Canada’s Current Health Care System is Not Sustainable; Action Needed to Maintain the System’s Survival

Actuarial Research Shows Just How Fast Action is Needed

Actuarial analysis of the Canadian health care system concludes that, at current growth rates, costs will eventually be at levels such that provinces and territories will be required to spend the major part of their budgets on health care - at the expense of other programs such as education, social welfare and infrastructure. Using the current Canada Health Transfer (CHT), health care expenditures will equal 97 percent of total revenues available to provinces and territories at the end of 25 years, compared to 44 percent in 2012.

Proposed changes to the CHT, effective April 2014, will exacerbate the problem. Canada’s current health care system is not sustainable over a 25-year horizon unless significant actions are taken, including changes which substantially reduce the increase in the costs of health care, boosting GDP growth and raising taxes/fees or investing in preventative approaches.

Released today by the Society of Actuaries and Canadian Institute of Actuaries, “Sustainability of the Canadian Health Care System and Impact of the 2014 Revision to the Canada Health Transfer,” takes an actuarial look at the current state of the Canadian health care system. Factoring in expected changes in Canadian population demographics, the study predicts that provincial and territorial governments’ annual spending on health care will increase by nearly 133 percent, from $135 billion in 2012 to more than $315 billion. The expenditures will represent close to 86 percent of those governments’ own source revenues by 2037, even after assuming some governmental action.
Additionally, the proposed changes to the CHT calculation formula, which provides federal funding support to Canada’s provinces and territories, will further reduce the total revenues available to provinces and territories and their ability to adequately fund their health care expenditures.

“Unlike several previous forecasts on the future costs of the Canadian health care system, this report’s methodology applies actuarial techniques to directly capture the increasing health care costs associated with Canada’s aging population,” explains Stéphane Levert, FSA, FCIA, the report’s lead researcher. “Funding future health care expenditures is going to be very challenging for provincial and territorial governments. This study concludes that if the proposed changes to the calculation of CHT take effect it would only be funding 14.3 percent, compared to 21 percent today and 22.9 percent at the end of 25 years, of the provinces’ and territories’ health care expenditures.”

Based on the model developed for this report, other key research findings indicate:

- Growth rates will make it almost impossible for provincial and territorial governments to service their debts and program other services such as education, social welfare and infrastructure;
- There are two key causes of growth in the proportion of the budget: real growth in health care expenditures largely due to the aging population and reduced growth in GDP as the working population grows much slower than in the past;
- The revised CHT formula anticipates the future share of the federal government will drop to 14 percent by 2037, further reducing the amount available to provincial and territorial governments for other program expenditures.

“This report’s findings confirm that funding future health care expenditures will be challenging for provincial and territorial governments even if the CHT remains unchanged,” remarks Gary Walters, FSA, FCIA, FIA and member of the report’s Project Oversight Group. “I hope policymakers will consider these research results in developing funding strategies, including containing the cost of delivering health care and providing economic stimulus to increase provincial and territorial governments’ revenues, while maintaining a high quality health care system for all Canadians.”
Actuarial Research Determines Canada’s Current Health Care System is Not Sustainable; Action Needed

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To access the full report, “Sustainability of the Canadian Health Care System and Impact of the 2014 Revision to the Canada Health Transfer,” visit http://www.cia-ica.ca/docs/default-source/2013/213075e.pdf.

About the Canadian Institute of Actuaries

The Canadian Institute of Actuaries is the national organization of the actuarial profession. The Institute is dedicated to serving the public through the provision, by the profession, of actuarial services and advice of the highest quality. In fact, the Institute holds the duty of the profession to the public above the needs of the profession and its members. Actuaries employ their specialized knowledge of the mathematics of finance, statistics, and risk theory on problems faced by pension plans, government regulators, insurance companies (both life and property/casualty), financial institutions, social programs, and individuals.

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The Society of Actuaries (SOA) is an educational, research and professional organization dedicated to serving the public, its members and candidates. The SOA’s mission is to advance actuarial knowledge and to enhance the ability of actuaries to provide expert advice and relevant solutions for financial, business and societal problems. The SOA’s vision is for actuaries to be the leading professionals in the measurement and management of risk.

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