



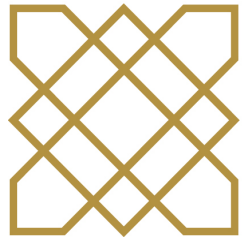
CHT and the Federation

Past, Present, and Future

Randall Bartlett, CFA
Chief Economist

Overview

- Recent Canada Health Transfer (CHT) negotiations and resulting health accord
- The future of health care costs in Canada
- What the recent health agreement means over the next 10-plus years and why it is inadequate to meet the future health needs of Canadians

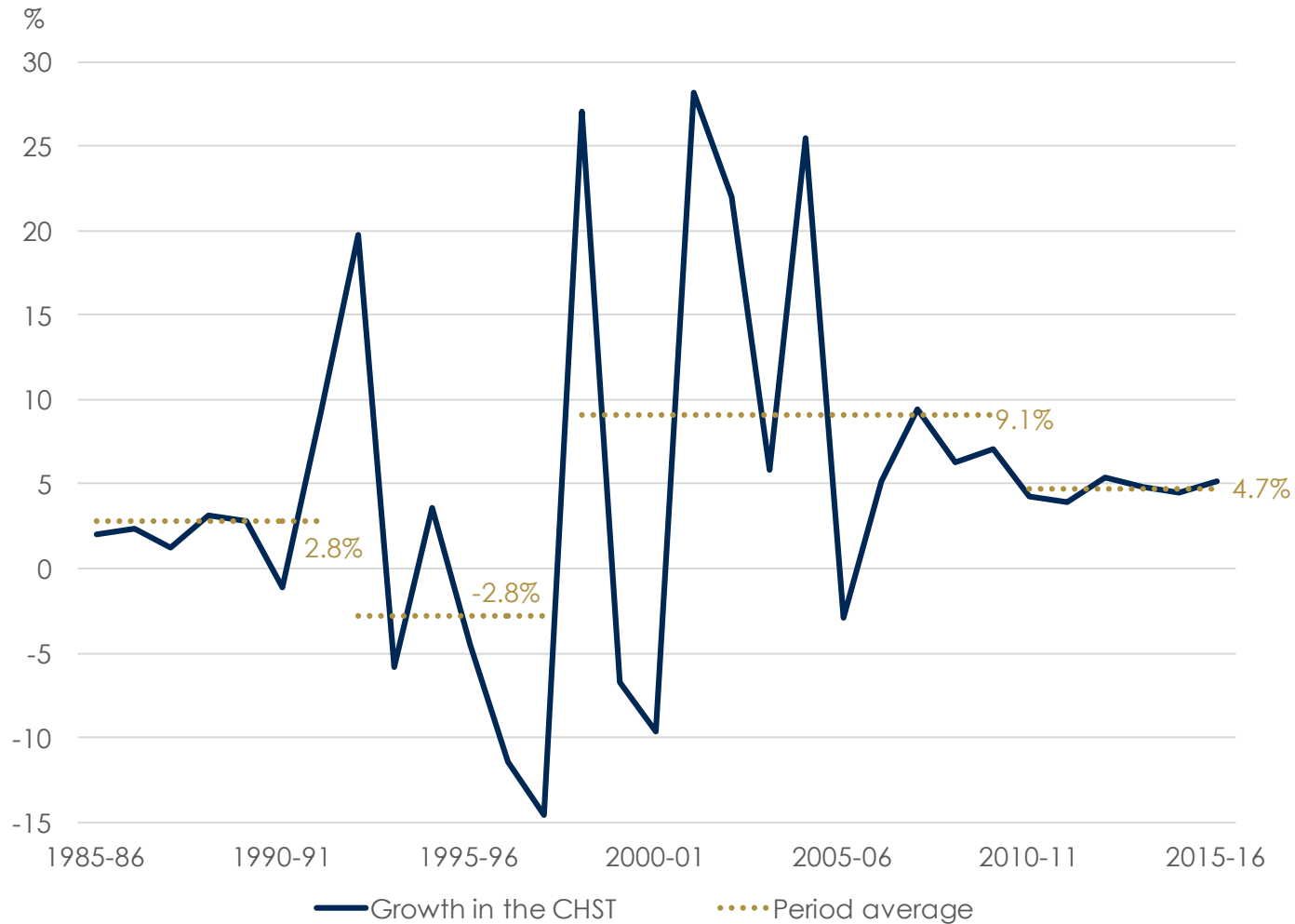


Recent CHT Negotiations

A brief history of the CHT

- Fiscal 1996-97 – federal government creates Canada Health and Social Transfer (CHST)
- Fiscal 2004-05 – federal government separates the CHT and CST
- Fiscal 2006-07 to 2016-17 – CHT increases by 6% annually
- Fiscal 2014-15 – CHT transfer formula changes to per capita allocation

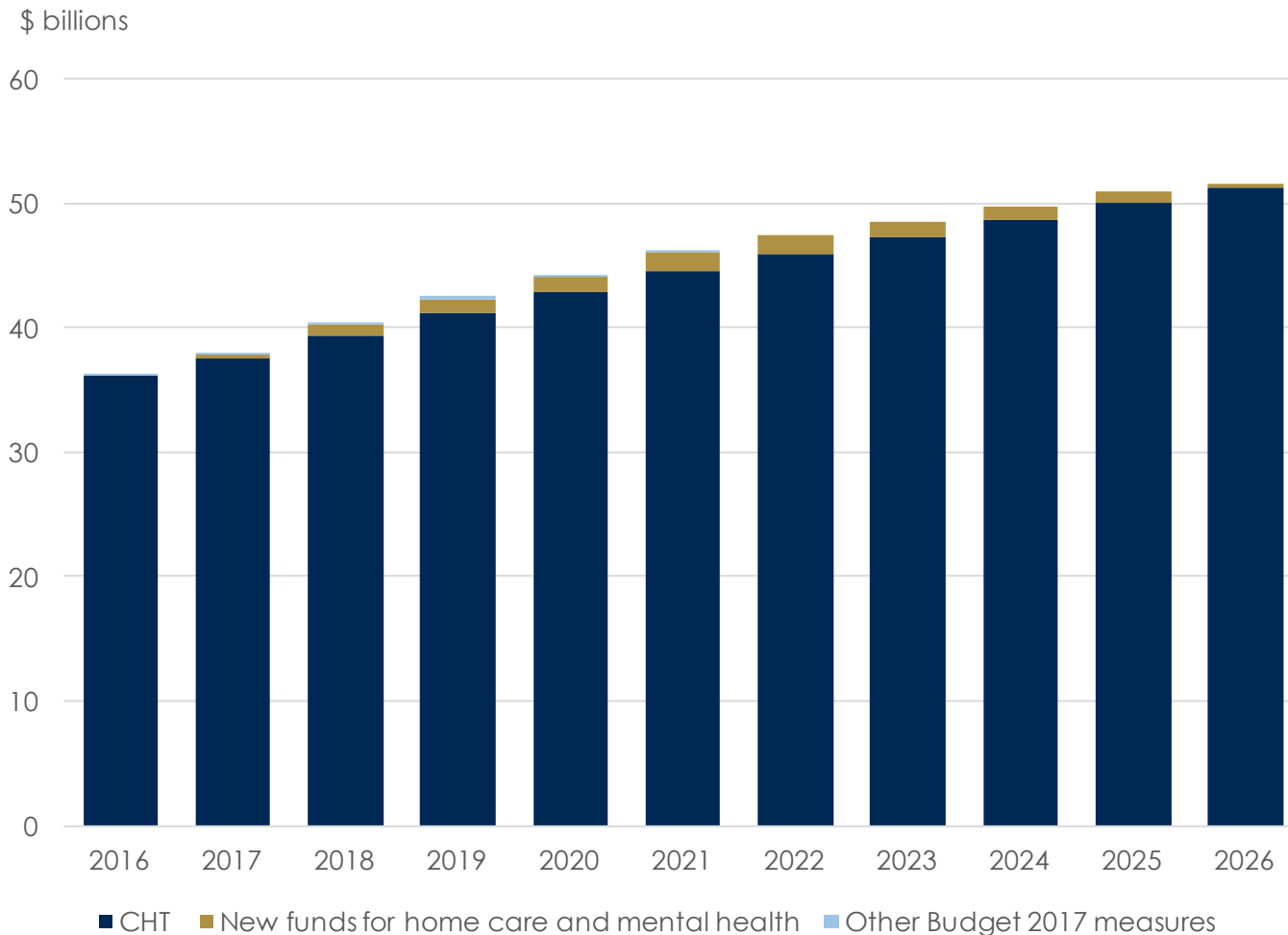
Growth in the CHST



Recent CHT negotiations

- Federal government offers CHT escalator of 3-year moving average of nominal GDP growth or 3%
 - Same offer made by the prior administration
- Feds sweetened the deal with an additional \$11.5 billion over 10 years for home care and mental health
 - These were 2015 election commitments
 - Most of this funding is back-loaded to beyond the 2019 federal election

Federal Health Funding Forecast



Source: Finance Canada, Council of the Federation, Conference Board of Canada, Institute of Fiscal Studies and Democracy.

Note: Years refer to fiscal years. Numbers include both public and private health expenditures. The federal health funding forecast is comprised of the federal Budget 2017 forecast through the 2021-22 fiscal year, and IFSD forecasts thereafter.

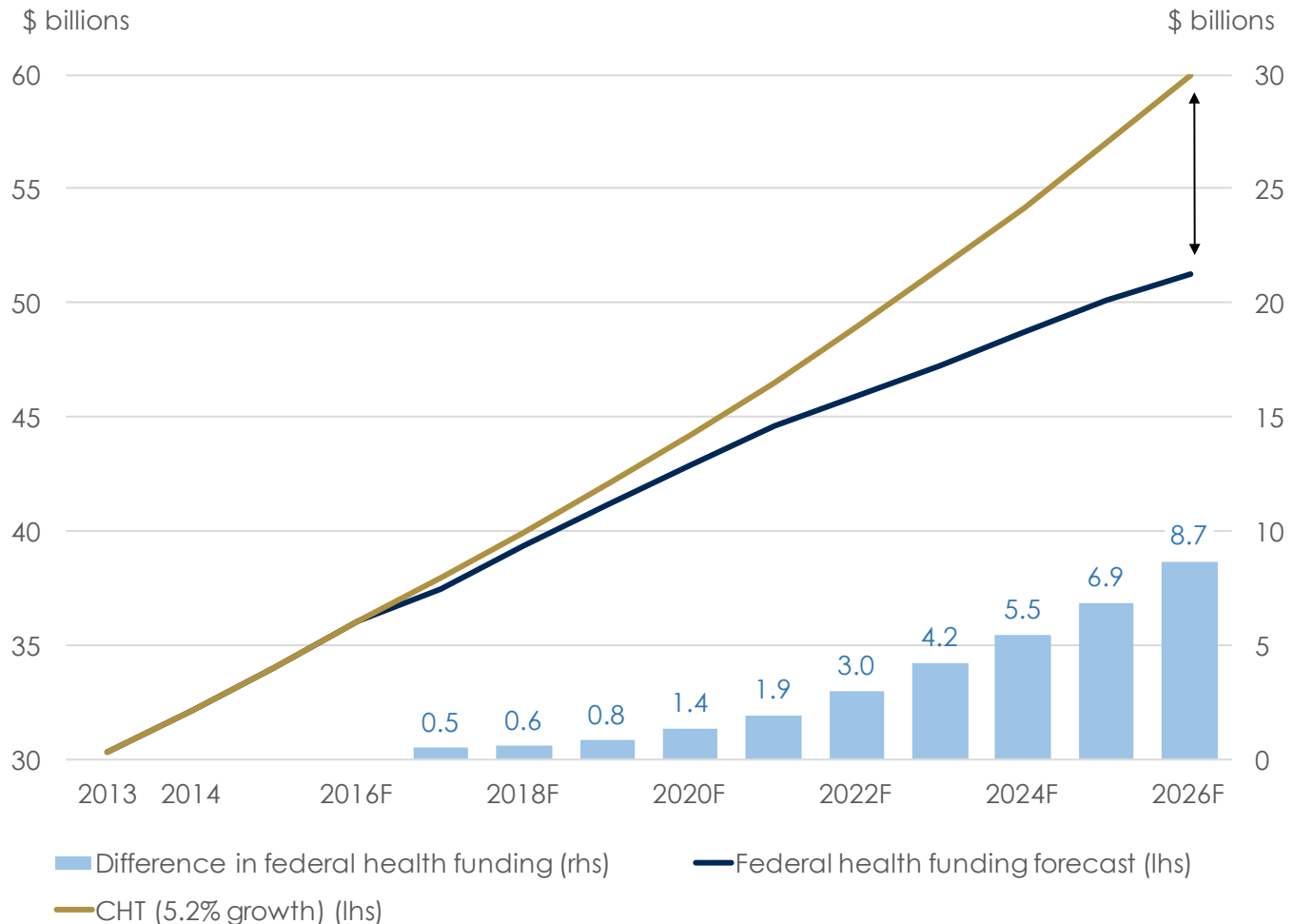
Provinces and territories united

- Initially, all provinces and territories rejected the federal government's offer
- P-T governments asked for the CHT to increase by 5.2% annually
 - Conference Board of Canada health cost projections
- They also asked that the federal government commit to a 25% share of national health care funding

Provincial-territorial resolve fades

- Then, one by one, they entered into bilateral agreements with the feds
 - Manitoba is the only exception
- P-T governments complained but inked the deal nonetheless
- By signing these agreements, P-T governments will receive billions of dollars less in health funding than they asked for
- P-T governments were left little choice

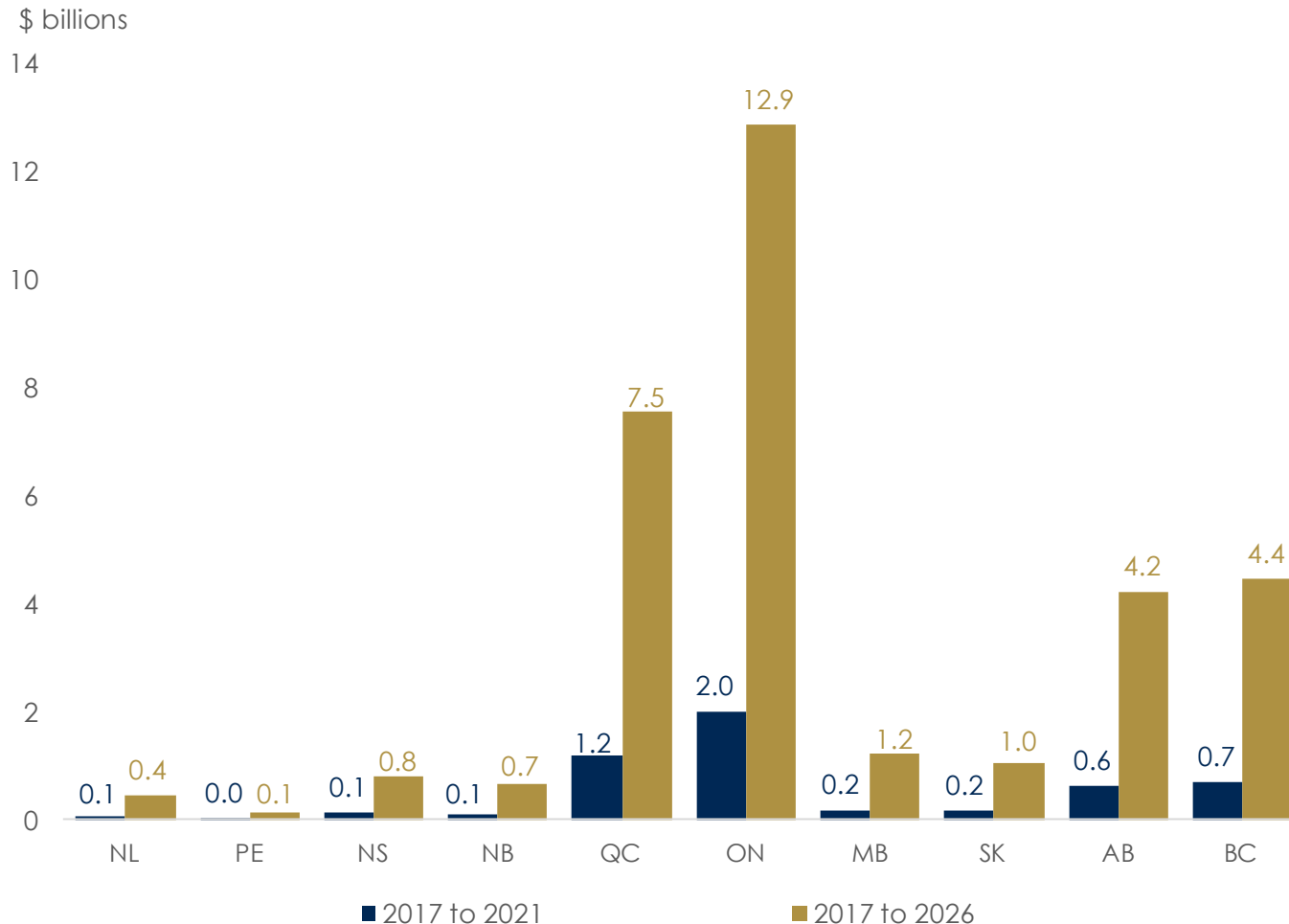
Federal Health Funding Forecast



Source: Finance Canada, Council of the Federation, Conference Board of Canada, Institute of Fiscal Studies and Democracy.

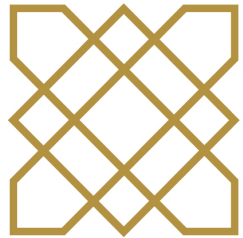
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Federal Health Funding Gap



Source: Canadian Institute for Health Information, Institute of Fiscal Studies and Democracy, official budgetary estimates and forecasts.

Note: The national forecast assumes health expenditures in the territories grow at a pace 3% faster than the total of the ten provinces, in line with the historical average. Years refer to fiscal years.

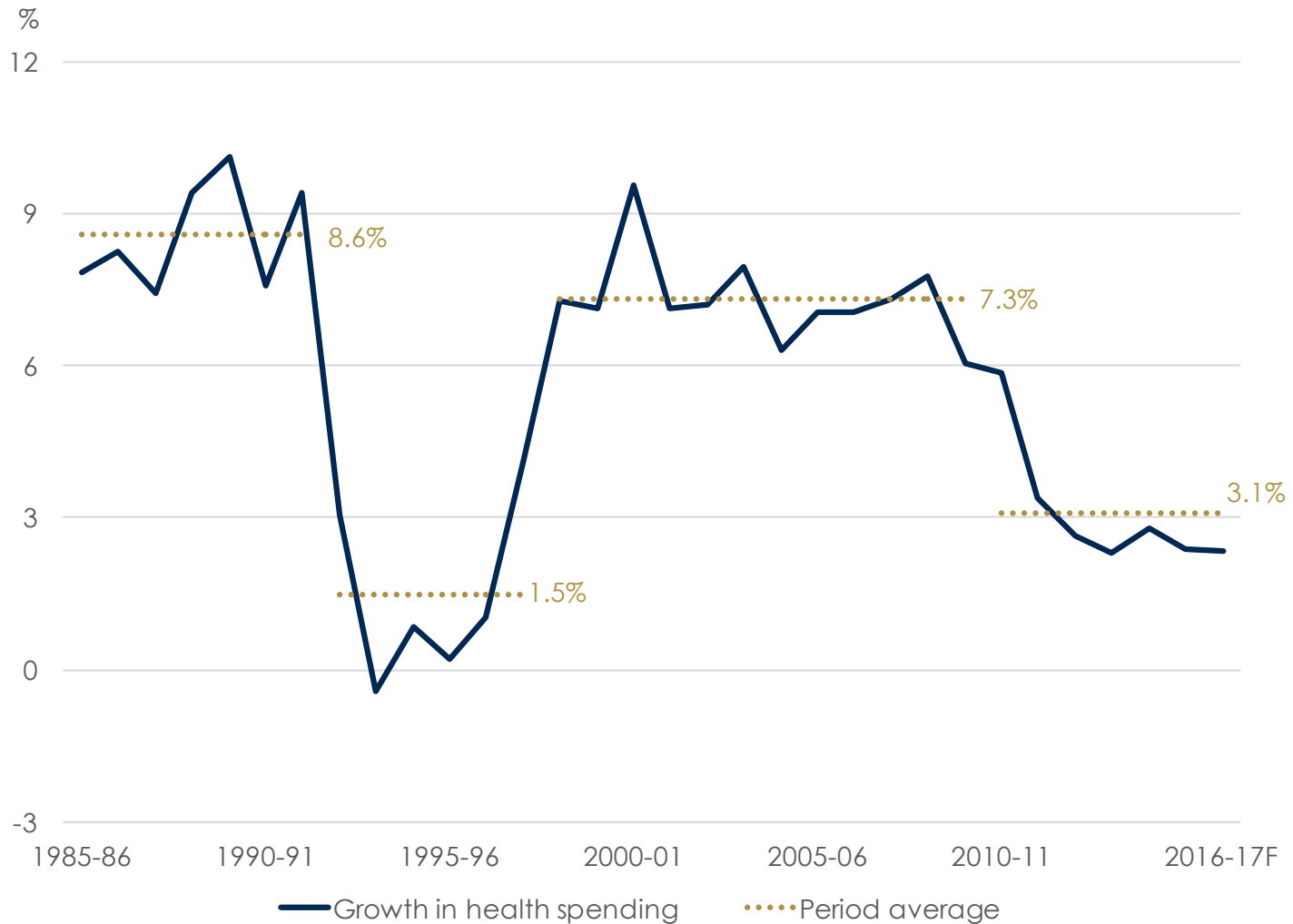


Health Care Costs in Canada

Health Care Costs in Canada

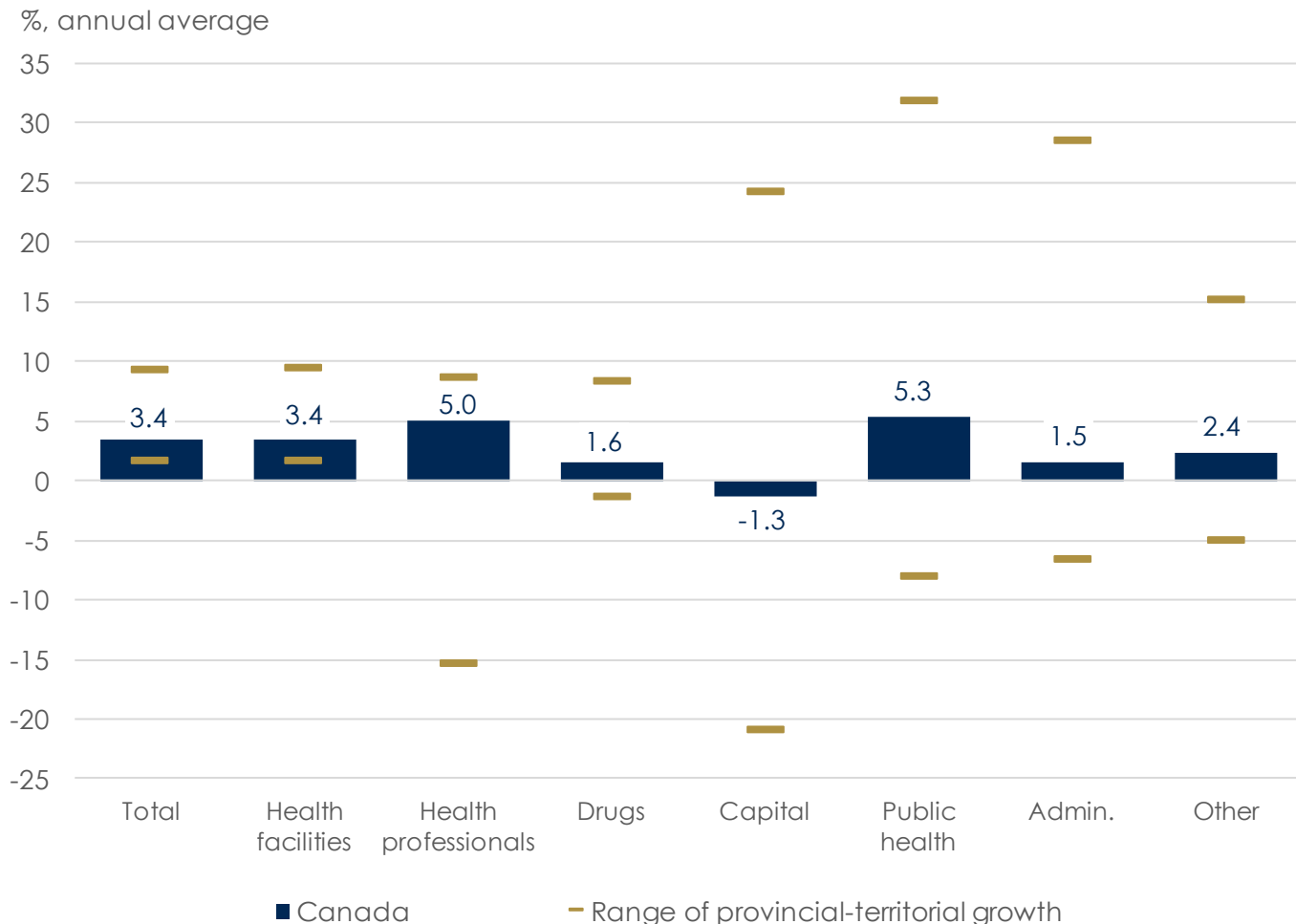
- Growth in health spending has ebbed and flowed along with federal funding and economic activity
- Recent restraint is broad-based but partly supported by lower capital investment
- In the next few years, restraint will continue
- Beyond 2019, underlying cost pressures (e.g. aging) will push health spending higher and beyond the growth in the CHT

Health Spending Growth in Canada



Source: Canadian Institute for Health Information, Institute of Fiscal Studies and Democracy.

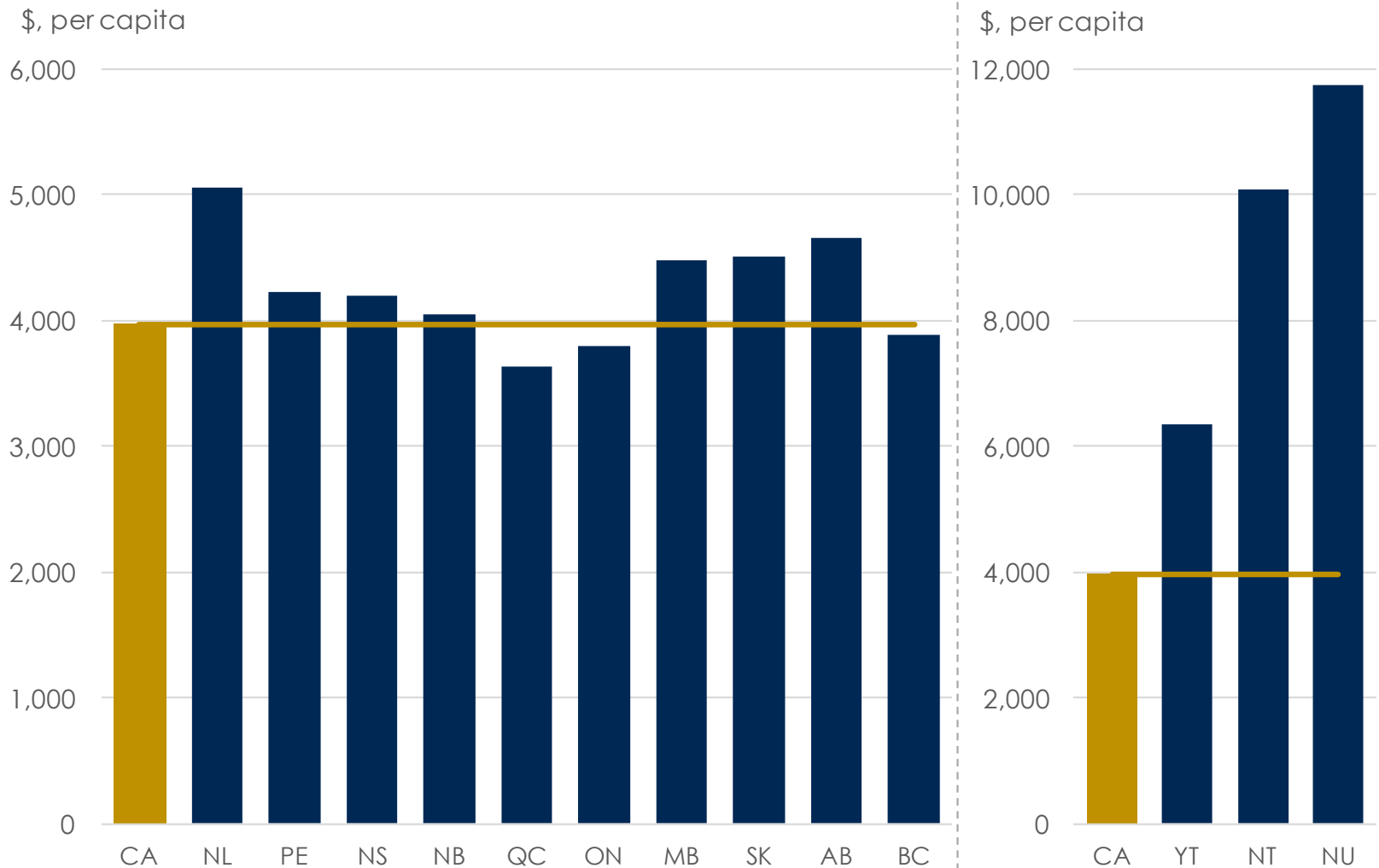
Health Spending Growth (2010-14)



Source: Canadian Institute for Health Information, Institute of Fiscal Studies and Democracy.

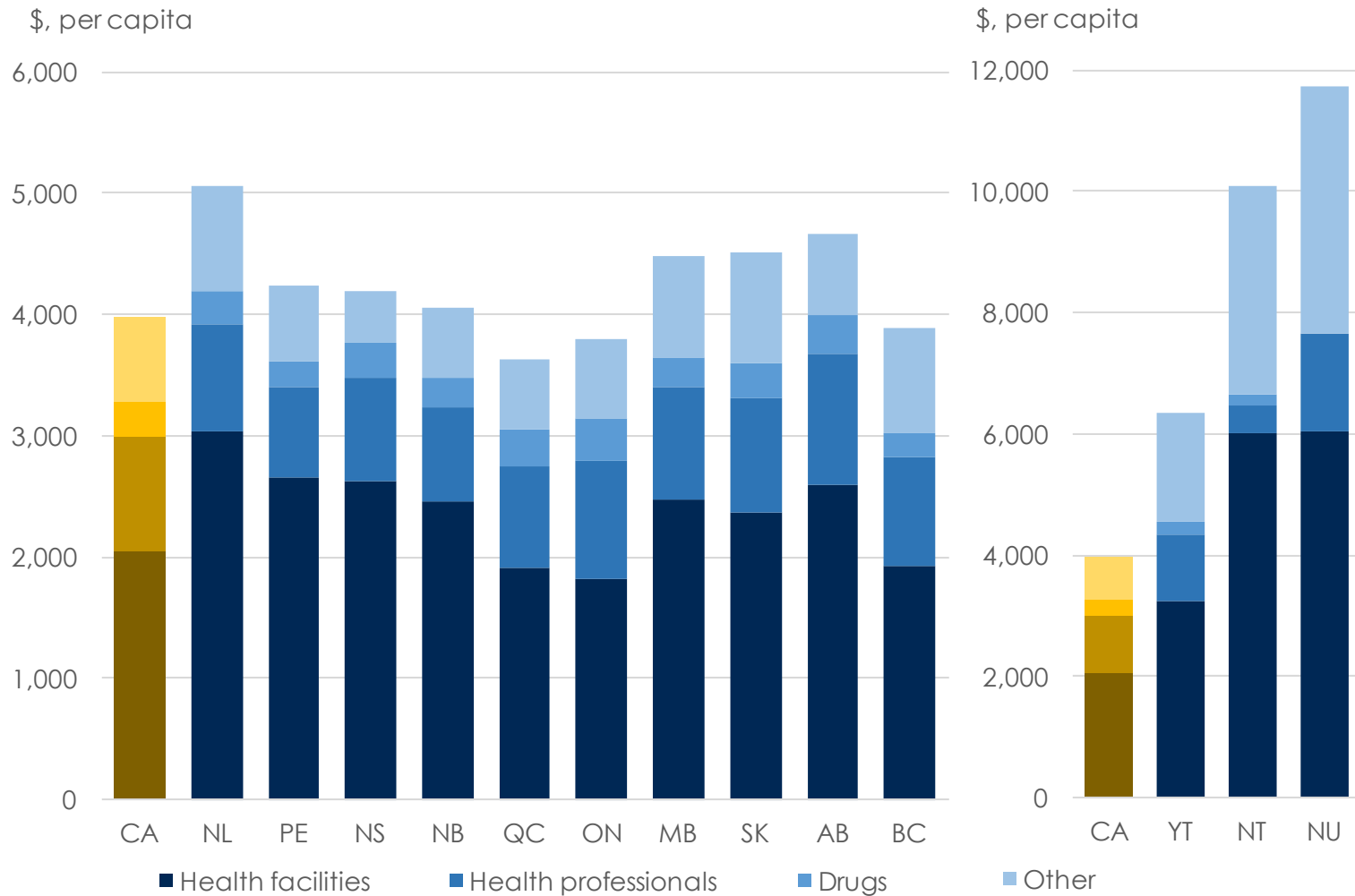
Note: Years refer to fiscal years. Health facilities include hospitals and other institutions. Health professionals include physicians and other professionals. 'Other health spending' includes expenditures on home care, medical transportation (ambulances), hearing aids, other appliances and prostheses, health research and miscellaneous health care.

Per Capita Health Spending



Source: Canadian Institute for Health Information.
Note: 2014 data.

Per Capita Health Spending



Source: Canadian Institute for Health Information.

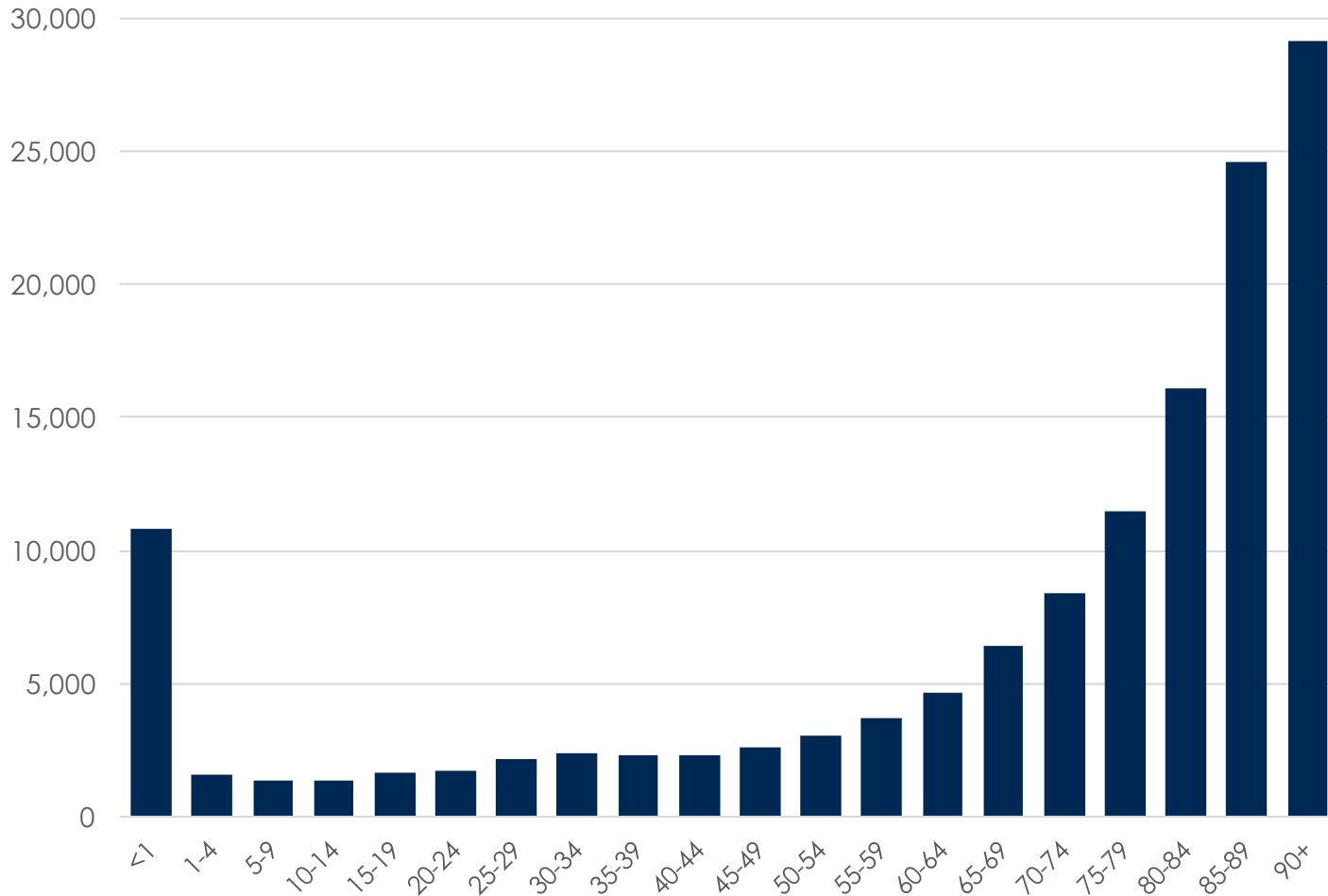
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Determinants of Health Costs

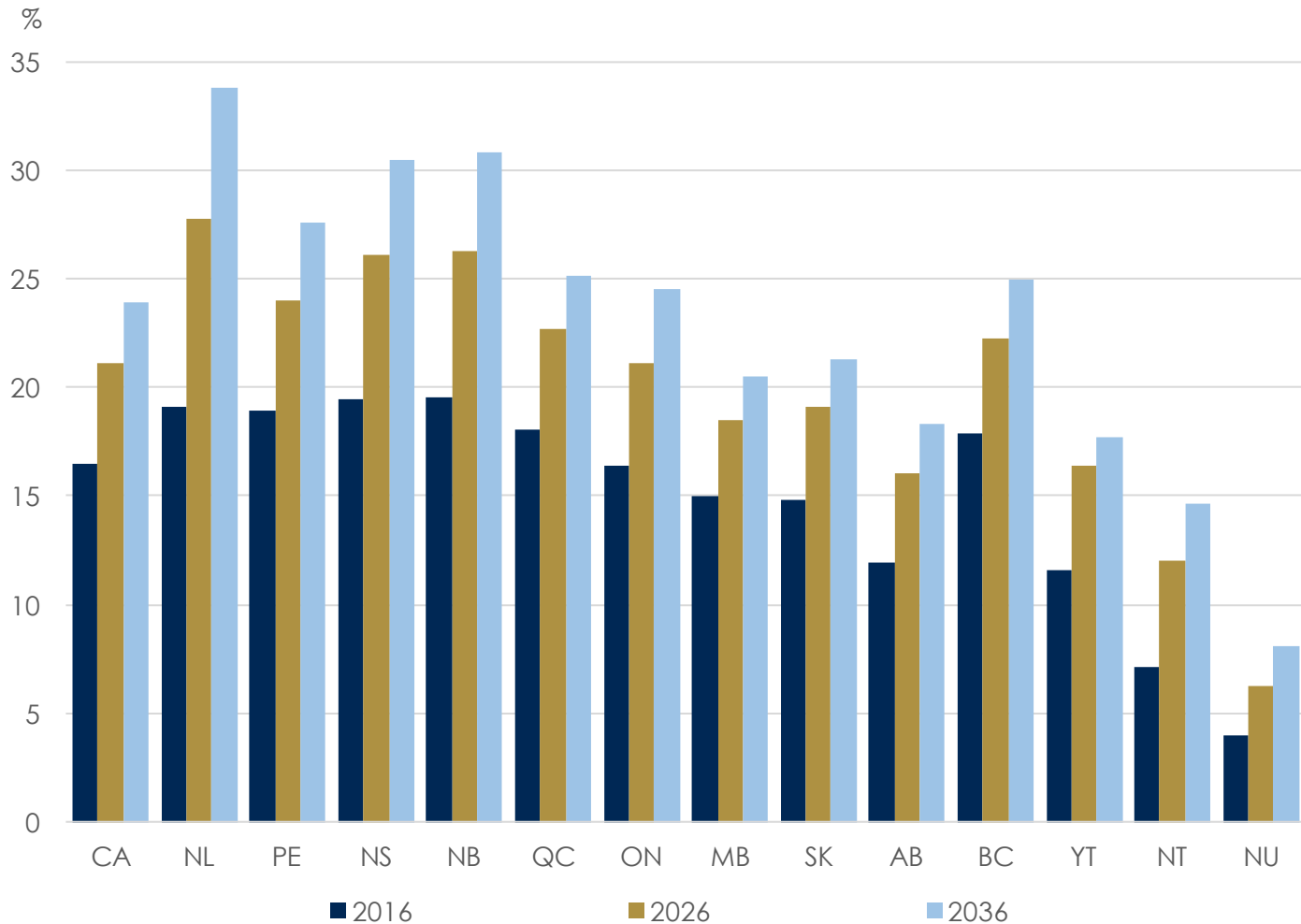
- Factors affecting health care cost growth, which will lead to greater health spending beyond the budget forecast horizon:
 - Aging
 - Population growth
 - Real income growth
 - Inflation
 - Enrichment

Per Capita Spending by Age

\$, per capita

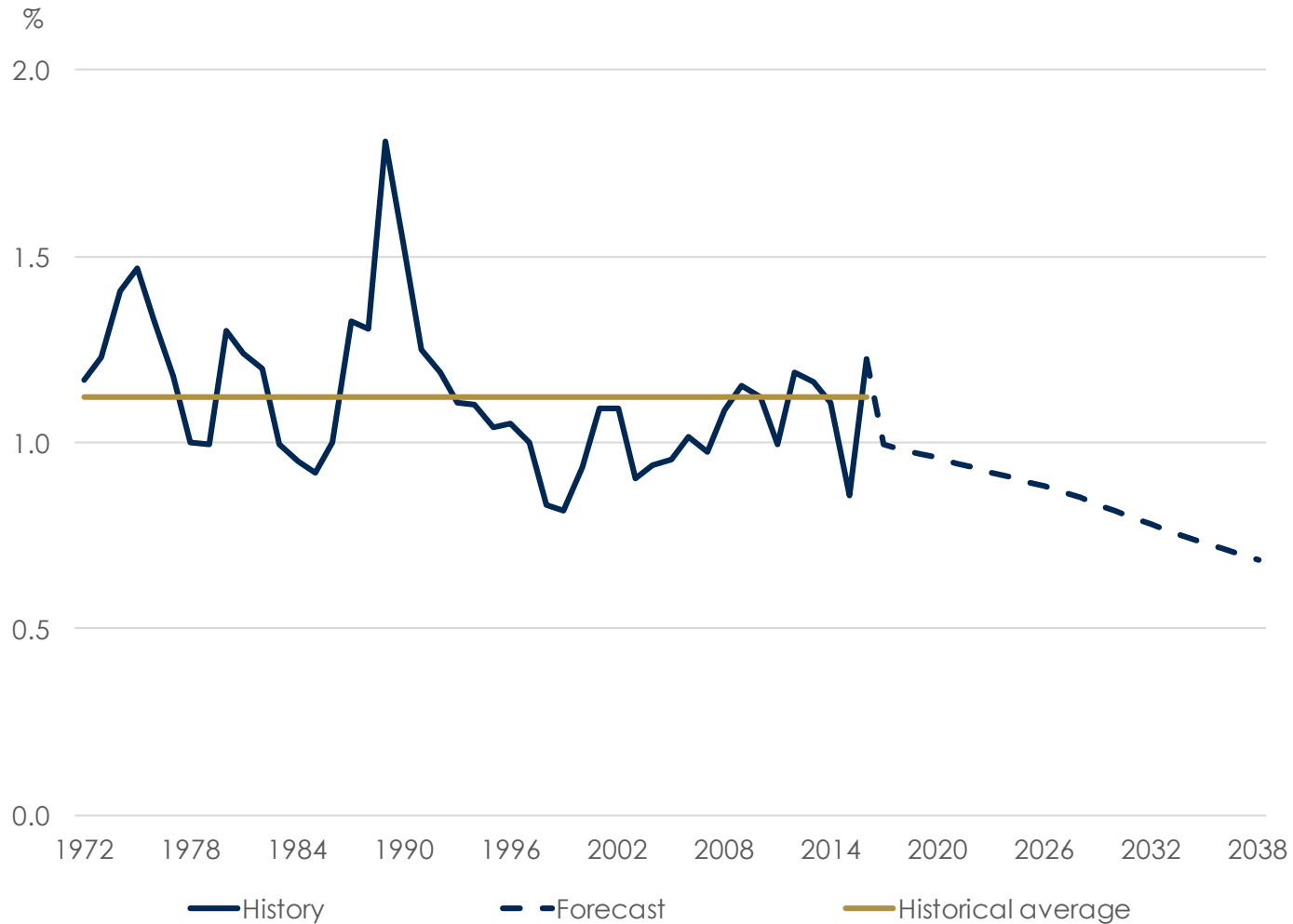


Share of Canadians Aged 65+



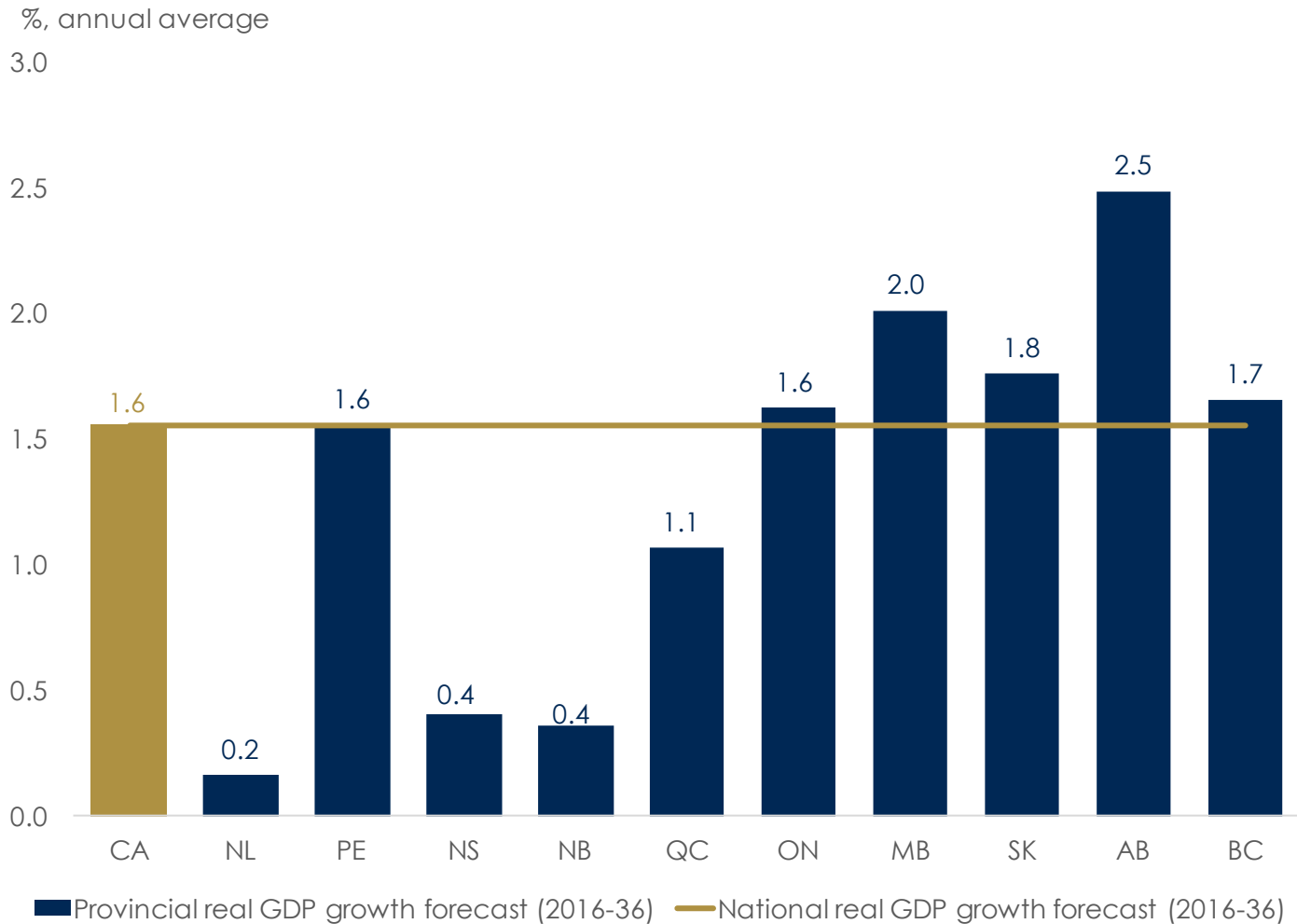
Source: Statistics Canada, Institute of Fiscal Studies and Democracy.
 Note: Population projections are from Statistics Canada's M1 (medium) scenario.

Population Growth in Canada



Source: Statistics Canada, Institute of Fiscal Studies and Democracy.
 Note: Population projections are from Statistics Canada's M1 (medium) scenario.

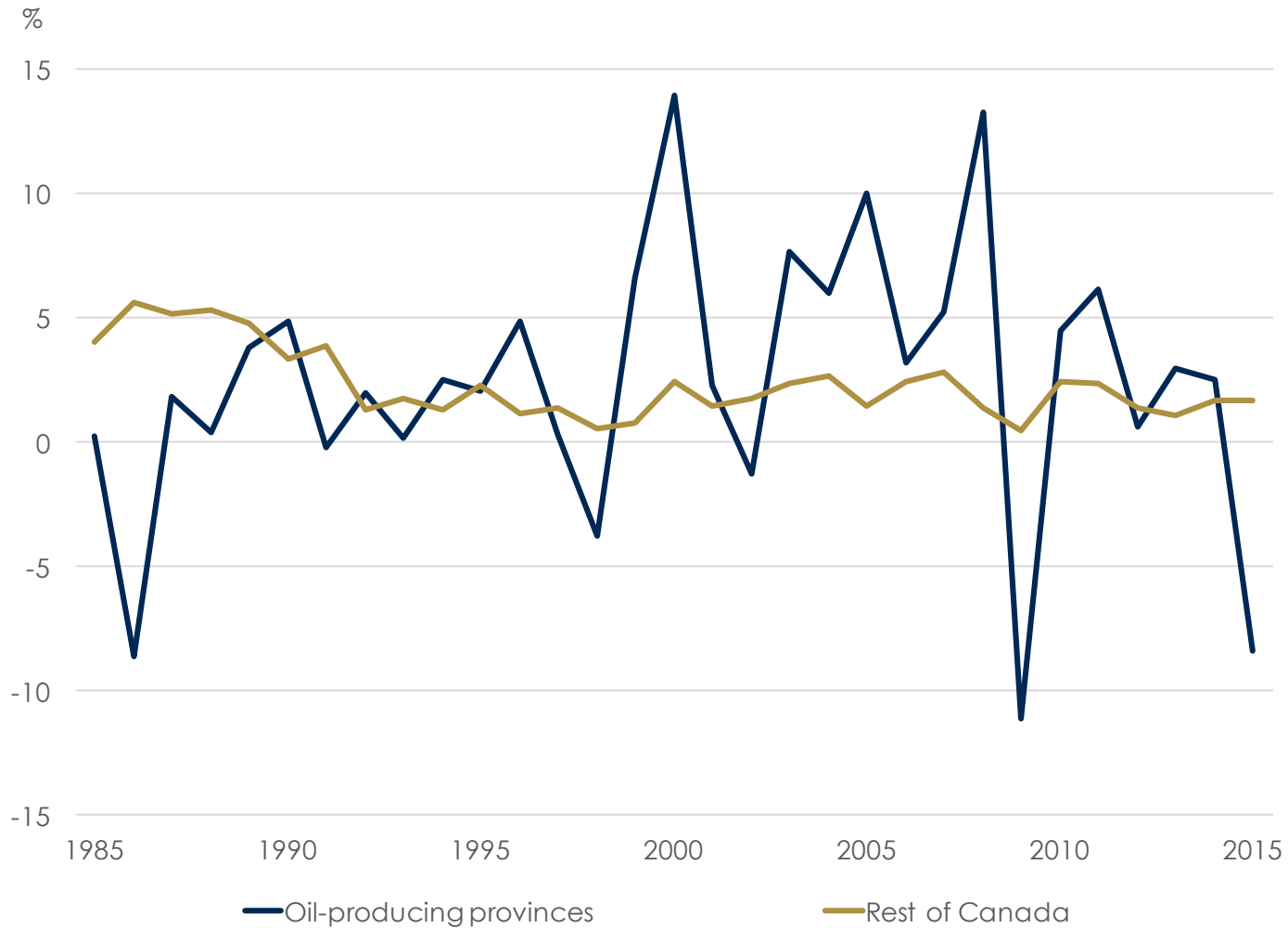
Real GDP Growth Forecast



Source: Institute of Fiscal Studies and Democracy.

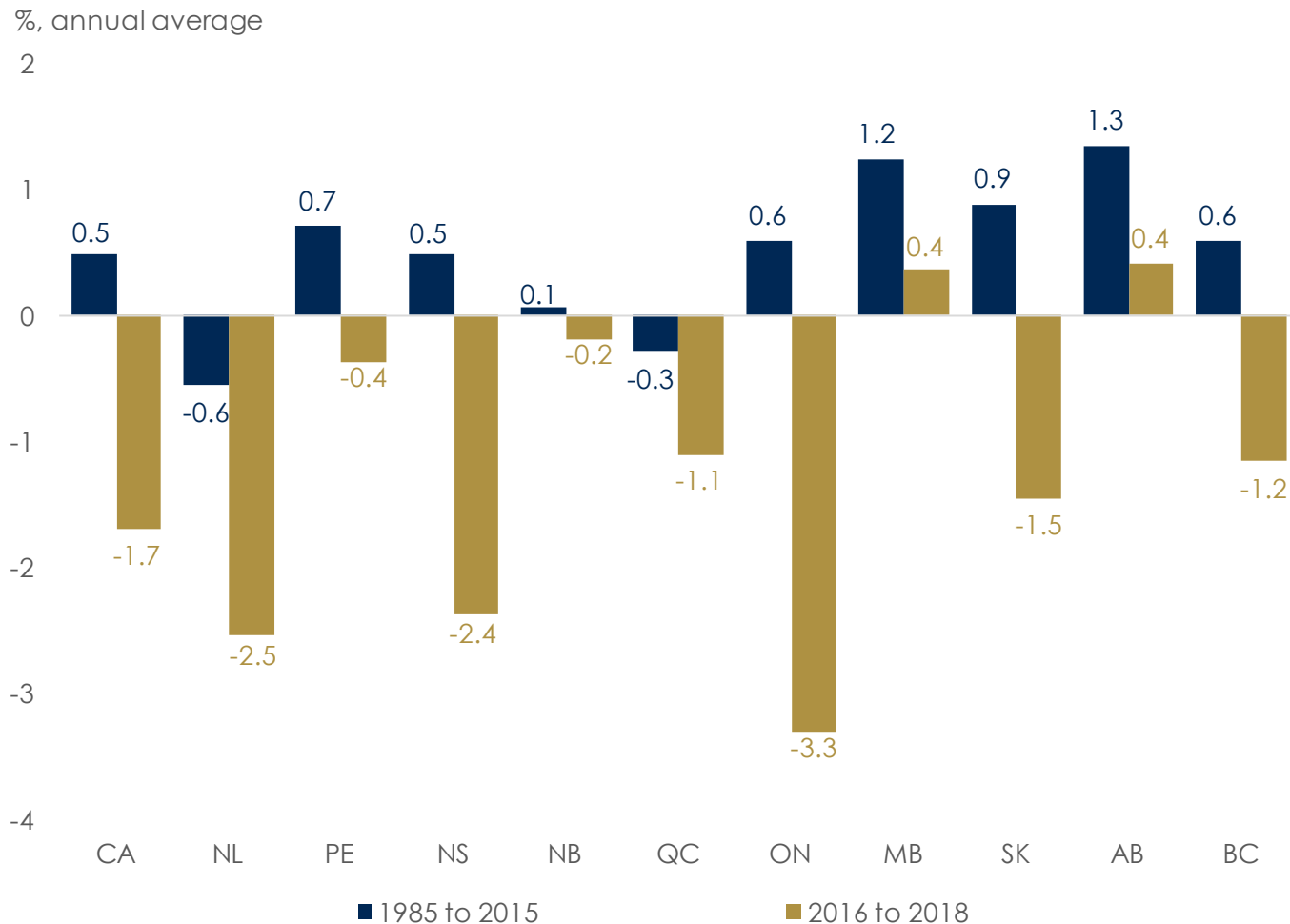
Note: For background on the IFSD's methodology for projecting long-term real GDP growth, see Bartlett (2017b).

Inflation in Canada



Source: Statistics Canada, Institute of Fiscal Studies and Democracy.
 Note: Inflation is calculated using the GDP deflator.

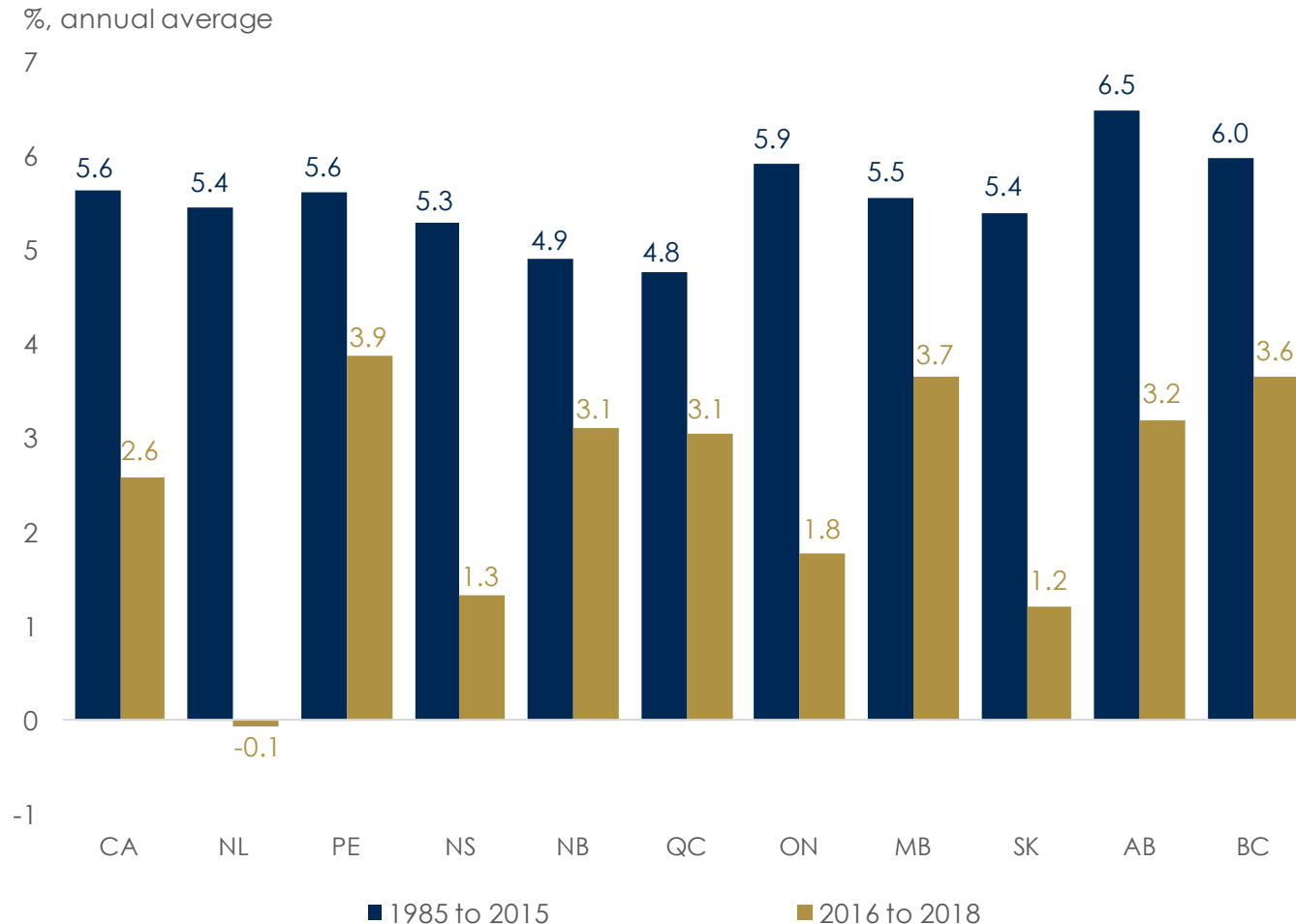
Health Care Enrichment



Source: Institute of Fiscal Studies and Democracy.

Note: Enrichment is the difference between growth in actual health spending and the notional health care cost pressures determined by the macroeconomic fundamentals of population growth, aging, real income growth, and inflation.

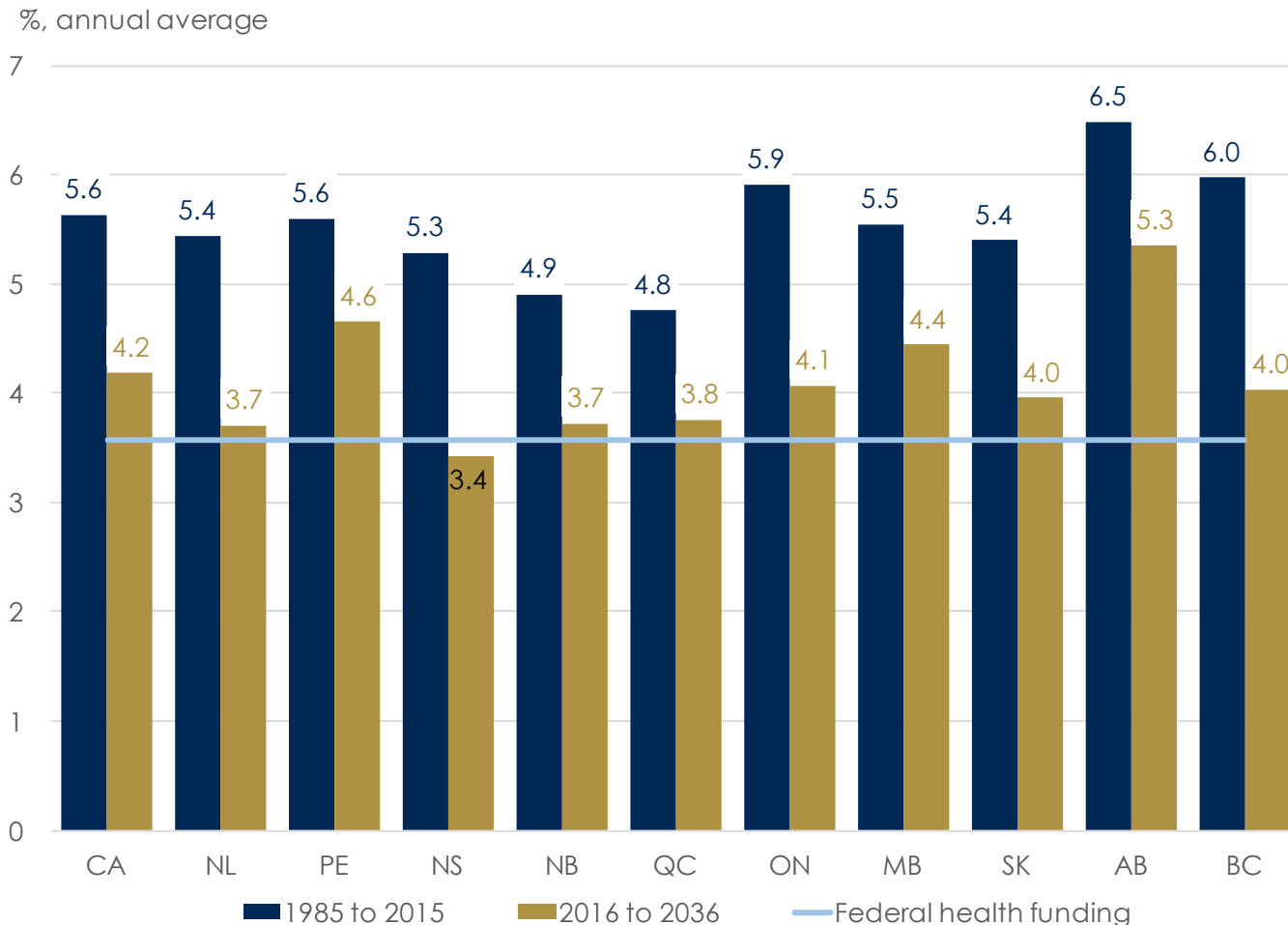
Health Care Cost Growth



Source: Canadian Institute for Health Information, Institute of Fiscal Studies and Democracy, official budgetary estimates and forecasts.

Note: The national forecast assumes health expenditures in the territories grow at a pace 3% faster than the total of the ten provinces, in line with the historical average. Years refer to fiscal years.

Long-Term Health Cost Forecast



Source: Canadian Institute for Health Information, Institute of Fiscal Studies and Democracy, official budgetary estimates and forecasts.

Note: The national forecast assumes health expenditures in the territories grow at a pace 3% faster than the total of the ten provinces, in line with the historical average. Years refer to fiscal years. The federal health funding forecast is comprised of the federal Budget 2017 forecast through the 2021-22 fiscal year, and IFSD forecasts thereafter.

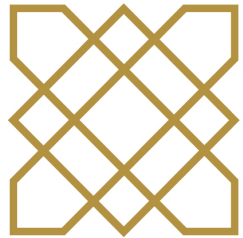
Long-Term Health Cost Forecast

- IFSD's long-term national health care cost forecast assumptions are very conservative and favour the federal government

Differences in National Health Care Cost Forecast Assumptions		
Canadian Health Care Cost Drivers	Conference Board of Canada	Institute of Fiscal Studies and Democracy
Demographics	1.9%	1.9%
Population growth	0.9%	0.9%
Aging	1.0%	1.0%
Inflation	2.5%	2.0%
CPI/GDP Inflation	2.0%	2.0%
Health Care Inflation	0.5%	
Real Income Growth		0.6%
Real Income Growth		0.6%
Enrichment	0.8%	-0.3%
Access, Adaptation, and Innovation	0.8%	-0.3%
Total Health Care Cost Growth	5.2%	4.2%

Source: Conference Board of Canada, Canadian Institute for Health Information, Institute of Fiscal Studies and Democracy, official budgetary estimates and forecasts.

Note: The national forecast assumes health expenditures in the territories grow at a pace 3% faster than the total of the ten provinces, in line with the historical average. Years refer to fiscal years. The federal health funding forecast is comprised of the federal Budget 2017 forecast through the 2021-22 fiscal year, and IFSD forecasts thereafter.

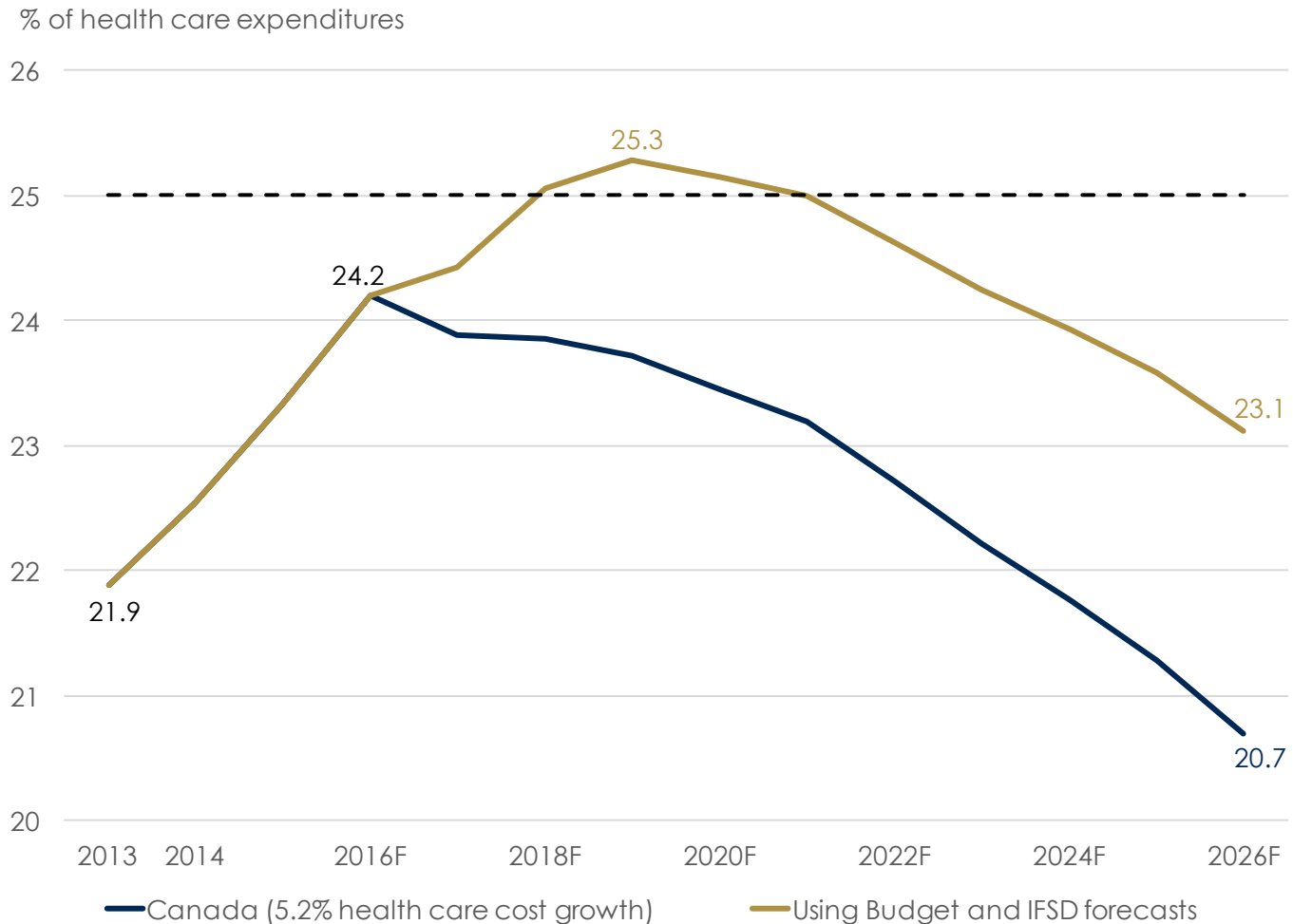


Federal Share of Health Costs

IFSD forecasts lower federal share

- Using budget and IFSD forecasts, the federal share of health funding will reach 25% by 2018, and remain above this threshold until 2021
- The federal share of health funding will then fall to below its 2015 level by 2026
- By accepting the federal government's CHT offer, P-T governments exchanged short-term gain for long-term pain

Federal Share of Health Costs



Source: Finance Canada, Council of the Federation, Conference Board of Canada, 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. The federal health funding forecast is comprised of the federal Budget 2017 forecast through the 2021-22 fiscal year, and IFSD forecasts thereafter.

Conclusion

- Federal government committed little more for health care than the prior government
- P-T governments have kept health costs low in recent years – a trend expected to continue through the 2018-19 fiscal year
- Health costs are expected to increase in line with fundamentals thereafter
- As a result, the federal share of health costs will be lower in 2026 than it is today



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