Will the Boomers Bust the Health Budget?

Presentation to the Canadian Institute of Actuaries
Toronto: 18 June 2001

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Demographic Change and
Health Care Financing Reform

Canadian Institute of Actuaries
Annual Meeting

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William Robson
Vice-President and Director of Research

Background

- Scary numbers
  - High cost of future health programs
  - Uneven pressure across country

The Problem

- Awkward politics
  - Instability
  - Bad incentives
  - Fiscal imprudence

Some Answers

- Reform federal-provincial transfers
  - Stable
  - Incentive-neutral
- Pre-fund
  - Save against future liability

Provincial Health Spending as Share of GDP

Provincial Health Spending as Share of Own-Source Revenue

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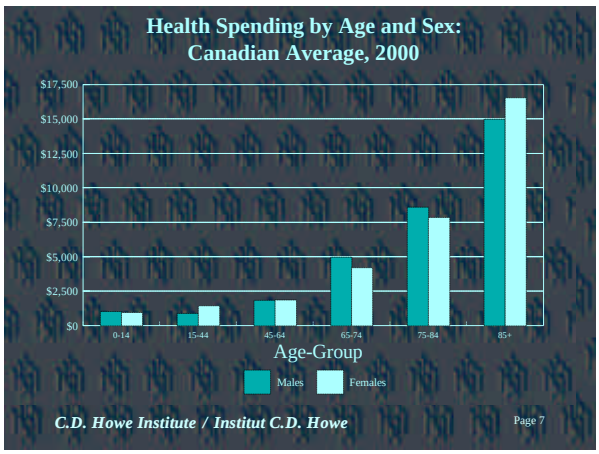

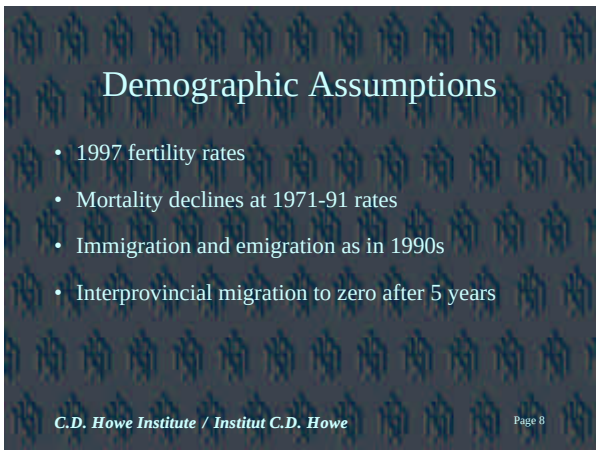

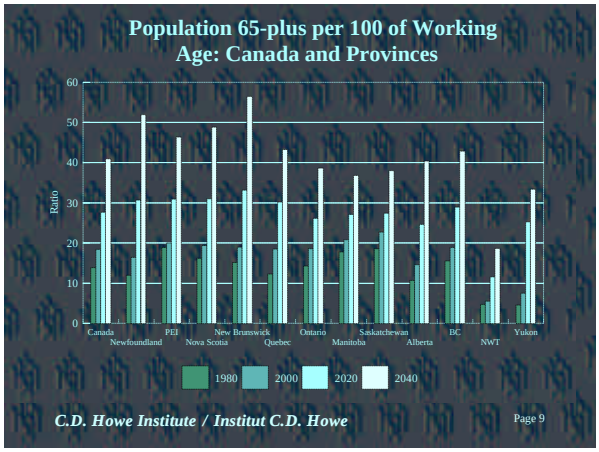

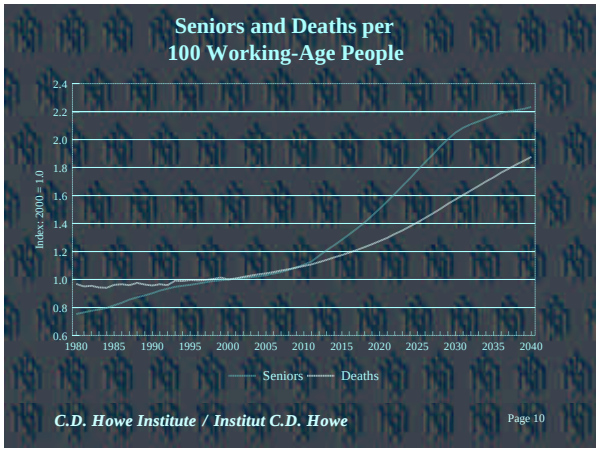

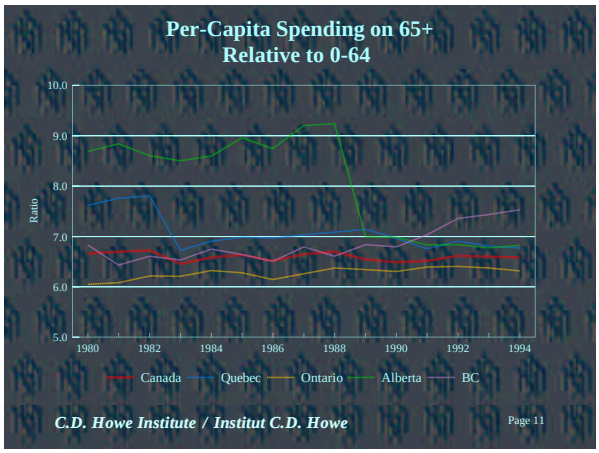

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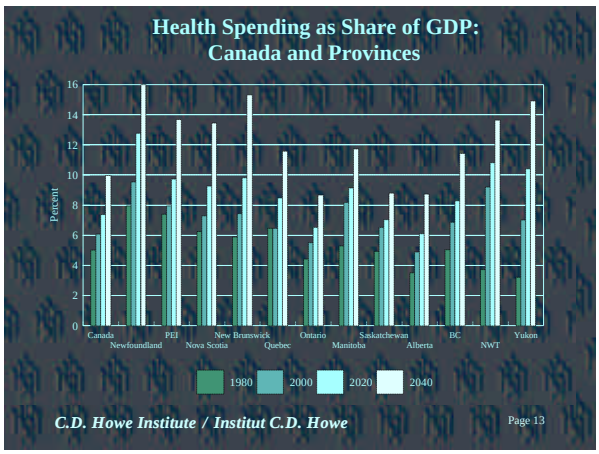

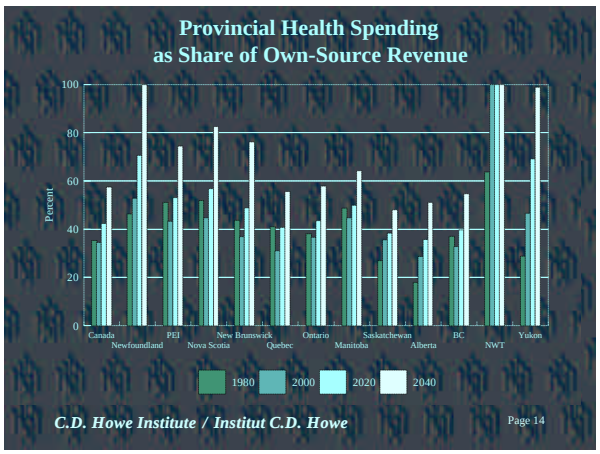

Implicit Health Liability

- Increase in health's share of GDP or revenue
- Evaluated over 50 years
- Discounted at 6 percent
- Equals liability: $530 billion nationally

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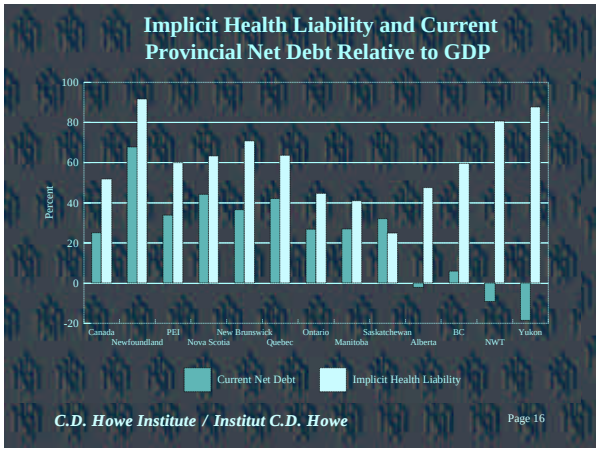

Alternative Assumptions

- Utilization
  - Outpaces growth by 0.5% annually until 2010
  - Falls back in line with growth after 2020
- Costs
  - Outpace inflation by 0.5% annually until 2010
  - Fall back in line with inflation after 2020

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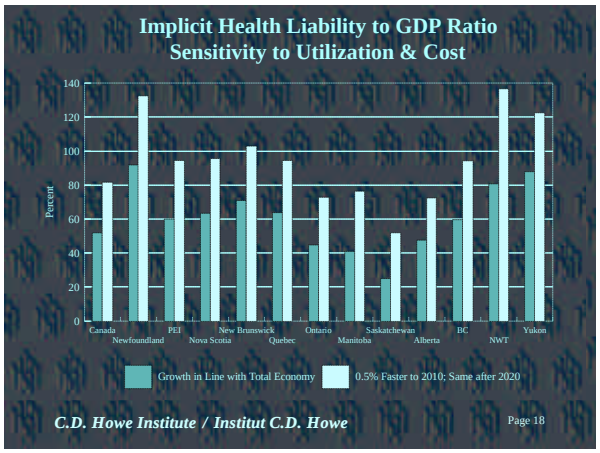

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Awkward Politics

- Pressure on provinces is intense and uneven
- Ottawa will pick up part of tab
- Ad hoc hikes in transfers are likely

Dangers of "Serial Ad-Hocery"

- Unstable
- Incentive-distorting
- Fiscally imprudent

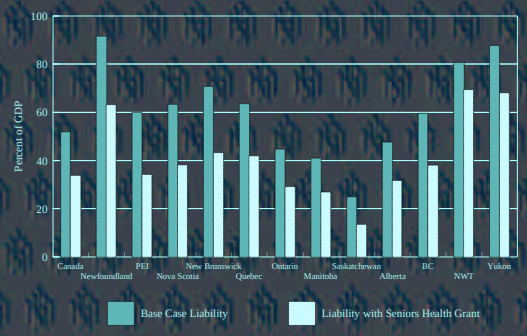
A Better Policymaking Environment

- Stable
- Incentive-neutral
- Fiscally prudent

The Seniors Health Grant

- Restructure CHST
- Transfer $3000 per senior
- Make cost-neutral in first year
- Escalate with GDP per person

Impact of Seniors Health Grant on Implicit Health Liability



A Better Policymaking Environment

- Stable ✓
- Incentive-neutral ✓
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Fiscal Prudence

- The economic challenge
  - Offset unfunded liability
  - Accumulate assets and/or pay down debt
- The political challenge
  - Surpluses conflict with health spending
  - Earmark surpluses *for* health spending

The CPP Model

To pre-fund part of boomers' pensions, balance

- reasonable long-term funding ratio
- about 5 times annual pay-out

with

- acceptable contribution rate
- 9.9 percent

The Seniors Health Account

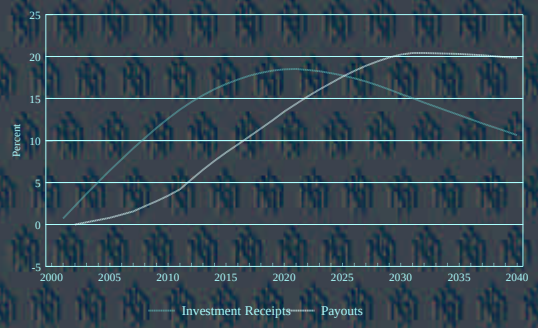
To pre-fund part of boomers' health care, balance

- reasonable long-term funding ratio
- about 5

with

- acceptable annual contribution
- 0.65% of GDP

Contribution of Seniors Health Account To Public Health Spending on Seniors



A Better Policymaking Environment

- Stable ✓
- Incentive-neutral ✓
- Fiscally prudent ✓

The Boomers Will Strain Health Budgets

- Scary numbers
  - Implicit liability over $500 billion
  - Burden uneven across country
- Awkward politics
  - Unstable
  - Incentive-distorting
  - Fiscally imprudent

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But They Need Not Bust Them

- The Seniors Health Grant
  - More stable federal-provincial transfers
  - Better policymaking environment
- The Seniors Health Account
  - Pre-funding for fiscal prudence

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