continue as the population continues to age. The Canadian medical workforce has expanded over the last 15 years, driven by increases in medical graduates from Canadian universities. Since 2000, Canada has boosted the number of practicing physicians from 2.1 per 1000

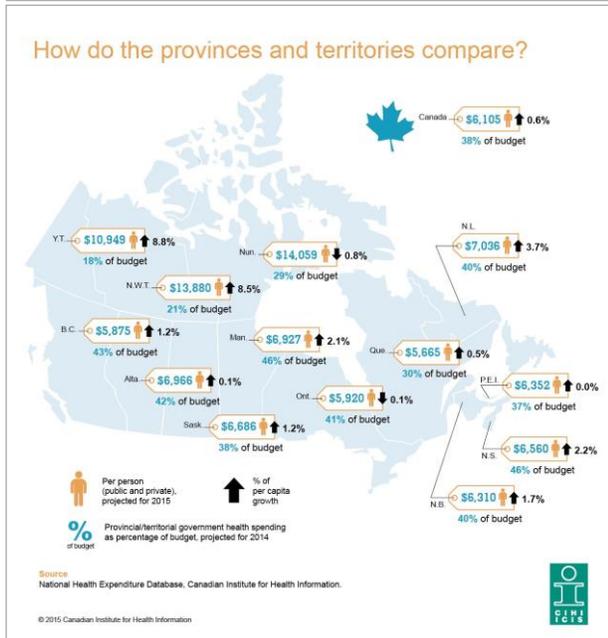
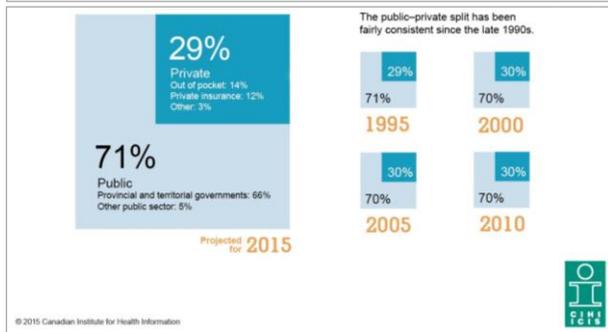
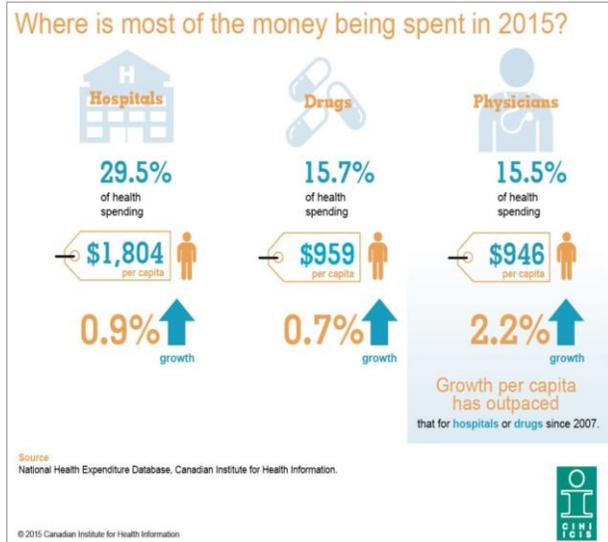
¹³ National Health Expenditure Database, Series A 2015.

¹⁴ NHEX Series A.



people to 2.5 per 1000.¹⁴ This is still well below the OECD average of 3.2 per 1000,¹⁵ suggesting that the Canadian health care system is still playing catch-up after a long period in which too few physicians were being trained.

¹⁵ <http://www.oecd.org/els/health-systems/Briefing-Note-CANADA-2014.pdf>.



Who Pays? The Public-Private Split

The public-private split in paying for health care has remained fairly steady over the last 20 years, ranging between 70-71% government-funded and 29-30% financed privately.¹⁶ In response to growing financial pressures on provincial budgets, the private sector share of health care spending is almost certain to rise in the coming decades.

How Does BC Compare vis-à-vis the National Picture?

The BC government dedicated 43% of its budget to health care in 2015 (\$5,875 per person); among the ten provinces, only Nova Scotia (46% of the budget and \$6,560 per capita) and Manitoba (46% of the budget and \$6,927 per capita) allocated a larger portion of the government’s budget to health care.¹⁷ It is important to note that BC is widely acknowledged to have the top-ranked provincial health care system in Canada.¹⁸ As a province with one of the oldest populations,¹⁹ BC is challenged to contain costs while maintaining access and quality of care. Despite these challenges, BC’s health care system has managed to eclipse most other provinces by introducing efficiencies to improve outcomes and balance costs. In fact, BC outperforms the other provinces in several areas, with particular strengths in life expectancy and reducing cancer mortality.

Sustainability

Health care spending continues to outpace economic growth in most OECD countries.

¹⁶ NHEx series A.

¹⁷ Ibid.

¹⁸ <http://www.conferenceboard.ca/hcp/provincial/health.aspx>.

¹⁹ <http://www.statcan.gc.ca/pub/91-215-x/2012000/t583-eng.htm>.

Escalating pressure is being put on the system from aging populations, the rising incidence of chronic disease, and greater use of expensive technologies. The majority of OECD health care systems are largely publicly funded through payroll taxes, a revenue source that will be under pressure as labour force growth slows or turns negative in the 2020s and beyond. Alongside the limits on public funding and resources is the mounting burden on health services from unfavourable demographics and sky high public expectations. With the increasing strain on governments struggling to meet health care demands at a time when economic and labour force growth rates are slowing, some developed countries may soon reach a crossroads with health care.

**Concluding Thoughts:
Opportunities for Canada**

All is not lost. Finding policies that can make health care spending more sustainable requires good governance and effective

coordination. In this regard, Canada is in some respects well-positioned to make progress in balancing costs and outcomes. Canada is held back, however, by its unusual single-buyer market structure. While the system guarantees access and universal care, it generally prioritizes cost containment over excellence, relies on inflexible up-front block funding of hospitals (meaning that the supply of hospital care is disconnected from patient demand), and provides few incentives for innovation. Under the prevailing Canadian model for organizing and paying for health care, there are too few incentives to introduce better systems, new products or innovative practices and services. A re-examination of the status quo could help policy-makers and health administrators introduce greater efficiencies into the system, leverage Canada's global advantages in particular domains of health-related innovation, and – most significantly – improve the quality of health services for Canadians.

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