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IN BRIEF

Federal Funding for Health Care

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FEDERAL FUNDING FOR HEALTH CARE

1 INTRODUCTION

Canada does not have a single health care system. Rather, each of Canada's provinces and territories[1] provides publicly funded health care. In addition, some health services are not covered by provincial public insurance programs. As such, total health expenditure in Canada includes public funds from provincial and federal sources, as well as private expenditures from private insurance and out-of-pocket spending.

This paper provides an overview of the legislative basis for Canada's publicly funded health care systems. It also includes a description of recent and projected levels of federal funding for health and health care, and a discussion of the principal cost drivers of future health spending in Canada.

2 FEDERAL AUTHORITY FOR PROVIDING FUNDING FOR HEALTH CARE

The division of powers between federal and provincial governments with respect to health is not specifically addressed in the *Constitution Act, 1867*,[2] with the exceptions of assigning federal responsibility for quarantine and the establishment and maintenance of marine hospitals and assigning provincial responsibility for operating most other hospitals. Rather, jurisdiction for health and health care has been assigned using indirect sources of power.

The federal government derives its authority over matters of health and health care from the federal criminal law power and the federal spending power. The federal criminal law power (section 91(27) of the *Constitution Act, 1867*) is used mainly to enact legislation in the areas of public health and safety. Examples include the *Food and Drugs Act*,[3] the *Controlled Drugs and Substances Act*,[4] and the *Human Pathogens and Toxins Act*.[5] The federal government relies on the spending power (sections 91(1A) and 91(3)) to provide for financial transfers to the provinces under the *Federal-Provincial Fiscal Arrangements Act*[6] (FPFAA) and to set standards and conditions under the *Canada Health Act*[7] (CHA).

Except for matters that fall under the sections of the *Constitution Act, 1867* mentioned above, health is for the most part an area of provincial jurisdiction. For example, the provinces have jurisdiction over hospitals and health care services, the practice of medicine, the training of health professionals and the regulation of the medical profession, hospital and health insurance, and occupational health. Power over these areas is granted by sections 92(7) (hospitals), 92(13) (property and civil rights) and 92(16) (matters of a merely local or private nature) of the *Constitution Act, 1867*.

2.1 *Canada Health Act*

The CHA[8] was passed by Parliament in 1984 and came into force the following year. The long title of the CHA is *An Act relating to cash contributions by Canada and relating to criteria and conditions in respect of insured health services and extended health care services*. As the long title indicates, the CHA addresses federal funding for insured and extended health care services.

Section 3 of the CHA sets out the Government of Canada's primary objective of its health care policy, which is "to protect, promote and restore the physical and mental well-being of residents of Canada" and to ensure that access to services is reasonably facilitated "without financial or other barriers."[9] The CHA then indicates that its purpose is to establish the criteria and conditions that must be met under provincial law to qualify for the federal contribution. With respect to the criteria, the insurance program of each province must be:

- publicly administered on a non-profit basis;
- comprehensive with respect to the list of insured health services provided by hospitals, medical practitioners or dentists;
- universal in terms of covering all residents of the province;
- portable between provinces and not impose residency waiting periods of longer than three months; and
- reasonably accessible to insured persons.[10]

In addition, section 13 of the CHA sets out the conditions that the provinces must satisfy to qualify for the full federal cash contribution as part of the Canada Health Transfer (CHT). The conditions require that the provinces:

- provide the federal Minister of Health with information that the minister requires; and
- give recognition to the CHT in public documents, advertisements and promotions related to health services.

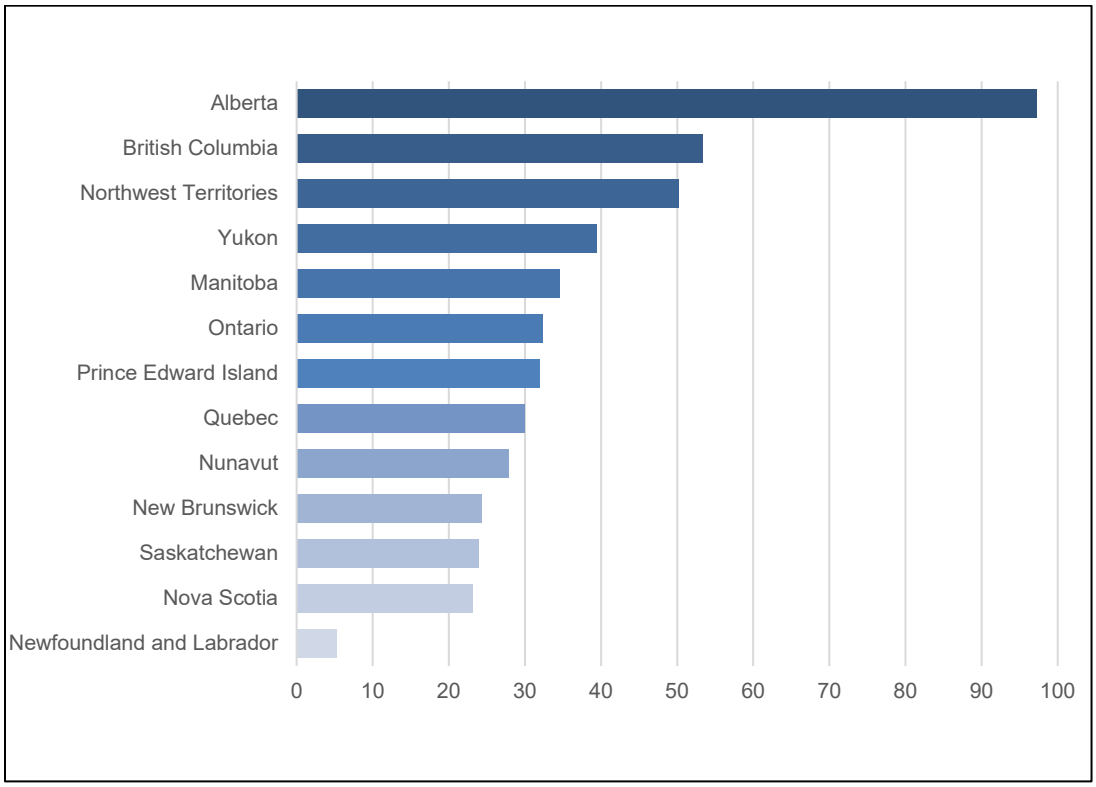
2.2 Canada Health Transfer

Section 5 of the CHA states, "Subject to this Act, as part of the Canada Health Transfer, a full cash contribution is payable by Canada to each province for each fiscal year." The CHT was established under the FPFAA and is the largest of the transfer programs.[11] The federal government can withhold some of a province's CHT if it is determined that the CHA has been contravened in that jurisdiction. In terms of penalties, provinces can be subject to a dollar-for-dollar deduction of the CHT if a medical practitioner in that province has been found to have applied user charges or extra-billing for insured services, which are prohibited under sections 18 and 19 of the CHA. As well, a deduction to the CHT in an amount at the discretion of the Minister of Health can be applied to a province for contravening any of the conditions or criteria set out in sections 8 to 13 of the CHA.

The formula for calculating the CHT is provided in the FPFAA.[12] The CHA is amended from time to time to include changes to this formula.[13] The CHT allocates cash payments to the provinces on an equal per capita basis. Beginning in fiscal year 2017–2018, the CHT payments increased by an amount equal to the three-year moving average of Canada's nominal gross domestic product but will not be lower than 3% per year.[14]

Figure 1 below provides the percentage growth of health transfers to Canadian provinces over the past decade.

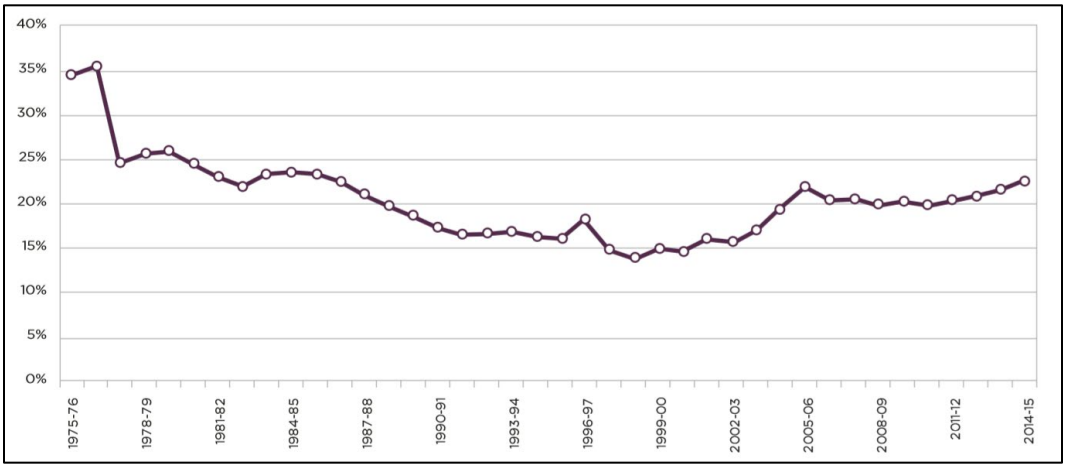
Figure 1 – Percentage Growth of Health Transfers to Canadian Provinces, 2009–2010 to 2018–2019



Source: Figure prepared by the author using data obtained from Department of Finance Canada, *Federal Support to Provinces and Territories*.

As mentioned above, the public funds spent on health care include both federal and provincial sources. Figure 2 illustrates how the percentage of public health expenditures contributed by the CHT has fluctuated.

Figure 2 – Percentage of Public Health Expenditures Contributed by the Canada Health Transfer



Source: Government of Canada, Advisory Panel on Healthcare Innovation, "Figure 3.1: Cash Health Transfer as a % of PT Government Sector Health Expenditures (Total Canada)," *Unleashing Innovation: Excellent Healthcare for Canada*, July 2015, p. 26.

3 DIRECTED FUNDS FOR HOME CARE AND MENTAL HEALTH

In addition to providing an annual contribution to the provinces through the CHT, the federal government can also provide directed funds for health care. The 2017 federal budget included funding to the provinces of $11 billion over 10 years, beginning in fiscal year 2017–2018, to be directed specifically to two areas: home care and mental health initiatives.[15] All provinces except Quebec have agreed to *A Common Statement of Principles on Shared Health Priorities*,[16] and bilateral agreements between the federal government and each province are being negotiated.[17] Quebec has entered into an asymmetrical agreement with the federal government based on the 2004 arrangement.[18]

4 TOTAL PUBLIC AND PRIVATE HEALTH SPENDING

Total spending on health care has risen steadily in Canada since 1975, which is the first year for which the Canadian Institute for Health Information (CIHI) has data. According to CIHI, total health expenditure increased from $100 billion to $200 billion between 2000 and 2011 and was projected to reach $253.5 billion by the end of 2018.[19] CIHI further reveals that health spending per Canadian will reach $6,839 in 2018, a $200 increase over 2017.[20] Total health spending as a percentage of gross domestic product has also risen significantly since 1975, from 7% to more than 11% currently.[21]

In 2016, health spending per capita for infants was the highest for all age groups until 80 years of age and over. Health spending per capita after the age of one year increases throughout life, although the increase accelerates dramatically after the age of 60 years. Until that age, annual per capita health spending is below $5,000, after which spending increases to reach almost $30,000 by the age of 90 years.[22]

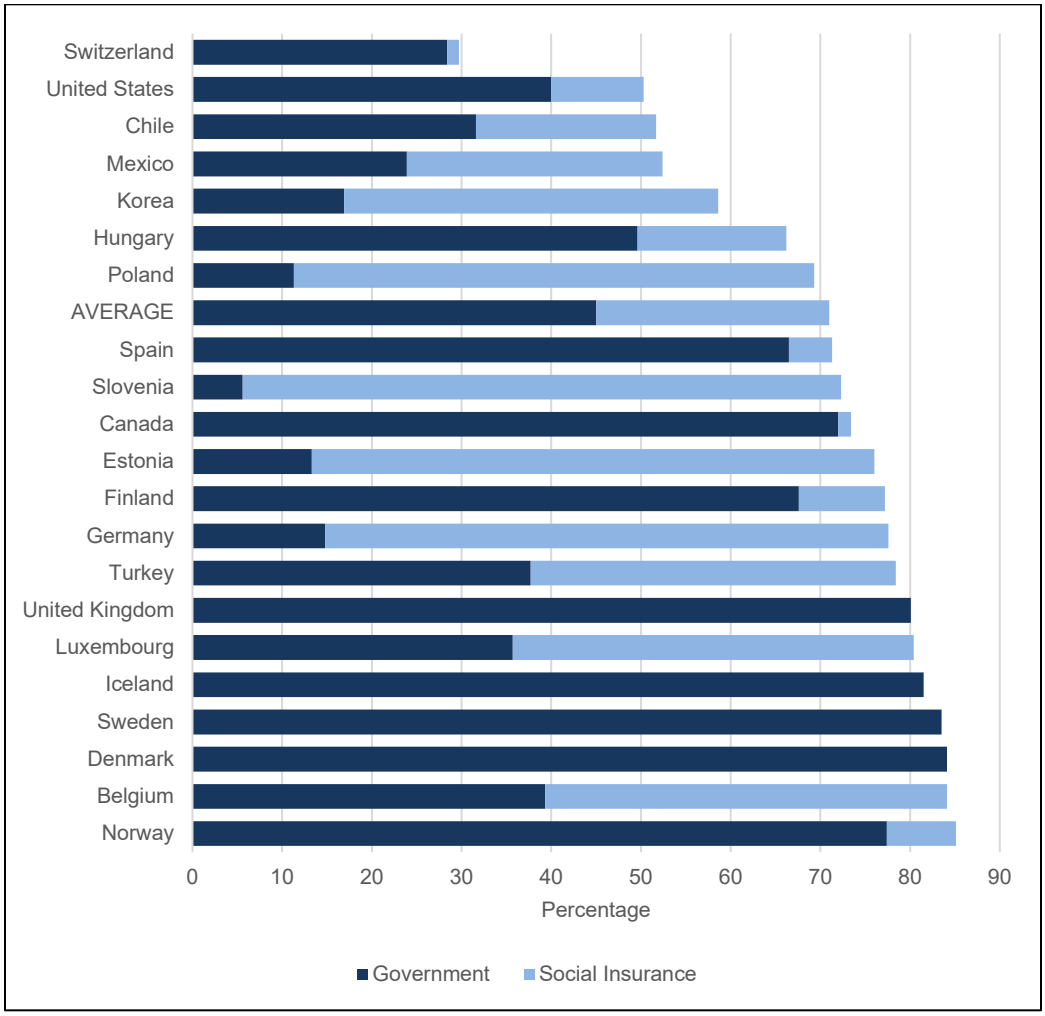
With the first of the baby boomers entering their senior years recently, the proportion of elderly people in Canada will continue to rise. However, CIHI has determined that the aging population has not been the primary cost driver in the growth of health care spending in recent years. In fact, aging and population growth accounted for only 2% of that growth over the past decade. General inflation, health sector inflation, innovation and technology have been greater cost drivers in health spending over that time period.[23] The Parliamentary Budget Officer (PBO) reported that the aging population plus population growth contributed 1.8 percentage points to average annual growth in total health spending from 1976 to 2015, or 26% of health spending growth over that period. The PBO estimates that aging plus population growth will account for 43% of health spending growth over the next 25 years.[24]

Data from CIHI on where health dollars are spent indicate that most spending is on hospitals, physicians and drugs (prescription and non-prescription); together, these expenditures accounted for 59.1% of total health spending in 2018.[25] The proportion of health care dollars spent on hospital services decreased from 45% in 1975 to 28.3% in 2018. This pattern reflects the increase in treatments that can be provided outside hospitals, as well as shorter hospital stays. While the proportion of health care dollars spent on physician services has fluctuated only slightly during that time frame at approximately 15%, the proportion spent on drugs has increased from about 9% in 1975 to 15.7% in 2018, reflecting the move away from hospital to pharmaceutical care.[26] Additional categories of health spending include other institutions, such as long-term care facilities, and other professional services, such as dental and vision care, etc.[27]

Total expenditures on health care include funds from both public and private sources. In Canada, health care dollars from the public sector come largely from the provincial and federal governments in terms of tax dollars, but also from municipal government, workers' compensation boards and social security contributions. CIHI's 2018 forecast indicated that 69% of health expenditures are from public funds and that this proportion has been relatively steady since 2000.[28] Public sources are further broken down to 64.2% provincial financing (which includes the federal CHT) and 4.8% direct federal government, municipal government and social security funds.[29] Private sector funding for health care, accounting for the remaining 31% of health expenditures, includes primarily private insurance and household expenditures. In 2016, out-of-pocket expenses accounted for $972 per capita, a 4.6% annual growth rate since 1988. Health care dollars from private insurance were $788 per capita in 2016, a 6.4% annual growth rate over the same period.[30]

Figure 3 below presents a comparison of Canada to other Organisation for Economic Co-operation and Development (OECD) countries in terms of the public sector's share of health expenditures. In 2016, public sector health spending in Canada (72%) was close to the average of just over 71% of total expenditures. In Norway, Belgium, Denmark and Sweden, public sector funds accounted for about 84% of total expenditures, while in the United Kingdom, public financing accounted for 80% of expenditures. Public funding for health care in the United States accounted for 50% of total health expenditures.[31]

Figure 3 – Public Financing as a Percentage of Total Health Spending, 2016 or Nearest Year



Source: Figure prepared by the author using data obtained from OECD.Stat, *Revenues of health care financing schemes*, 2016, accessed 18 July 2018.

In April 2018, the House of Commons Standing Committee on Health issued a report entitled *Pharmacare Now: Prescription Medicine Coverage for All Canadians*, which provided an analysis of the health care dollars spent on medicines. [32] The committee reported that spending on medicines dispensed outside hospitals accounted for 85% of total drug expenditures in 2017. While medicines used within the hospital setting must be covered by provincial insurance schemes, as required by the CHA, out-of-hospital drug expenditures are paid for by private insurance and individuals, as well as by provincial health insurance for certain population groups. The report noted that 43% of out-of-hospital medicine is covered by public insurance, 35% is covered by private insurance and 22% is paid for out of pocket.

NOTES

1. All subsequent references to the provinces and territories will use the term “province” or “provincial” and includes the territories.
2. *Constitution Act, 1867*, 30 & 31 Victoria, c. 3 (U.K.).
3. *Food and Drugs Act*, R.S.C. 1985, c. F-27.
4. *Controlled Drugs and Substances Act*, S.C. 1996, c. 19.
5. *Human Pathogens and Toxins Act*, S.C. 2009, c. 24.
6. *Federal-Provincial Fiscal Arrangements Act* [FPFAA], R.S.C. 1985, c. F-8.
7. Martha Butler and Marlisa Tiedemann, *The Federal Role in Health and Health Care*, Publication no. 2011-91-E, Parliamentary Information and Research Service, Library of Parliament, Ottawa, 20 September 2013.
8. *Canada Health Act* [CHA], R.S.C. 1985, c. C-6.
9. CHA, s. 3.
10. CHA, ss. 7–12.
11. Department of Finance Canada, *Federal Support to the Provinces and Territories*.
12. FPFAA, s. 24.1(1)(a).
13. Ibid., ss. 24.1(1)(a)(i)–24.1(1)(a)(v).
14. Department of Finance Canada, “What is the Canada Health Transfer (CHT)?,” *Canada Health Transfer*.
15. Government of Canada, “A Strong Canada at Home and in the World,” Chapter 3 in *Building a Strong Middle Class*, Budget 2017.
16. Government of Canada, *A Common Statement of Principles on Shared Health Priorities*, 2017.
17. Government of Canada, *Shared Health Priorities*.
18. Government of Canada, *Canada Reaches Health Funding Agreement with Quebec*, News release, 10 March 2017.
19. Canadian Institute for Health Information [CIHI], “Figure 1: How much will we spend on health in 2018?,” *National Health Expenditure Trends, 1975 to 2018*, 2018, p. 6.
20. CIHI (2018), p. 32.
21. Ibid., “Figure 2: Total health expenditure as a percentage of GDP, Canada, 1975 to 2018,” p. 7.
22. Ibid., “Figure 14: Provincial/territorial government health expenditure per capita, by age group, Canada, 2016,” p. 22.
23. Ibid., pp. 24–25.
24. Chris Matier, *FSR 2017 – Provincial-Territorial Health Care Cost Drivers*, PBO [Parliamentary Budget Officer] Blog, 20 November 2017.
25. CIHI (2018), p. 15.
26. Ibid., p. 17.
27. Ibid., p. 18.
28. Ibid., “Figure 5: Who is paying for these services?,” p. 12.
29. Ibid., p. 11.
30. Ibid., p. 13.

31. Organisation for Economic Co-operation and Development, “Figure 3: Public financing as a share of total health spending, by funding source, 2016 or nearest year,” *Spending on Health: Latest Trends*, June 2018, p. 3.

32. House of Commons, Standing Committee on Health, *Pharmacare Now: Prescription Medicine Coverage for All Canadians*, Fourteenth Report, 1st Session, 42nd Parliament, April 2018, p. 27.