The Myth of Health Care Unsustainability

March 2011

The "Sustainability" Myth

Critics of Medicare assert that the cost of our public health care system is growing at such an alarming pace that the entire system is "unsustainable". They claim that the cost of health care could consume 70%-80% of provincial tax dollars in the coming decades, and that the depth of the crisis will inevitably increase as baby boomers become seniors and overwhelm the system with growing demands.

The result of these fears is the assertion that the system is "unsustainable", and the only "adult" response is to break with what has for many decades, been a fundamental priority in Canadian political life: the preservation of universal, publicly funded health care. Fortunately, the critics are wrong.

The Facts: Medicare and public health care expenditures are not growing rapidly

The truth is that what Medicare pays for (medically necessary hospital and physician services) has been very stable over the last 35 years, at 4-5% of the nation's revenues (GDP- gross domestic product).

Total government health spending, including non-Medicare costs such as public health, some dental care and prescription drugs, has risen faster than Medicare alone, moving from about 5% of GDP in 1980 to about 7% in 2009. But still, a 2% increase over 30 years hardly reflects spending that should be considered "unsustainable".

The costs caused by an aging population are also manageable. Though the seniors population is steadily rising, it grows slowly, at an average of less than 0.5% each year. If aging were the only factor, health care costs would increase at a rate of only about 1% per year. This is less significant than inflation (2.1%), and just below the costs caused by population growth (1%).

Provincial Budgets

Medicare *does* make up a greater portion of provincial budgets than it did 15 years ago, not because costs are increasing, but because of a political decision to cut tax rates and reduce the size of other provincial programs. Even this is not a long-term problem. Medicare's share of provincial budgets has grown very slowly for most of that time, rising from 28.2% of provincial spending to 35.9% between 1993 and 2009 (a 0.5% average annual increase). But virtually all of that growth occurred between 1998 and 2005. Health care's share of provincial budgets rose less than 1% in total over the half decade after 2005.

Which costs are rising?

While Medicare costs have been very stable, overall health spending in Canada has risen from about 7% of GDP in 1975 to about 10.7% in 2008. In 2010, health care spending was probably about 12% of GDP. If Medicare costs are stable, and public sector costs are rising slowly, why are total health care costs increasing rapidly? The real cost driver is precisely the thing that critics of Medicare tout as the solution: private sector health care.

Currently 30% of all health spending is in the private sector, up from 24% in 1975. That growth is a result of significant increases in costs in the private health care sector, including pharmaceuticals, out-of-pocket spending, costs of private insurance and dental care, with drug costs playing by far the most significant role. That doesn't have to be the case.

Canada's drug costs are higher than the per capita costs of all Organisation for Economic Co-operation and Development (OECD) countries with the exception of the US and Switzerland, and 30% higher than the OECD average. Drug costs overall rose from $4 billion in 1985 to an estimated $26.5 billion in 2007 year.

During that time, Canadian drug prices rose an average of 9.2%, far faster than in any other OECD country. Tackling rising health costs requires addressing excessive drug costs in Canada.

The Private Funding Option

Those "concerned about sustainability" recommend creating a greater role for private funding in our health care system. But increased private financing offers no real relief to Canadians. The private insurance market, if anything, actually makes the system less sustainable, as well as less equitable. Our current insurance system has seen rapid increases in costs since the late 1980s, from $139 per capita in 1988 to $591 per capita in 2007. This impressive 425% increase outpaced almost all other categories of health care spending.

The overhead costs of private insurance are significantly higher than the costs of public, single-payer plans, and that inefficiency makes increased private funding the least likely candidate to reduce health care costs. Fragmented private plans also have less capacity to bargain prices with suppliers, and private drug insurance plans to pay, on average 7-10% more for generic and patented medications, than the public sector insurance plans. In fact, the data indicates that we will actually pay *more* for care if we allow more private for-profit insurance to finance health care. Even if private funding weren't less efficient, it wouldn't help with overall costs. It may reduce *government* expenditure on health care, but private spending will have to increase, according the evidence, to fund the same services. It will increase inequity, though, as private, for-profit insurance models weigh more heavily on those with the least ability to pay.

Even more alarming is the potential for runaway costs similar to those in the United States, where private sector health insurance costs are rising rapidly, driven by inflated executive compensation policies and staggering administrative costs. A rapidly growing Canadian health insurance sector could prove to be an irresistible attraction to the large U.S. firms who have shown a remarkable capacity to use their influence to minimize regulation and grow at the expense for public care proposals, despite clear cost inefficiencies.

More Effective Options Within Medicare

There are many opportunities to address the issue of rising costs without having to accept the costs and inequities caused by private funding.

Growing pharmaceutical costs can be better managed. Setting prescription drug prices to the average prices in the OECD instead of using only a few high costs, and better identification of the most appropriate drugs for the intended therapeutic use, could reduce drug costs nationally by an estimated 8%. Overall, too little regulation, rather than too much, is responsible for the rising costs of pharmaceuticals and with it the rising cost of health care.

Other innovations, such as primary prevention and health promotion; integrated primary care by multi-disciplinary teams; enhanced scope for allied health professionals; increased coordination between family doctors and specialists; better uptake of evidence-based guidelines and deployment of the long-awaited electronic health record offer a host of far better opportunities for increasing the effectiveness, efficiency and sustainability of health care than private funding ever could.

For the full report, please visit:
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