Health Spending and Revenues in Ontario

A closer look at financial trends and the recommendations of TD Economics

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September 21, 2010

Introduction

Public health care in Canada is founded upon principles of equity and compassion. As Canada's largest social program, it serves to remove the financial barrier from care when people are in need. The importance of the health system to millions of Canadians is underlined by the fact that despite major cutbacks and decades of opposition from well-heeled interests, public support for Medicare remains strong. The debate about the future of health care in Canada persists at the top of the public agenda. But far too often, Canadians are not given a full range of choices about that future.

In what the Montreal Gazette has termed a "masterful propaganda operation" critics of public medicare, almost always with vested interests in the private health industry, have embarked on a campaign to shake Canadians' confidence in the future of the health system. Recently, they have focused on the financial sustainability of health care. Their "solutions" rarely contain concrete measures to improve access to care, restore governments' fiscal capacity, and contain unnecessary costs. But they always include privatization and cost-shifting to patients.

In Ontario, the provincial government has commissioned a report by TD Economics on the sustainability of health care. TD Economics is part of the TD Bank Financial Group. TD Bank and TD Securities Inc. are investors in the Niagara privatized P3 hospital. TD Insurance sells private health insurance. Unsurprisingly, interspersed among several innocuous recommendations, the authors of the TD Economics' report repeatedly call for the privatization of health care delivery systems and experimentation with two-tier health care.

These recommendations are incongruous in a report in which the authors recognize that the growing costs in health care are in the areas dominated by the private sector, particularly the pharmaceutical industry. In fact, a closer look at the data shows that the more public and non-profit the sector, the more that costs are under control.

In fact, in recent months the McGuinty government has shown true leadership in pursuing a common drug purchasing agreement with other provinces in Canada to contain the escalating costs of pharmaceuticals. They deserve full credit for this initiative. But since the last election, the McGuinty government has also chosen to join the chorus of Chicken Littles, proclaiming the unsustainability of health care. This, despite fiscal choices by their own government that mean tax cuts, not health care, are eroding our capacity to provide for society's needs.

TD's support of profit-driven health care is not a solution. It is not an amelioration of the public health system. It is fundamentally incompatible with the principles of equity and universality in Canada Health Act. It would undermine and dismantle efforts to create an effective health system that is organized to meet human need for care.

In future weeks, the Ontario health coalition will release a series of reports on health restructuring. We will be releasing our recommendations for improving the health system. The public wants government to put access to care at the centre of policy-making. They want to ensure that public funds are spent on care, not profits, consultants and duplicate administrative systems. They are suspicious of privatization and find for-profit health care to be a violation of core public values. Their priorities and values must be respected in decisions about the direction of health policy. In the meantime, we hope that the McGuinty government will reaffirm its commitment to the principles that underlie the public health system and distance itself from the crisis rhetoric that is neither helpful nor accurate.

Create a Crisis, Then Privatize

TD Economics "Chicken Little" Report on Health Care Sustainability in Ontario

In its report on health spending, commissioned by the Ontario government, TD Economics invokes a potent image of health care unsustainability. Calling health care spending the "Pac Man" that ate the provincial budget, the authors use extreme spending and growth assumptions to lean on the panic button. Health spending, they say, will take up 80% of the provincial budget by 2030. Their conclusions are predictable. TD Economics is part of the TD Bank Financial Group. TD Bank and TD Securities Inc. are investors in the Niagara privatized P3 hospital. TD Insurance sells private health insurance. To address their proclaimed crisis, TD Economics repeatedly recommends that the Ontario government "throw the door open" to private for-profit health care delivery and experimentation with two-tier health care.[1]

In fact, the TD report is rife with inaccuracies and contradictions. The authors appear to fail to understand the extent of restructuring in the 1990s, and they draw no lessons from it. Similarly their analysis of health care privatization is perfunctory and incomplete. Their recommendations range from innocuous to deeply disturbing. There is no costing of the recommendations, and while the report is ostensibly about containing health costs, a number of the recommendations would likely increase expenditures. The McGuinty government cannot simultaneously claim to support public health care – as it has in the last two provincial elections – and support the findings in this paper.

TD fails to put access to care at the centre of their recommendations

In its report, TD Economics critizes the Romanow Commission explicitly for putting access to care at the centre of their study on the future of health care in Canada. In fact, TD recommends a number of privatization initiatives that would devastate the public health system, reduce coverage for residents and/or contravene the Canada Health Act. These measures, recommended in the report include: two-tier experimentation for elective surgeries such as hip, knee and cataract surgeries[2]; private for-profit health care delivery[3]; a convoluted user fee that would see, for example, cancer patients paying up to 40% of the cost of their treatments at tax time[4]; and measures that would result in further rationing of home and long -term care[5].

Contradictions

- The report simultaneously recommends bulk purchasing initiatives up to using national monopoly or bulk-purchasing power to reduce the costs of drugs and, at the same time, recommends fragmenting in significant ways the single-tier public payer system for health care

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[1] TD Economics Charting a Path to Sustainable Health Care in Ontario May 27, 2010. See Forward and pps.8, 9, 20, 23.

[2] Ibid. Page 20.

[3] Ibid. Pages 8,9,20,23.

[4] Ibid. Page 32.

[5] Ibid. Pages 21, 31.

(which provides, among other things, risk-pooling and bulk purchasing power).

- The report recommends moving physicians away from fee-for-service funding noting this system's perverse incentives and, at the same time, applauds the Ontario government for introducing fee-for-service funding in hospitals.
- The report notes the dramatic increase in spending on pharmaceuticals. Not in this report, but evident from other reports about health spending trends, health care equipment and supplies have increased in cost much faster than labour and other factors. Regardless of the fact that costs in the the privately-delivered parts of the health system are ballooning while the publicly-delivered parts are not, in their report which is supposed to focus on cost-containment, the TD researchers use the existence of private markets for pharmaceuticals and equipment as examples to justify the authors' recommendation for expanded privatization.

Inaccuracies

The authors fail to properly analyse spending and reforms in the 1990s. What was not noted in the report, but should have been, is the fact that the very significant hospital restructuring of the mid-1990s redirected billions of dollars in public funding away from care to restructuring costs. According to the provincial auditor, the actual costs of hospital restructuring by 2002 were $3.9 billion.[6] Fully 51% of the increase in hospital spending over that period was attributable to restructuring costs.[7] It is clear that the siphoning of funds away from care to restructuring did not result in long-term savings and efficiencies as was theorized at the time. If an evaluation of this attempt at restructuring exists, it is not publicly-available.

The report's authors also hold that there were few, if any, substantive structural reforms in the 1990s. In fact, 45 hospitals were amalgamated into 13 hospital corporations and 29 hospital sites were closed.[8] From 1990 to 2001, hospital spending as a proportion of health care spending on a per capita basis reduced sharply from 48 per cent to 42 per cent of health spending. By 2007, it had been further reduced to 39% of health spending. Average length of stay in hospitals was reduced significantly. Chronic care was downloaded and cut. 20,000 long term care beds were built. Mental health facilities were divested. Ad hoc home care was reformed into Multi-Service Agencies (public), then put out to tender under CCACs (purchaser-provider split) and significantly privatized. Laboratories were privatized. The province experimented with for-profit MRI and cancer care delivery; an experiment that was later turned back because it cost more and reduce capacity in public hospitals. In fact, the 1990s saw cascading downloading and the majority of new capacity in the health system was privatized.

These reforms cannot be deemed insubstantial. They have had significant impacts on access, quality and costs. The lessons from twenty years of health restructuring in Ontario should not be ignored. Indeed, if the authors of the TD report had researched the experience of restructuring through the 1990s it is likely that they would have had to come to some different conclusions about the consequences of privatization, the state of long term care, and perhaps could have made some recommendations about the current round of hospital restructuring that is replicating many of the errors made fifteen years ago.

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[6] 2001 Provincial Auditor's Report. See pp. 315.

[7] Block, Sheila "Health Spending in Ontario: Bleeding Our Hospitals" Technical Paper #4 Ontario Alternative Budget 2002, page 7.

[8] Jarvi, Kim, Senior Economist, Registered Nurses' Association of Ontario. The Costs of Hospital Restructuring in Context: Lessons from Ontario in the 1990s, January 31, 2009.

TD Economics also repeatedly asserts that there have been no productivity gains over recent decades of reform. But report authors ignore the high levels of efficiency in Ontario's hospital and long term care sectors. Hospital length of stay has decreased. We have less hospital beds per person and less staffing per person than other provinces. We admit fewer patients into hospitals and those that are admitted stay for less time. Post- restructuring, there are far fewer hospital and long term care staff now than before.

Finally, the authors argue against "expanding public coverage" to provide post-acute home care and catastrophic drug coverage as recommended by both the Romanow Commission and Kirby's study. Authors state there are not resources to facilitate this "expansion". These statements are inexplicable since Ontario already has post-acute home care and catastrophic drug coverage. Moreover, expanded home care is vital to any health system reform.

Other TD recommendations

Though TD Economics' Chicken Little and pro profit-driven health care rhetoric warrant a strongly-worded rebuttal, other recommendations in the report are more palatable. Authors recommend acceleration of primary care reform and improvements to the supply of physicians. They should have included nurses, personal support workers and other health professionals for whom there are severe shortages across the province that are driving up costs and limiting access to care. They recommend a new body to review and assess emerging health technologies and treatments. In the context of excessive marketing of health technologies this could be a good initiative, depending on the principles under which it is implemented, and depending on whether there are adequate protections against takeover of the public assessment entity by vested interests. The authors further recommend an improved focus on healthy lifestyles, though they ignore significant impact of poverty, housing, food security, education, social inclusion and other key determinants of health.

The most controversial recommendations in the report include:

- TD's advocacy of for-profit privatization and apparent ignorance of the evidence of not only cream skimming, but also higher costs, quality concerns, personnel shortages, and fragmentation.
- TD's advocacy of two-tier experimentation, their support of a convoluted user-fee for to curb "excessive utilization" by patients, and apparent ignorance of the Canada Health Act's requirements.
- TD's advocacy of DRG and/or fee-for-service hospital funding.
- TD's advocacy for pre-funding of long term care and seniors' drug plans.
- There are a number of unclear and potentially contradictory examples that the authors use in their recommendations regarding pharmaceuticals and structural reform.

The focus on drug costs

Drugs are the fastest growing cost in Ontario's health system and we support TD Economic's focus on drug costs. However, the solutions that will enable Canadians to exercise greater control over drug costs should centre on national pharmacare with improved cost controls through bulk purchasing and other initiatives. A recent report by the Canadian Centre for Policy Alternatives finds that a national pharmacare program could generate up to $10.7 billion in savings on prescription drugs.[9] Ontario has taken a leadership role on forging a pan-Canadian drug purchasing strategy and should be applauded for its initiative.

[9]See http://www.policyalternatives.ca/publications/reports/economic-case-universal-pharmacare

Ontario Health Spending is Second Lowest in Canada

Tax Cuts, Not Health Care, Are "Eating Up" the Provincial Budget

A comparative analysis of Ontario's health spending reveals that Ontario spends significantly less than other provinces on health care (see Figure 1). So, how are proponents of privatization claiming that Ontario's health spending is a "Pac Man" eating up the provincial budget? If other provinces and territories can do it, why can Ontario not?

Almost without exception, those that are most stridently proclaiming Medicare's unsustainability have vested interests in the private for-profit health care industry. What many pundits spreading crisis rhetoric do not make clear is that any look at health spending as a proportion of the provincial budget compares two figures. One is health spending. The other is the size of the provincial budget.

Ontario health spending on a per person basis is actually *lower* than almost all of Canada. On the same basis - per person - our entire provincial budget is the lowest compared to the rest of the country. Figures 2 and 3 show the comparative data. So, though health care takes up a relatively larger proportion of provincial expenditures, this is not because health care expenditures are higher. In truth they are lower than in other provinces. The reason that health care appears higher is because total provincial expenditure is less. It is easy to look like a bigger fish when the pond keeps getting smaller.

Figure 1. Ontario Public Health Spending Second Lowest in Canada

Public Health Spending by Province 2009 $ per person	
Nun.	8,342
N.W.T	6,563
Yuk.	5,072
Nfld.	4,270
Alta.	4,096
Sask.	3,929
P.E.I.	3,791
Man.	3,775
N.S.	3,722
N.B.	3,585
B.C.	3,522
Ont.	3,458
Que.	3,191

Source: Canadian Institute for Health Information (2009)

Figure 2. Comparing the Size of Provincial Budgets: Ontario Third Last, After Alberta and Saskatchewan, in Total Public Spending as % of GDP

Total Public Spending as a Proportion of GDP Ontario Compared to Rest of Canada				
	1981	1995	2003	2008
Ontario	14%	16%	14%	16%
Rest of Canada	20%	21%	19%	19%

Source: Canadian Institute for Health Information. (2009). *National Health Expenditure Trends, 1975 to 2009*: *appendices. Figures include all government spending minus interest payments on government debt.*

Figure 3: Comparing the Size of Provincial Budgets: Ontario Dead Last in Public Spending Per Person

Total Public Spending Per Person Ontario Compared to Rest of Canada				
	1981	1995	2003	2008
Ontario	$2,040	$4,270	$5,603	$7,284
Rest of Canada	$2,834	$5,335	$6,923	$8,774

Source: Canadian Institute for Health Information. (2009). *National Health Expenditure Trends, 1975 to 2009*. *Figures include all government spending minus interest payments on government debt.*

Imagine a scenario in which Ontario pursued budgeting trends more like those in the rest of Canada. What if Ontario had not engaged in the last fifteen years of very aggressive tax cuts that have compromised our province's fiscal capacity?

Figure 4 reveals the result. Here we use actual public health care spending figures from 2008, but instead of comparing them to actual total public spending in Ontario, we compare them to the average total public spending for the rest of Canada.

Figure 4: Ontario's Actual Public Health Care Spending Compared to Average Total Government Program Spending in the Rest of Canada

Comparison of Public Health Care Spending Per to Rest of Canada Ave. Total Public Spending Per Person By Province 2008 (Current $)			
Province	**Public Health Care Spending 2008**	**All Program Spending (Canadian Average without Ontario)**	**Percent**
Nfld.	$3,943	$8,774	45%
P.E.I.	$3,336	$8,774	38%
N.S.	$3,518	$8,774	40%
N.B.	$3,491	$8,774	40%
Que.	$3,038	$8,774	40%
Ont.	$3,318	$8,774	38%
Man.	$3,622	$8,774	41%
Sask.	$3,708	$8,774	42%
Alta.	$3,892	$8,774	44%
B.C.	$3,360	$8,774	38%

Source: Extrapolated from Canadian Institute for Health Information. (2009). *National Health Expenditure Trends, 1975 to 2009*, and appendices.

The results are dramatic. If Ontario had not dismantled so much fiscal capacity by tax cuts (which have primarily benefitted corporations and the highest income categories) and had followed the Canadian average in total program spending, we would be spending less than 38% of our provincial budget on health care.

This illustration serves to make the point that public budgets are a reflection of policy choices and priorities. Health care is sustainable if we pursue a path of sustainable investments in our health system through a fair tax system.

The final chapter on what's eating the provincial budget is revealed through Figures 5 & 6. Ontario has seen the sharpest loss in public revenue due to tax cuts of anywhere in the country. Ontario's corporate tax cuts have been the steepest in the country, both in absolute and relative terms. This province's personal tax cuts are the second deepest in the country. More than $16 billion has been removed from the provincial budget in total.

Figure 5. Ontario Corporate Tax Cuts Mean the Biggest Losses in Canada: Accumulated Reduction in Ontario's Fiscal Capacity Totals $3.978 Billion[1]

Table 1. Corporate Income Tax Cuts

	Impact of cuts to 2005-6 (millions of dollars)	2005-6 actual revenue (millions of dollars)	Relative impact of cut
Newfoundland and Labrador	0	198	0.0%
Prince Edward Island	2	38	5.3%
Nova Scotia	0	363	0.0%
New Brunswick	-73	165	-44.2%
Québec	-1,099	3,667	-30.0%
Ontario	-3,978	8,296	-48.0%
Manitoba	-81	352	-23.0%
Saskatchewan	-39	393	-9.9%
Alberta	-565	4,728	-12.0%
British Columbia	-461	1,570	-29.4%
TOTAL	-6,294	19,770	-31.8%

Sources: *Income tax cuts, by province, budgets between 1996 and 2002 – annual revenue loss*, unpublished data, Finance Canada, October 2002. *CANSIM Table 385-0001*, Statistics Canada, 2010.

Table 2. Personal Income Tax Cuts

	Impact of cuts to 2005-6 (millions of dollars)	2005-6 actual revenue (millions of dollars)	Relative impact of cut
Newfoundland and Labrador	-62	821	-7.6%
Prince Edward Island	-22	205	-10.7%
Nova Scotia	-241	1,565	-15.4%
New Brunswick	-269	1,080	-24.9%
Québec	-5,395	19,527	-27.6%
Ontario	-12,129	24,291	-49.9%
Manitoba	-411	1,941	-21.2%
Saskatchewan	-673	1,449	-46.4%
Alberta	-2,210	2,889	-76.5%
British Columbia	-2,744	5,943	-46.2%
TOTAL	-24,155	59,711	-40.5%

Sources: *Income tax cuts, by province, budgets between 1996 and 2002 – annual revenue loss*, unpublished data, Finance Canada, October 2002. *CANSIM Table 385-0001*, Statistics Canada, 2010.

Figure 6. Ontario Personal Tax Cuts Second Deepest in Canada: Accumulated Reduction in Fiscal Capacity of $12,129 Billion

[1]The two tables on this page are from: Mackenzie, Hugh and Michael Rachlis The Sustainability of Medicare, CFNU, August 2010.

In terms of private health insurance and out-of-pocket health costs, Ontarians spend the most in Canada. The current day figures are not the creation of one government. Ontario has been above the national average in private health expenditures for over 30 years.

Figure 7. Ontarians Face the Highest Private Insurance and Out-of-Pocket Health Costs

Private Health Spending By Province 2009 $ Per Person	
Nun.	802
Sask.	1,387
Que.	1,400
B.C.	1,483
Nfld.	1,479
Man.	1,520
P.E.I.	1,565
Alta.	1,656
N.B.	1,649
N.W.T.	1,695
Y.T.	1,757
N.S.	1,786
Ont.	1,817

Source: CIHI (2009).

Ontario Health Spending

The Trends

A closer look at Ontario's health spending reveals clear trends. There is no evidence that the public non-profit parts of the health system are unsustainable in terms of spending (though continued reduction of the tax base could make any spending unsustainable). It is the private for-profit sectors that are growing fast, particularly drugs.

Despite government rhetoric, hospitals are shrinking, both as a percentage of the health care budget in total dollars and on a per person basis, and have remained stable as a percentage of provincial GDP. According to the best available information, homecare is shrinking. Pharmaceuticals continue to be the fastest growing cost.

When measured against our economic output - provincial GDP - Ontario government health spending is increasing, and has grown faster on average than in other provinces. However, Ontario's health spending is in line with health spending across the country. Six other provinces have higher health to GDP ratios and only the three richest provinces have lower ratios (Alberta, Saskatchewan and Newfoundland).

Figure 1. Health Costs are Growing

Provincial Health Spending as Share of Provincial GDP				
	1981	1995	2003	2009
Ontario	4.6%	5.6%	6.2%	7.9%
Rest of Canada	5.5%	6.3%	6.8%	7.6%

Source: CIHI (2009)

Figure 2. Ontario is in the Middle of the Pack

Provincial Health Spending as Share of Provincial GDP 2008	
Nfld.	7.4%
P.E.I.	11%
N.S.	10.3%
N.B.	9.8%
Que.	8.3%
Ont.	7.9%
Man.	9.1%
Sask.	6.7%
Alta.	5.6%
B.C.	8.2%

Source: CIHI (2009)

Hospitals Are Shrinking

When cuts or constraints have been announced in recent decades, they almost always centre on hospital care. As a result, Ontario's hospital spending has been shrinking as a proportion of health care spending for 20 years. From 1981 when hospitals comprised 52% of the health budget, hospital spending declined steadily. By 2008 hospital spending was 37% of provincial health spending.

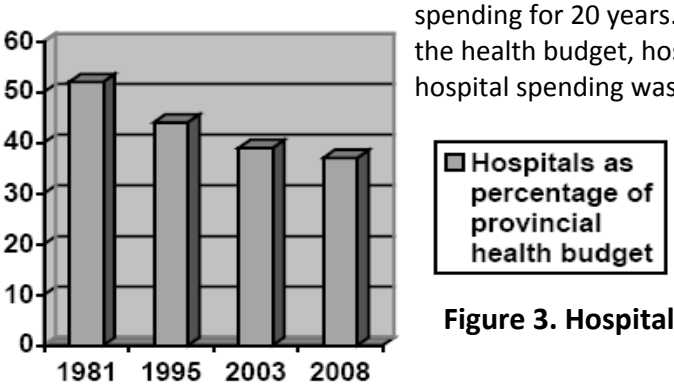


Figure 3. Hospital Spending Has Been Shrinking for 20 Years

Measured on a per-person basis, the trend of shrinking hospital spending holds. In 1990, public spending on hospitals per capita was 47.7% of total government health spending. In 1995 it was 45.2%. In 2000 it was 42.1%. In 2005 it was 40.5%. By 2007 it had been reduced to 39.2%.

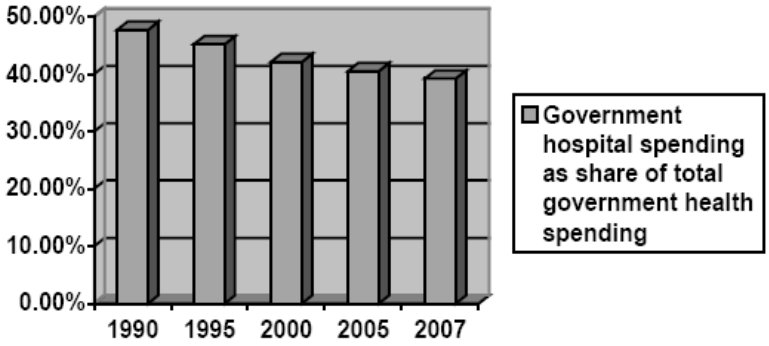
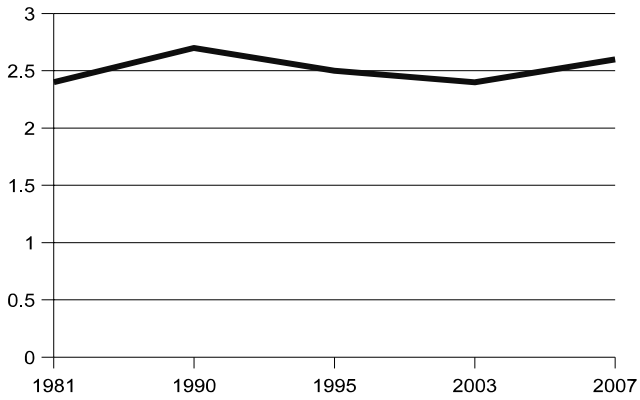


Figure 4. Hospital Spending Shrinking on Per-Person Basis

Figure 5. Hospital Spending Stable as a Per cent of Provincial GDP



As a percentage of provincial GDP, hospital expenditure has been fairly stable, despite an aging population. Again, this data provides no evidence to support a notion that hospital spending is "out of control".

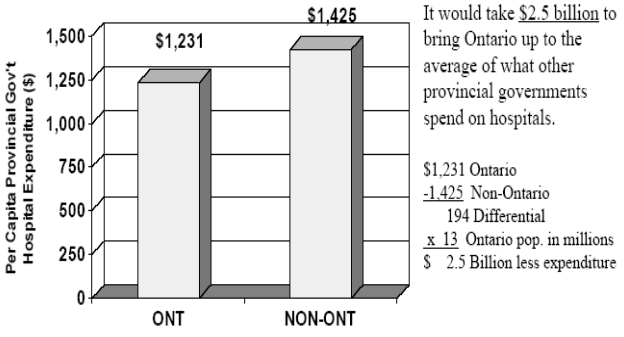
In 1981, hospital spending was 2.4% of provincial GDP, increasing to 2.7% in 1990. It was then reduced back to 2.5% in the mid-1990s and was 2.6% of provincial GDP in 2007.

Figure 6 shows Ontario hospital expenditure compared to other provinces. Ontario funds hospitals $194 per person less than the rest of the country. In total, this amounts to a $2.5 billion shortfall.

The evidence is that hospital spending is declining as a share of provincial health expenditures. It is not the cost driver in health care that public rhetoric would make it out to be. According to inflation-adjusted per person dollars, the figures do not support a case for significant cuts to needed hospital services.

There is, however, evidence that the current hospital cuts are a "false economy", resulting in new user fees, new transportation costs, new municipal ambulance costs, new restructuring costs, downloaded costs for patients, and significant cuts to chronic and rehabilitative care.

Figure 6. Ontario Hospitals Underfunded Compared to Other Provinces



Note: 2009 Forecast. Operating expenditure only, excludes capital. "Non-Ont" is all provinces excluding Ontario, YT, NWT & NUN.

Source: Canadian Institute for Health Information, November 2009. Slide date: Nov 20/09.

ONTARIO HOSPITAL ASSOCIATION

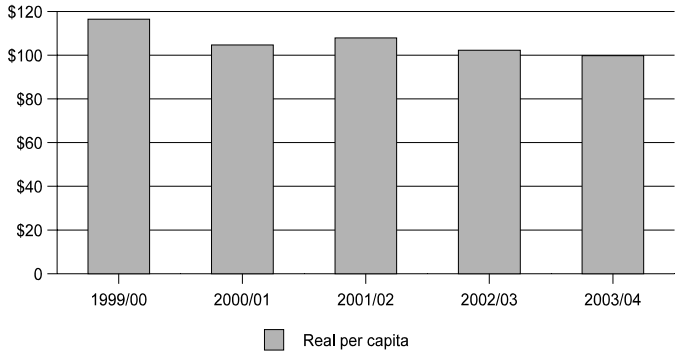
Homecare is Shrinking

According to the most recent publicly-available data[1], there is evidence that homecare is shrinking as a proportion of health spending and on a real dollar per capita basis.

Public Homecare as % of Health Budget	
1999/00	5.8%
2000/01	5%
2001/02	4.8%
2002/03	4.2%
2003/04	4.2%

Figure 7. Public Homecare Declining as Per cent of Health Budget

Figure 8. Declining Public Homecare Expenditure Per Person1999-2004



Pharmaceuticals are Ontario's Fastest Growing Health Care Costs

By every measure, drugs are ballooning. Drugs comprise about a third of private health care spending (out-of-pocket and private insurance) in Ontario. As a proportion of public - or government - health spending they are growing at a faster rate than any other sector. Within hospitals, while labour costs are shrinking as a proportion of hospital budgets, drugs, medical equipment and supplies are growing.

Recent initiatives by the Ontario government to create a pan-Canadian purchasing program for drugs should be applauded. Even better would be a national drug program, which could provide universal coverage and save up to $10.7 billion, according to a recent report by the Canadian Centre for Policy Alternatives.

Total Spending (Public and Private) on Drugs - Current $	
1981	$809 million
1990	$2.8 billion
1995	$4.3 billion
2003	$8.4 billion
2007	$10.9 billion

Figure 9. Ontario's Total Drug Costs

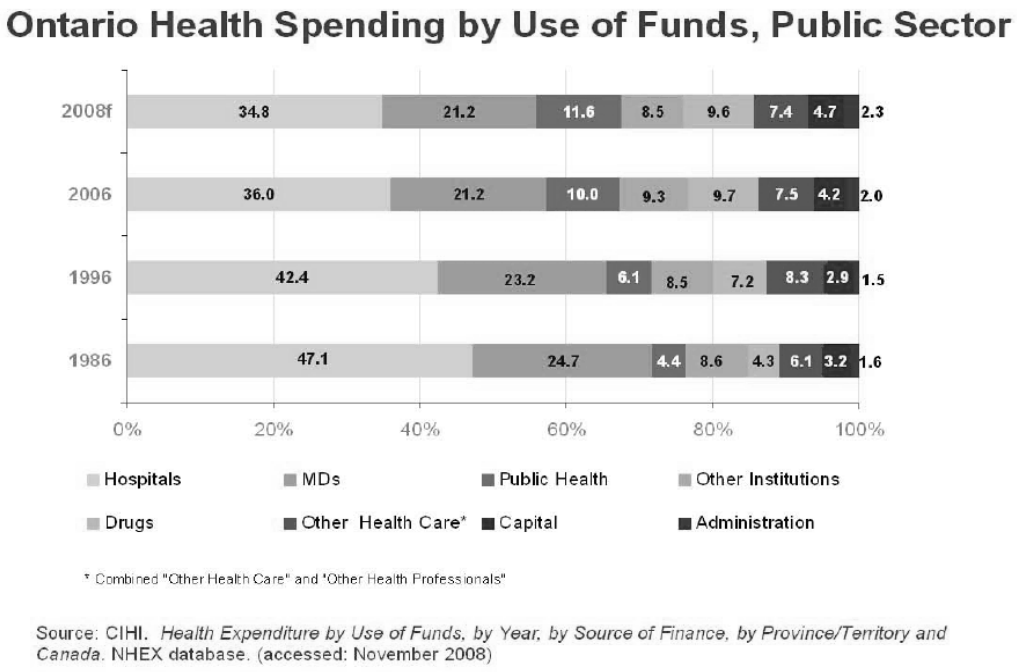
Ontario Public Spending on Drugs Current $				
1981	1990	1995	2003	2007
$187 million	$881 million	$1.4 billion	$2.8 billion	$3.8 billion

Figure 10. Ontario's Public Spending on Drugs

[1]Since the LHINs were created, the Ministry of Health and Long Term Care no longer breaks out expenditure on homecare in its financial statements. In LHIN annual reports, funding for all "Health Service Providers" is lumped into one Financial Statement entry. This makes it impossible to compare data year by year without a lengthy process of attempting to obtain information from the Ministry. The most recent CIHI figures are reported here. Source: Change Foundation: CIHI, Public Sector Expenditures and Utilization of Home Care Services NHEX Ottawa 2007.

Overall Trends

The general trends in public spending are captured in the following chart by the Change Foundation, based on CIHI data. Hospitals are shrinking. Not shown here, but evidenced in an earlier CIHI report, homecare is shrinking. Public health increased with the upload from municipalities after SARS. Capital spending has increased, particularly after the years of severely constrained budgets in the mid-1990s. Drugs have more than doubled.



Source: CIHI. *Health Expenditure by Use of Funds, by Year, by Source of Finance, by Province/Territory and Canada*. NHEX database. (accessed: November 2008)