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# Past, Present, Future

## Health Care Costs in New Brunswick

Spring 2017

# About this Document

The Institute of Fiscal Studies and Democracy (IFSD) is a Canadian think-tank sitting at the nexus of public finance and state institutions. Fiscal ecosystems include governments, legislatures, the public administration and other key actors and institutions in our political and economic life. This ecosystem, rooted in hundreds of years of political history and economic development, is composed of an intertwined set of incentives, public and private information and a complex and sometimes opaque set of rules and processes based on constitutional law, legislative law, conventions and struggles for power. The actors within this system depend on one another as well as the robustness and transparency of information and processes, all underpinned by a society's standards of accountability. It is at this dynamic intersection of money and politics that the Institute of Fiscal Studies and Democracy @ uOttawa aims to research, advise, engage and teach. The IFSD has been funded by the Province of Ontario to undertake applied research and student engagement in public finance and its intersection with public administration, politics and public policy. The IFSD undertakes its work in Canada at all levels of government as well as abroad, leveraging partnerships and key relationships with organizations such as the World Bank, OECD, IMF and US National Governors Association.

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## Key Points

- Over the past 30 years, health care spending in New Brunswick has followed a similar pattern of peaks and troughs as that at the national level, tied to overall economic activity and fluctuations in federal funding. Until recently, health spending was above the notional health care cost derived from the macroeconomic fundamentals of population growth, aging, real income growth, and inflation. However, since 2013, health spending was brought back in line with the estimated fundamental health care cost drivers, which has supported New Brunswick's relatively low per capita health care cost compared to other Atlantic provinces. And this trend is expected to continue in the coming years.

- More specifically, from 2010 to 2014, national health spending slowed relative to the previous decade. In New Brunswick during this period, average health care spending growth was well below the national average (1.6% versus 3.4% for Canada), supporting the province's efforts to restore a budgetary balance. This restraint was broad based, and was distributed throughout the health system in a manner similar to that observed at the national level. Notable differences between health spending growth in New Brunswick and Canada as a whole were on health professionals (2.5% versus 5.0%, respectively) and public health (3.0% versus 5.3%), as well as administrative costs (-5.5% versus 1.5%) and capital expenditures (-3.6% versus -1.3%). Unfortunately, while deferring capital investment may temporarily boost budgetary balances, it raises concern that these costs may arise in the future. And, while capital investment (1.2%) made a tepid comeback in the last two years, the pace of overall health spending in the province slowed further, growing by only 1.1% per year on average.

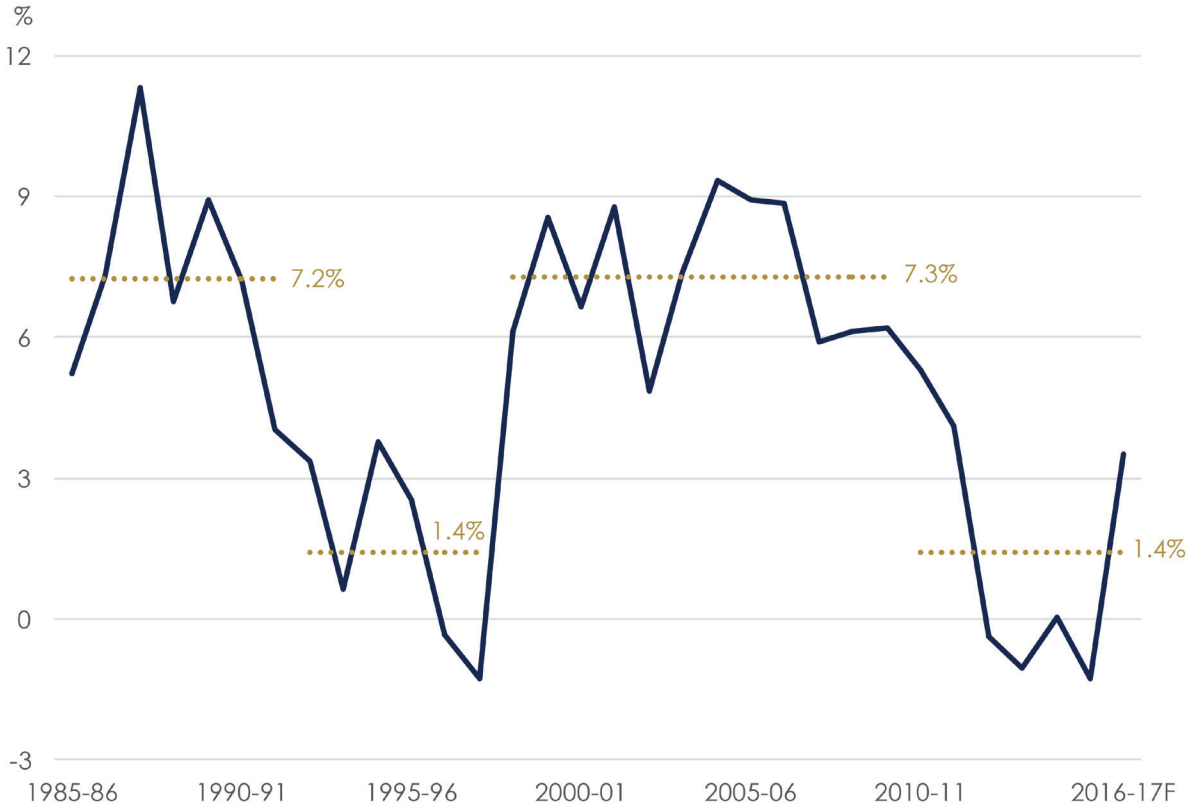
- In 2015, the Council of the Federation called on the federal government to commit to maintaining a 25% participation in provincial health care expenditures (excluding transfers from the equalization program). In order to meet this request, the provinces and territories asked the federal government to commit to grow the Canadian Health Transfer (CHT) by 5.2% annually. Instead, the Government of Canada decided to move forward with an increase in the CHT tied to the pace of nominal GDP growth. An additional commitment of $11.5 billion over ten years was made for federal health priorities, namely mental health and home care, although much of this is back-end loaded to the end of the 5-year budget planning horizon. To date, all provinces have agreed to this offer, with the exception of Manitoba.

- As a result of this agreement, the federal share of national health spending will rise in the next few years as fiscal restraint among provinces and territories continues. This is particularly true in New Brunswick. However, as the underlying cost pressures keep rising due to the macroeconomic cost drivers, the Institute of Fiscal Studies and Democracy is forecasting a gradual decline in the federal share of health spending. Indeed, by 2026, the federal share will have fallen below its current level. And if health spending restraint is relaxed, the federal share will fall even further.

- **In summary, while additional federal funds dedicated to home care and mental health will provide modest support to provincial finances, this agreement is neither sufficient nor transformative in helping the provinces to meet the health care needs of their citizens. And given the back-end loaded nature of additional health funding, the larger concern is that health care reforms have been largely punted to beyond the 2019 election.**

In its recent publication, 'CHT Conundrum: Ontario Case Study', the Institute of Fiscal Studies and Democracy (IFSD) outlined an approach to examining historical health care spending while projecting the drivers of health care costs over the coming 20 years.[1] Summarizing the historical results for New Brunswick here, health care spending growth in Canada can be divided into four distinct periods: 1985–1991, 1992–1997, 1998–2009, and 2010–2016 (see Chart 1). These time periods are important as they overlap with distinct periods of higher economic growth and federal transfers to the provinces in the case of the 1985–1991 and 1998–2009 periods, and the opposite circumstance in the case of the 1992–1997 and 2010–2016 periods.

## Chart 1: Annual Growth in Total Health Expenditures in New Brunswick



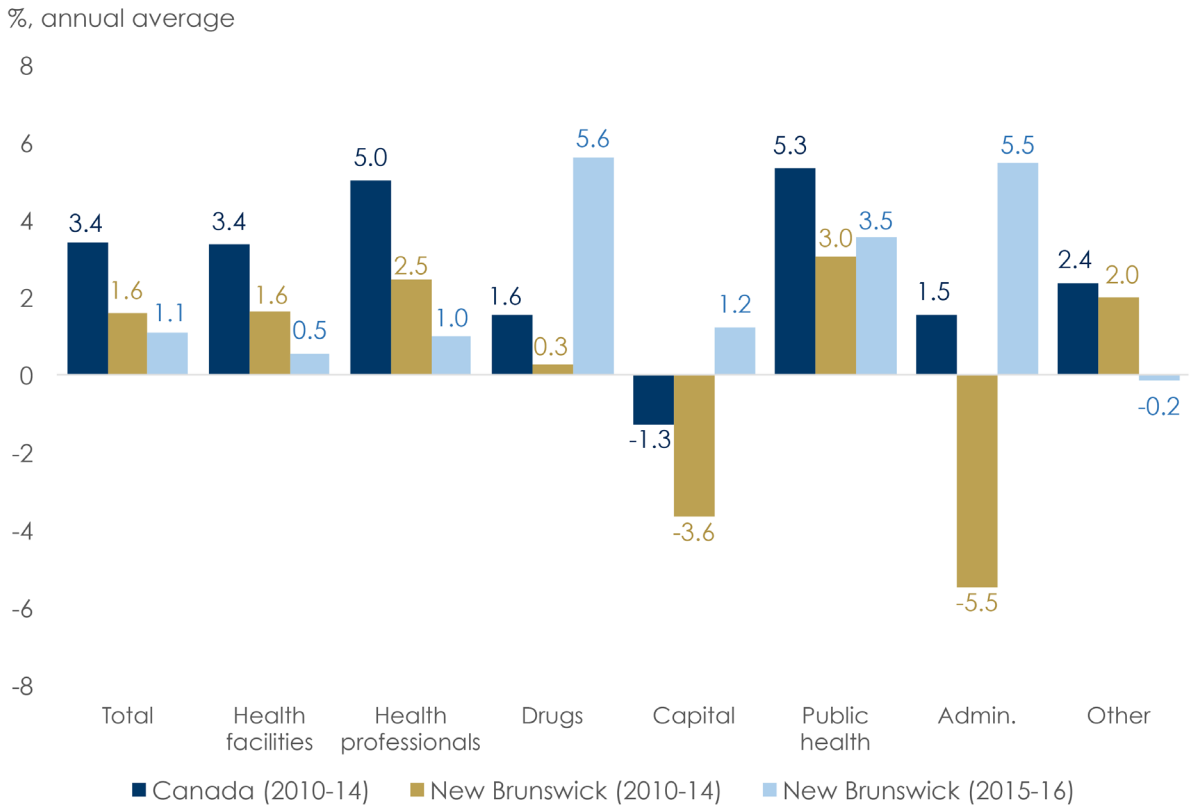

Source: Canadian Institute for Health Information, Institute of Fiscal Studies and Democracy.
Note: Years refer to fiscal years. Numbers include both public and private health expenditures. Period ends in fiscal 2016–17.

While each of these periods was characterized by very different economic and fiscal circumstances, they were also reflective of different underlying health care cost drivers in New Brunswick. For instance, the higher expenditure growth years of the 1980s were the result of significant increases in spending across the board, with the average growth in other health spending (23.4%), drugs (11.2%), and health professionals (8.0%) topping the list. Then, in the more austere years of the 1990s, health care expenditures averaged a more modest 1.4% annually, as expenditures on capital (-5.3%) and drugs (-1.7%) contracted. Other areas of health spending remained positive over this period but the majority of them advanced at a much slower pace than was previously the case. Fast forward to the balanced federal budgets and solid economic growth of the late-1990s and early-2000s, and spending resumed anew. This time, the advance was led by other health spending (10.6%), complemented by notable gains in expenditures on drugs (10.0%) and public health (7.4%), although all sectors saw spending accelerate.

[1] See 'CHT and the Federation: Past, Present, and Future' for references.

Then the 2008–09 recession hit, and own-source revenue growth in New Brunswick turned negative. With revenues hobbled by weak economic activity, the provincial government needed to find savings. And, indeed, it did. From 2010 through 2014, average total health care expenditure growth in New Brunswick was constrained to 1.6% annually—below the national average of 3.4% and around one-fifth of the previous decade's pace (see Chart 2). Much of the savings were found in reducing spending on administration (-5.5%) and investment in capital (-3.6%), the latter raising concern that capital investment is being deferred to a later date. More recently, health spending in New Brunswick decelerated further, with average annual growth hitting 1.1% between in 2015 and 2016. This was supported by further restraint in most categories, with the exception of spending on drugs (5.6%) and administrative costs (5.5%). Capital investment also made a tepid comeback (1.2%). Importantly, these aggregate savings took place at a time when the Canada Health Transfer (CHT)—the federal government's dedicated funding for health care—was increasing at an annual rate of 6%, meaning the CHT share of New Brunswick's health spending rose over this period.

## Chart 2: Growth in Health Spending by Category (2010 to 2014)



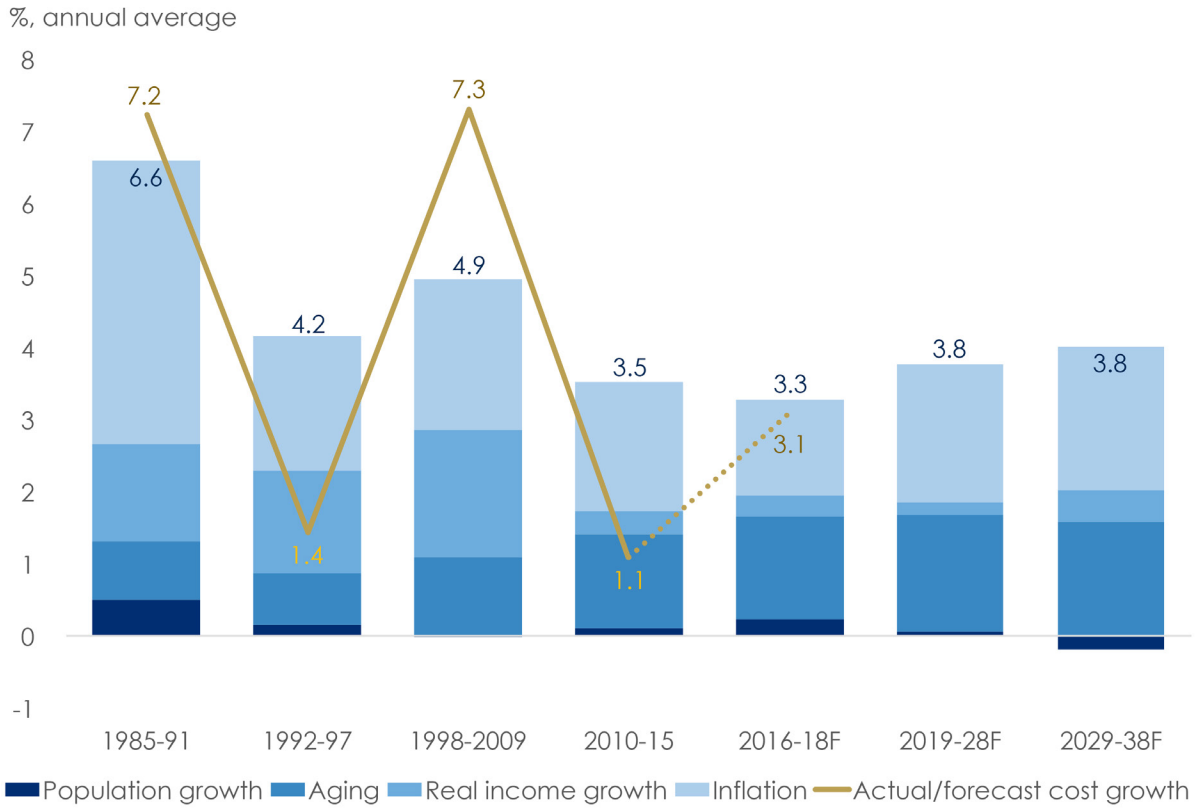

Source: Canadian Institute for Health Information, Institute of Fiscal Studies and Democracy.
Note: Years refer to fiscal years. Health facilities include hospitals and other institutions. Health professionals include physicians and other professionals. National health data by spending category is only available through the 2014–15 fiscal year. Numbers include both public and private health expenditures. "Other health spending" includes expenditures on home care, medical transportation (ambulances), hearing aids, other appliances and prostheses, health research and miscellaneous health care.

Looking ahead to the next few years, growth in health care costs in New Brunswick is expected to accelerate relative to the 1.1% annual average observed from 2010 through 2015, to 3.1%. This is only slightly less than the 3.3% notional cost growth suggested by the macroeconomic drivers of health care costs—population growth, aging, real income growth, and inflation (see Chart 3).[2] It is also consistent with the average annual growth in macroeconomic fundamentals that the province experienced over from 2010 through 2015. Beyond 2018, cost pressures are expected to advance at an annual pace of nearly 3.8% for the subsequent

[2] Similar to the recent work of the Financial Accountability Officer (2017) based on analysis by the Organisation for Economic Co-operation and Development (OECD, 2013), a real income elasticity of health care expenditures of 0.8 was used in this analysis.

20 years. This is primarily the result of the significant aging of the New Brunswick population and in spite of an anticipated net decline of the population by the end of this period (see Table 1).

## Chart 3: Growth in Actual versus Notional Health Care Costs




Source: Canadian Institute for Health Information, New Brunswick Department of Finance, Statistics Canada, IFSD.
Note: The IFSD estimates and forecasts assume no enrichment. Years refer to fiscal years. Numbers include both public and private health expenditures.

**Table 1: Actual versus Notional Health Care Spending Growth in New Brunswick**

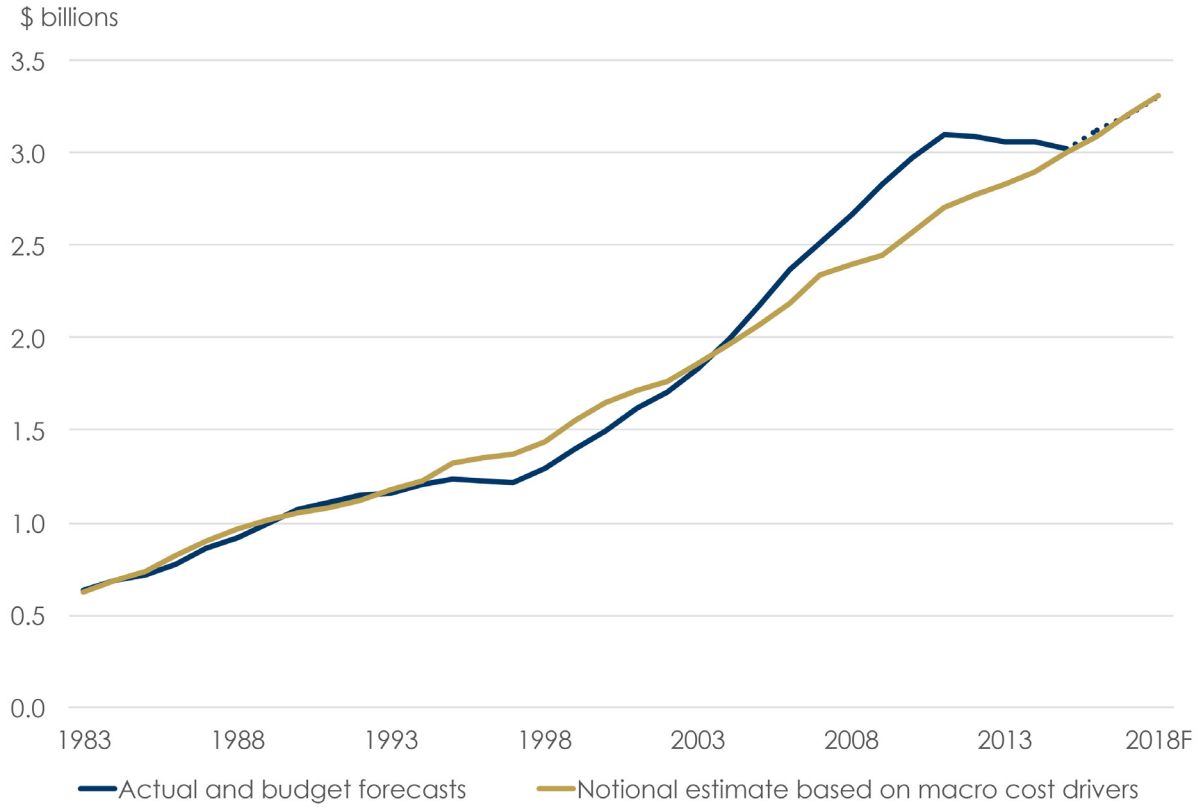
| %, annual average | Actual/Budget | Enrichment* | Notional | Population | Aging | Real Income | Inflation |
|---|---|---|---|---|---|---|---|
| **1985–1991** | **7.2** | **0.7** | **6.6** | 0.5 | 0.8 | 1.3 | 3.9 |
| **1992–1997** | **1.4** | **-2.7** | **4.2** | 0.2 | 0.7 | 1.4 | 1.9 |
| **1998–2009** | **7.3** | **2.4** | **4.9** | 0.0 | 1.1 | 1.8 | 2.1 |
| **2010–2015** | **1.1** | **-2.4** | **3.5** | 0.1 | 1.3 | 0.3 | 1.8 |
| **2016–2018** | **3.1** | **-0.2** | **3.3** | 0.2 | 1.4 | 0.3 | 1.3 |
| **2019–2028** | | | **3.8** | 0.1 | 1.6 | 0.2 | 1.9 |
| **2029–2038** | | | **3.8** | -0.2 | 1.6 | 0.4 | 2.0 |

Source: Canadian Institute for Health Information, New Brunswick Department of Finance, Statistics Canada, Institute of Fiscal Studies and Democracy.
Note: Growth forecasts for health spending, real GDP, and GDP inflation are taken from the most recent budget documents for the period 2016 to 2018. Population projections are from the M1 (medium) scenario from Statistics Canada. Numbers include both public and private health expenditures.
*Enrichment is equal to actual less notional health spending growth.

In a historical context, starting in 2004, health spending has been higher than that suggested by the underlying macroeconomic cost drivers (see Chart 4). However, this has changed dramatically in recent years, with aggressive cost containment having brought health care costs in line with the macroeconomic fundamentals. As a result, health spending is anticipated to remain on a sustainable track over the next few years. New Brunswick has also become the province with the fourth lowest per capita health care cost in Canada, according to the Canadian Institute for Health Information

(CIHI), behind only the much larger and more urban provinces of Quebec, Ontario, and British Columbia. And despite a middling grade from the Conference Board of Canada on the health status of New Brunswick's citizens, it outperforms higher cost jurisdictions such as Manitoba, Nova Scotia, Saskatchewan, and the territories (see Table 2). Moreover, a broad collection of health care indicators compiled by CIHI suggest that the performance of New Brunswick's health care system is superior to most other provinces.

## Chart 4: Actual/Forecast Health Spending versus Notional Costs




Source: Canadian Institute for Health Information, New Brunswick Department of Finance, Statistics Canada, IFSD.
Note: The IFSD estimates and forecasts assume no enrichment. Years refer to fiscal years. The notional estimate is indexed to the 1981 level of total health care expenditures, as estimated by CIHI. Numbers include both public and private health expenditures.

**Table 2: Relative Ranking of Population Health Status, Health Care System Performance, and Per Capita Cost**

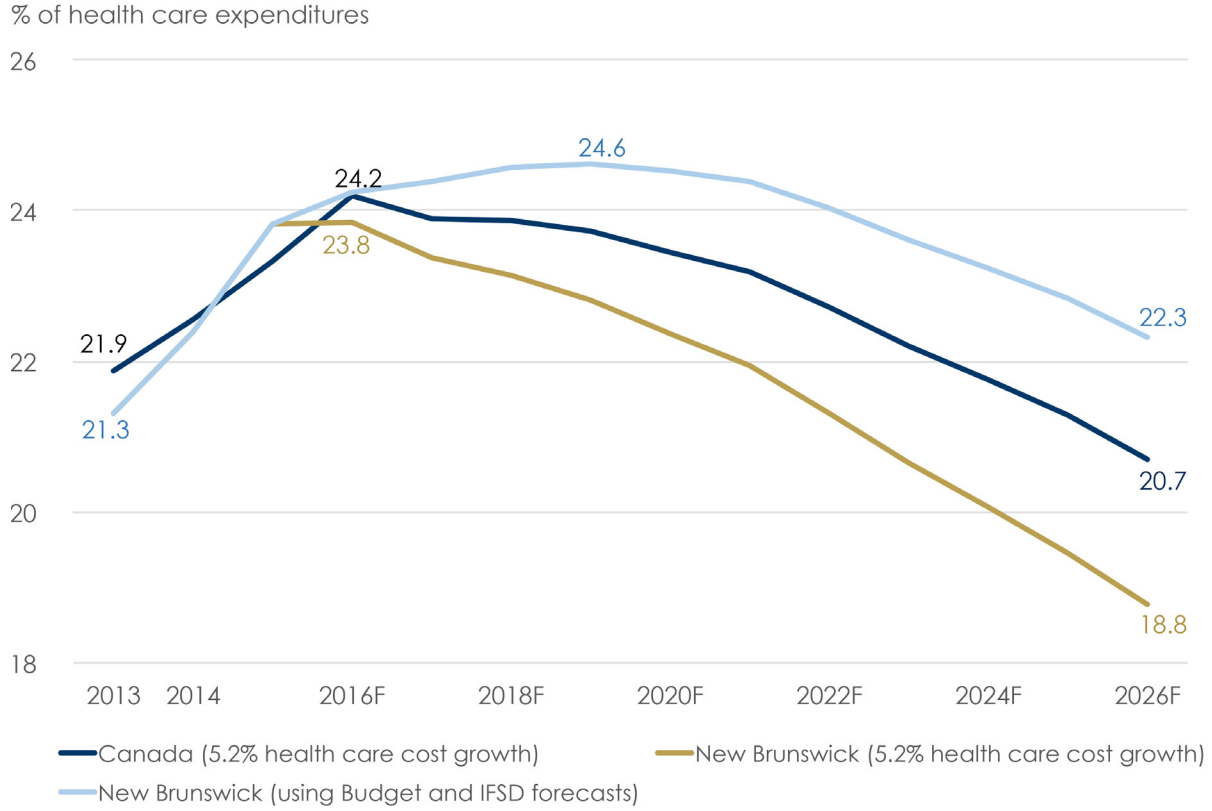
| Ranking | Health Status (Conference Board) | Health Care System Performance (CIHI/IFSD) | Per Capita Cost (CIHI) |
|---|---|---|---|
| 1 | British Columbia | Ontario | Quebec |
| 2 | Ontario | Quebec | Ontario |
| 3 | Quebec | **New Brunswick** | British Columbia |
| 4 | Prince Edward Island | Prince Edward Island | **New Brunswick** |
| 5 | Alberta | Alberta | Nova Scotia |
| 6 | **New Brunswick** | British Columbia | Prince Edward Island |
| 7 | Nova Scotia | Newfoundland & Labrador | Manitoba |
| 8 | Manitoba | Manitoba | Saskatchewan |
| 9 | Saskatchewan | Nova Scotia | Alberta |
| 10 | Newfoundland & Labrador | Saskatchewan | Newfoundland & Labrador |
| 11 | Yukon | Yukon | Yukon |

| Table 2: Relative Ranking of Population Health Status, Health Care System Performance, and Per Capita Cost | | | |
|---|---|---|---|
| **12** | Northwest Territories | Nunavut | Northwest Territories |
| **13** | Nunavut | Northwest Territories | Nunavut |

Source: Conference Board of Canada, Canadian Institute for Health Information (CIHI), Institute of Fiscal Studies and Democracy (IFSD).
Note: Ranking calculations of health care system performance using CIHI data were done by the IFSD, by assigning values to above average (1), average (0), or below average (-1) performance for 15 indicators and then ranking the totals. Per capita cost ranking is from lowest to highest using CIHI data from 2014.

This analysis must now be put in the context of the recent health care funding negotiation between the federal government and provincial-territorial (P-T) governments. The IFSD has found that the Province of New Brunswick will win in the short run but lose in the long run as a result of having signed on to the health funding offer proposed by the federal government (see Chart 5). In December 2016, P-T governments were unanimous in their resolve to see the CHT advance at an annual pace of 5.2%, which they projected to be the average annual growth rate in national health care costs over the coming decade. Instead, the federal government's proposal, which was later confirmed in Budget 2017, would see federal health funding (the CHT plus new supplementary measures) increase at an average annual pace of 3.6%, well below that desired by P-T governments. As a result, the federal government's contribution to national health care expenditures is expected to fall to just over 20% by 2026. Given New Brunswick's roughly average per capita cost of health care spending, the CHT makes up an average share of health care expenditures compared to most other provinces. However, if New Brunswick's health care costs were to advance by 5.2% annually, the CHT share of New Brunswick's health spending would follow a pattern similar to that observed at the national level over the next decade.

## Chart 5: CHT Share of Health Care Costs for Canada and New Brunswick




Source: Canadian Institute for Health Information, New Brunswick Department of Finance, Statistics Canada, IFSD.
Note: Years refer to fiscal years. Numbers include both public and private health expenditures.

But the story changes when one takes into account official health care spending forecasts from the Government of New Brunswick and the IFSD's projections of the macroeconomic drivers of health care costs starting in 2019. With growth in the CHT expected to be in line with spending growth in New Brunswick through 2019, federal funding will assume a broadly stable portion of health care expenditures (see Table 3). Then, starting in 2020, the CHT share of health spending will begin to decline, ultimately reaching a level in 2026 below its 2015 share. And if the CHT were assumed to advance at a similar pace thereafter, the federal share of New Brunswick's health spending would likely continue to decline.

**Table 3: Federal Funding for Health Care in New Brunswick**

| $ billions | Federal Health Funding* | Canada Health Transfer | New Supplementary Measures | Amount Received by Province | Projected Provincial Health Costs | Federal Share of Health Costs (%) |
|---|---|---|---|---|---|---|
| 2013 | 30.3 | 30.3 | | 0.7 | 3.1 | 21.3% |
| 2014 | 32.1 | 32.1 | | 0.7 | 3.1 | 22.4% |
| 2015 | 34.0 | 34.0 | | 0.7 | 3.0 | 23.8% |
| 2016 | 36.1 | 36.1 | 0.0 | 0.8 | 3.1 | 24.2% |
| 2017 | 37.5 | 37.1 | 0.4 | 0.8 | 3.2 | 24.4% |
| 2018 | 39.4 | 38.4 | 1.0 | 0.8 | 3.3 | 24.6% |
| 2019 | 41.2 | 39.9 | 1.3 | 0.8 | 3.4 | 24.6% |
| 2020 | 42.9 | 41.4 | 1.5 | 0.9 | 3.5 | 24.6% |
| 2021 | 44.6 | 42.9 | 1.7 | 0.9 | 3.7 | 24.4% |
| 2022 | 45.9 | 44.4 | 1.5 | 0.9 | 3.8 | 24.0% |
| 2023 | 47.2 | 46.0 | 1.3 | 0.9 | 4.0 | 23.6% |
| 2024 | 48.7 | 47.6 | 1.1 | 1.0 | 4.1 | 23.2% |
| 2025 | 50.1 | 49.2 | 0.9 | 1.0 | 4.3 | 22.8% |
| 2026 | 51.2 | 50.9 | 0.3 | 1.0 | 4.4 | 22.3% |

Source: CIHI, New Brunswick Department of Finance, Statistics Canada, Institute of Fiscal Studies and Democracy.
Note: Growth forecasts for health spending, real GDP, and GDP inflation are taken from the most recent budget documents for the period 2016 to 2018. The federal health funding forecast from fiscal 2016–17 through 2021–22 is from Budget 2017. Numbers include both public and private health expenditures.
*Federal health funding includes the CHT and modest new supplementary measures from Budget 2017.

## Conclusion

The New Brunswick health care system is no stranger to restraint, and it remains one of the few jurisdictions to have brought its health spending in line with the notional health costs estimated from macro drivers. At the same time, the quality and availability of health services in New Brunswick are considered "middle-of-the-pack" relative to other provinces and territories. For a comparatively small jurisdiction with a rapidly aging population, this is all good news. It is also a positive development that capital investments have recently regained some momentum. These continued savings also mean that the CHT will make up an increasingly large share of New Brunswick's health spending over the next few years. But this won't last long, as the macroeconomic health care cost drivers are expected to be higher than the growth rate in the CHT over the coming decade. Consequently, the federal contribution to health spending will fall through 2026, forcing New Brunswick to disproportionately bear the burden of the additional health care costs beyond the increases in federal health transfers. Indeed, much of the new federal funding in addition to the CHT is back-loaded to the end of the 5-year forecast horizon, beyond the 2019 federal election. This leads the IFSD to conclude that the Government of New Brunswick should have rejected the federal government's recent offer on health funding and held out for a better deal.