



Fiscal Sustainability of Publicly Funded Health Care: The Case of Ontario

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Determining Fiscal Sustainability

- Start with an estimate of potential economic growth, which determines available revenues
- Develop scenarios on spending by program, esp. health and education
- Set out options for a sustainable fiscal path

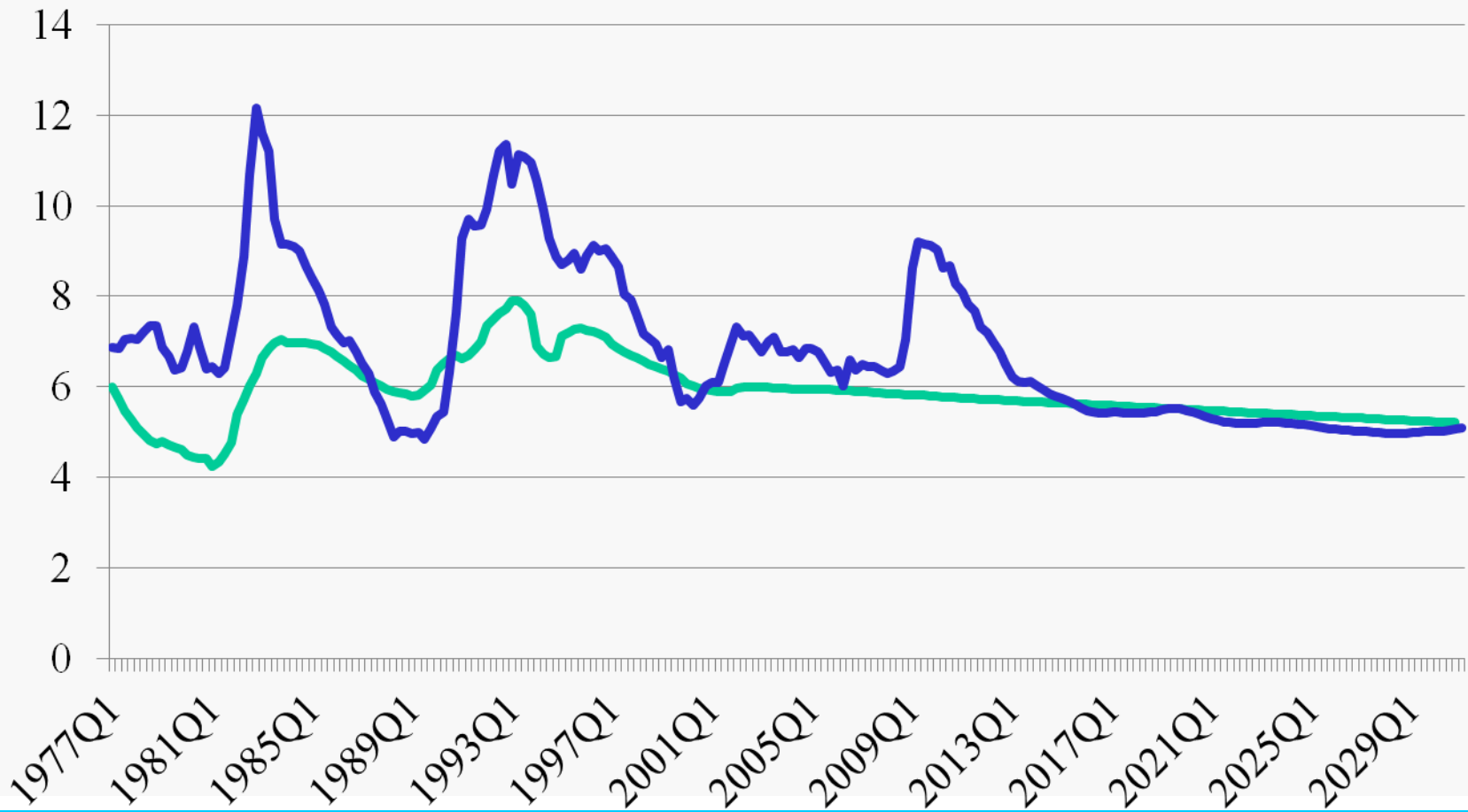


Estimating Potential Output for Ontario

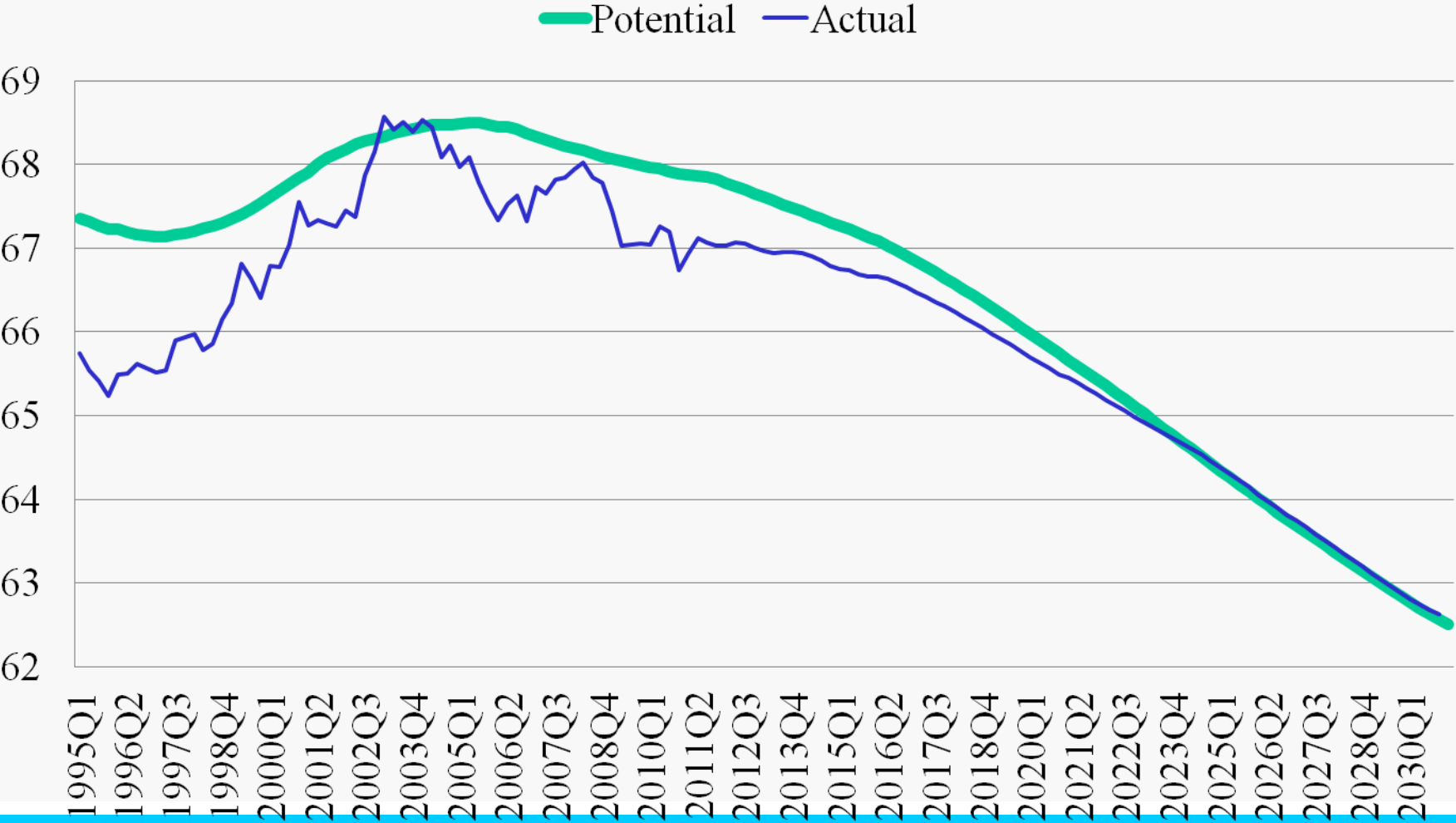
- Potential output measures an economy's sustainable long-term growth performance.
- Based on
 - Size of the available labour force
 - Capital investment in physical space, machinery and equipment (M&E)
 - Productivity growth – labour, capital and total factor productivity or TFP



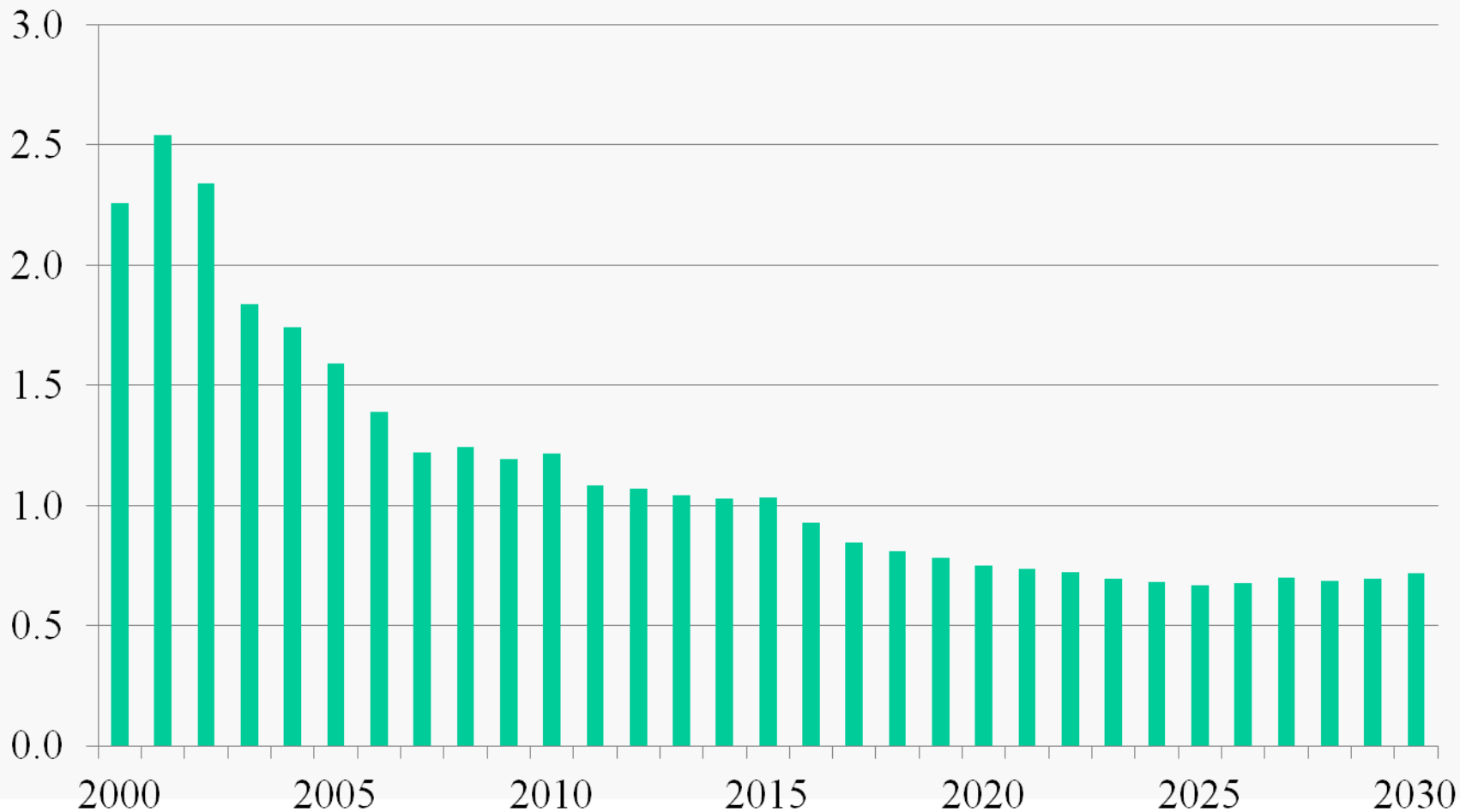
Ontario's Natural Rate of Unemployment



Ontario's Participation Rate

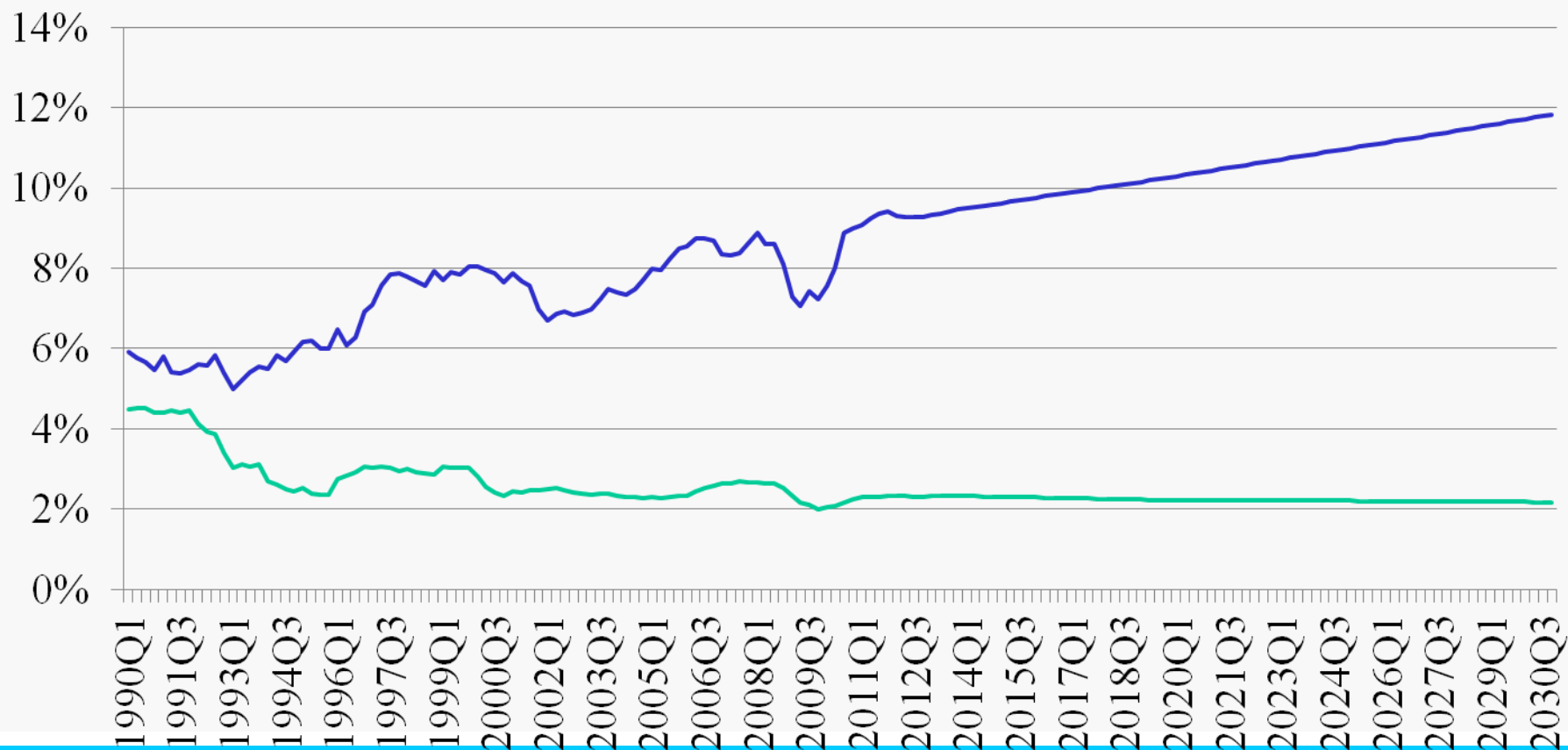


Ontario Labour Force Growth (annual %)

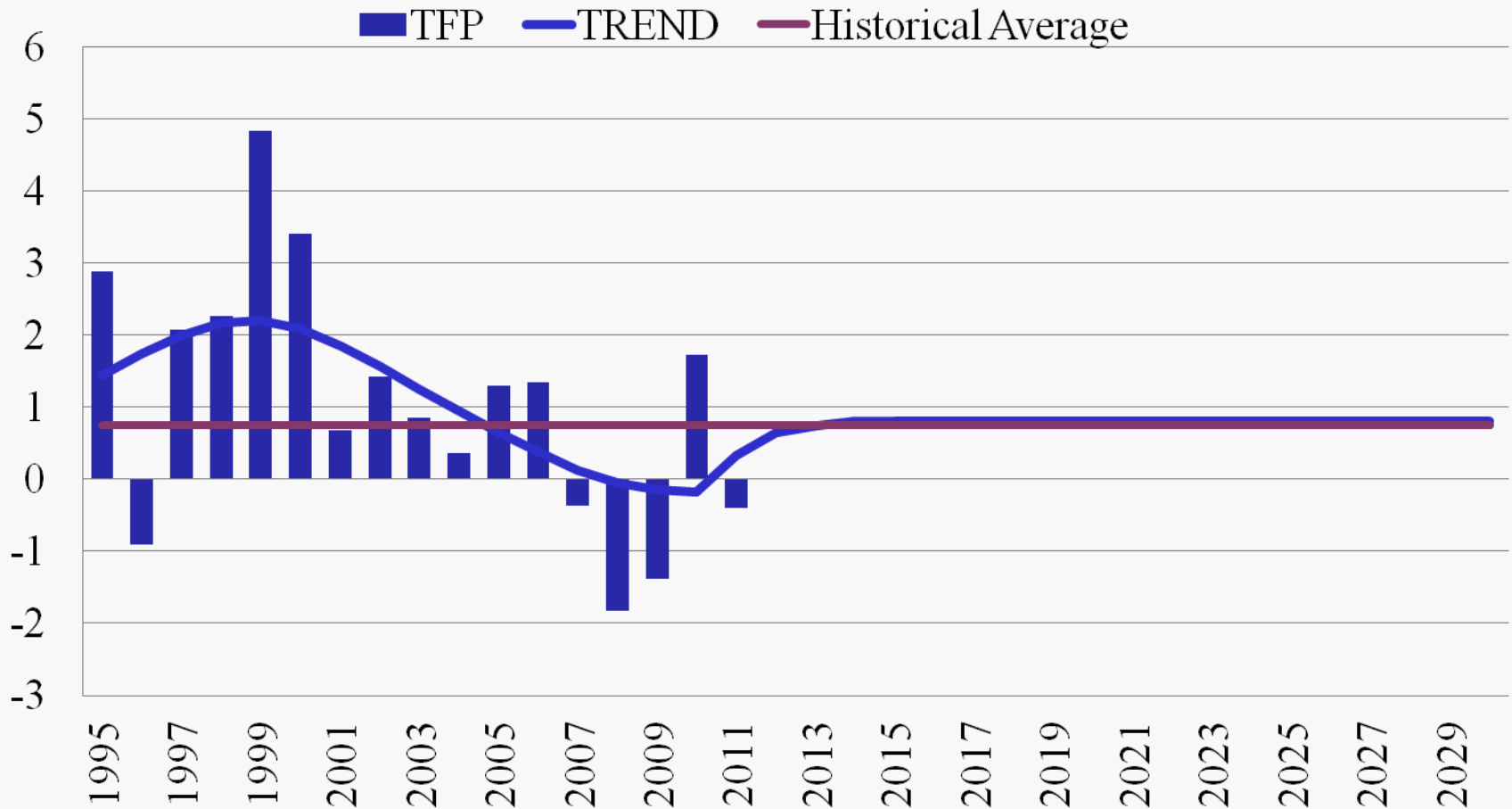


Ontario Investment (Share of GDP)

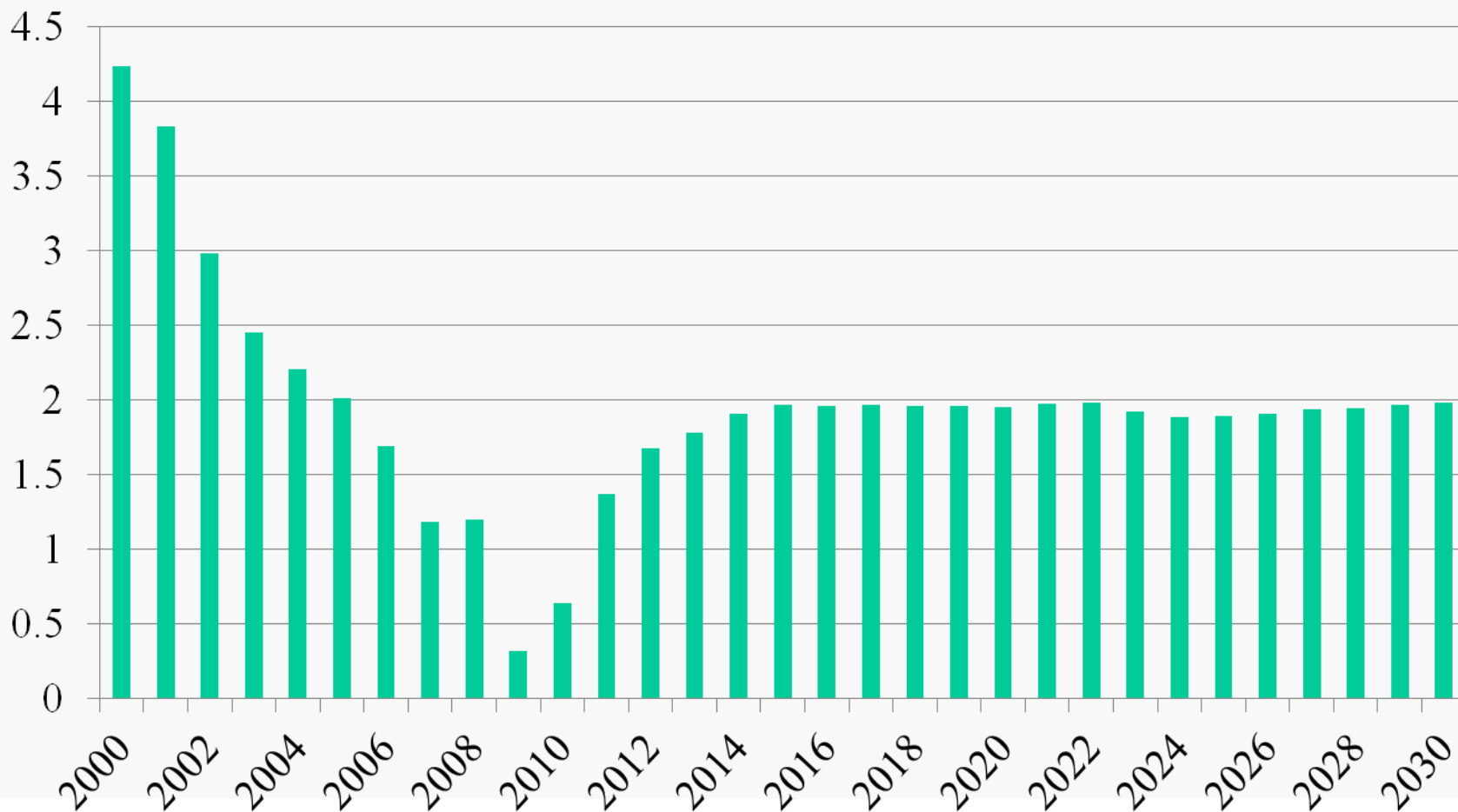
— Non-Residential / GDP — M&E / GDP



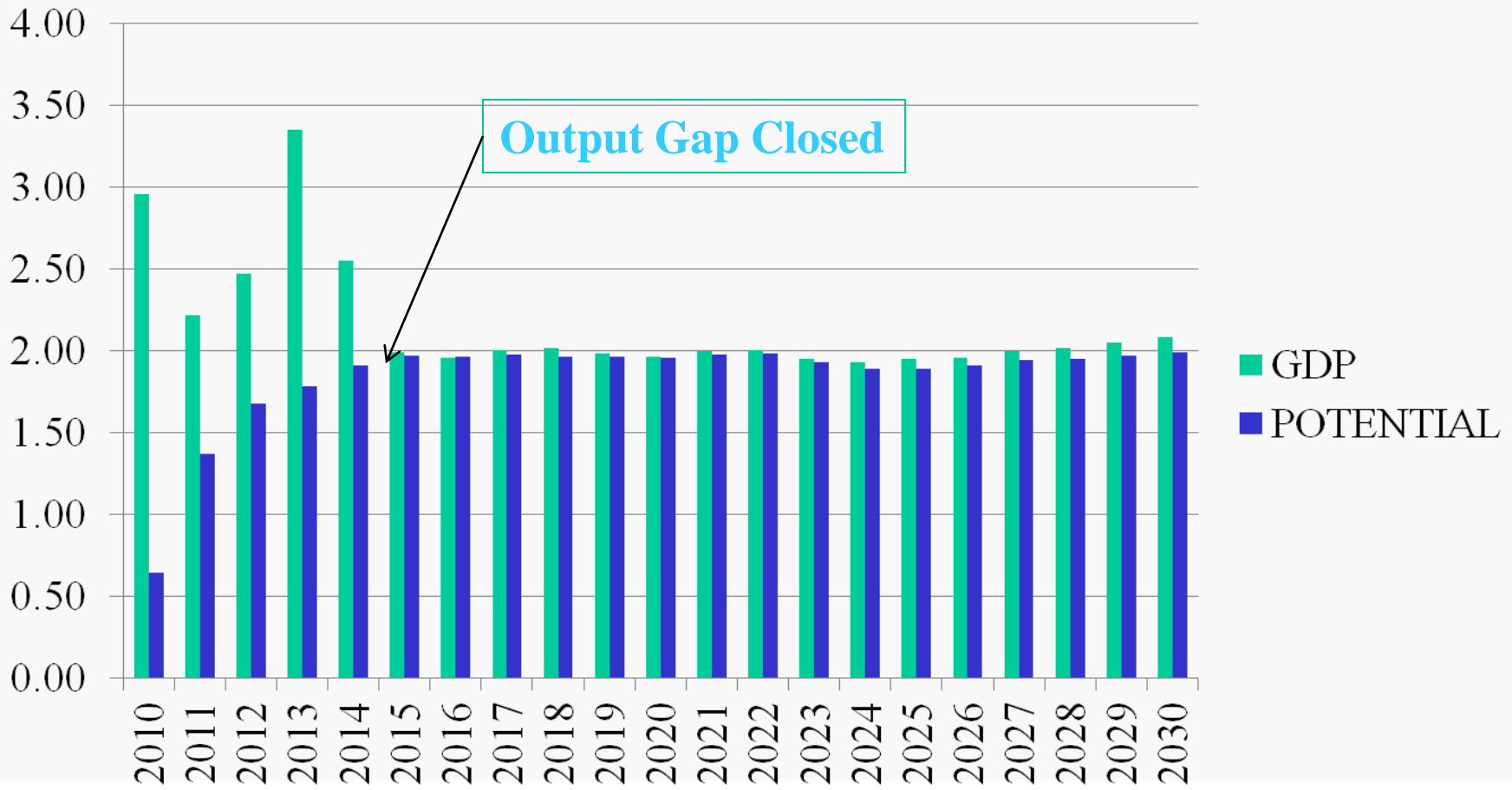
Ontario Trend TFP Growth (per cent)



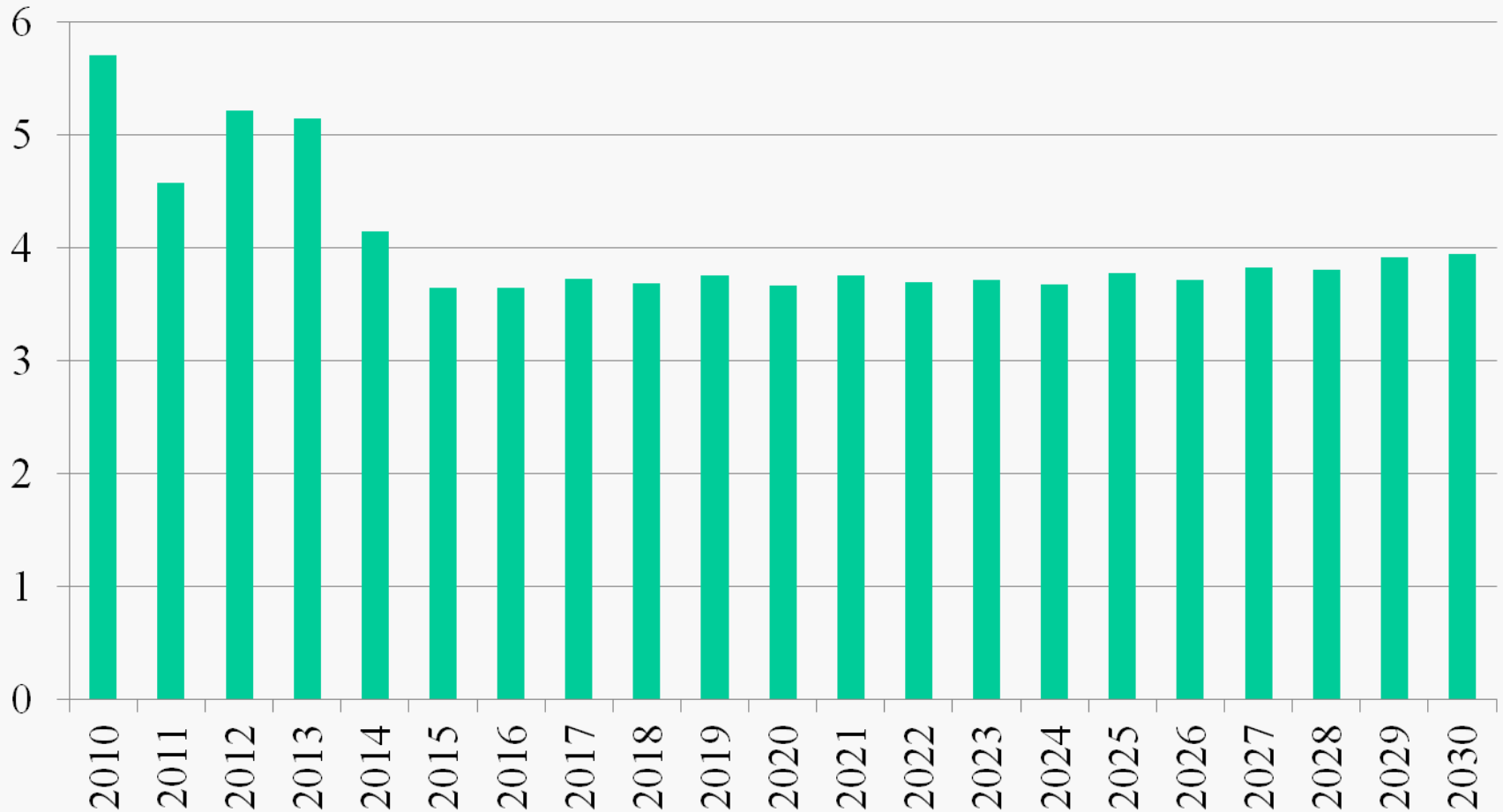
Ontario Potential Output Growth (per cent)



Projected Ontario GDP Growth (per cent)



Nominal GDP Growth

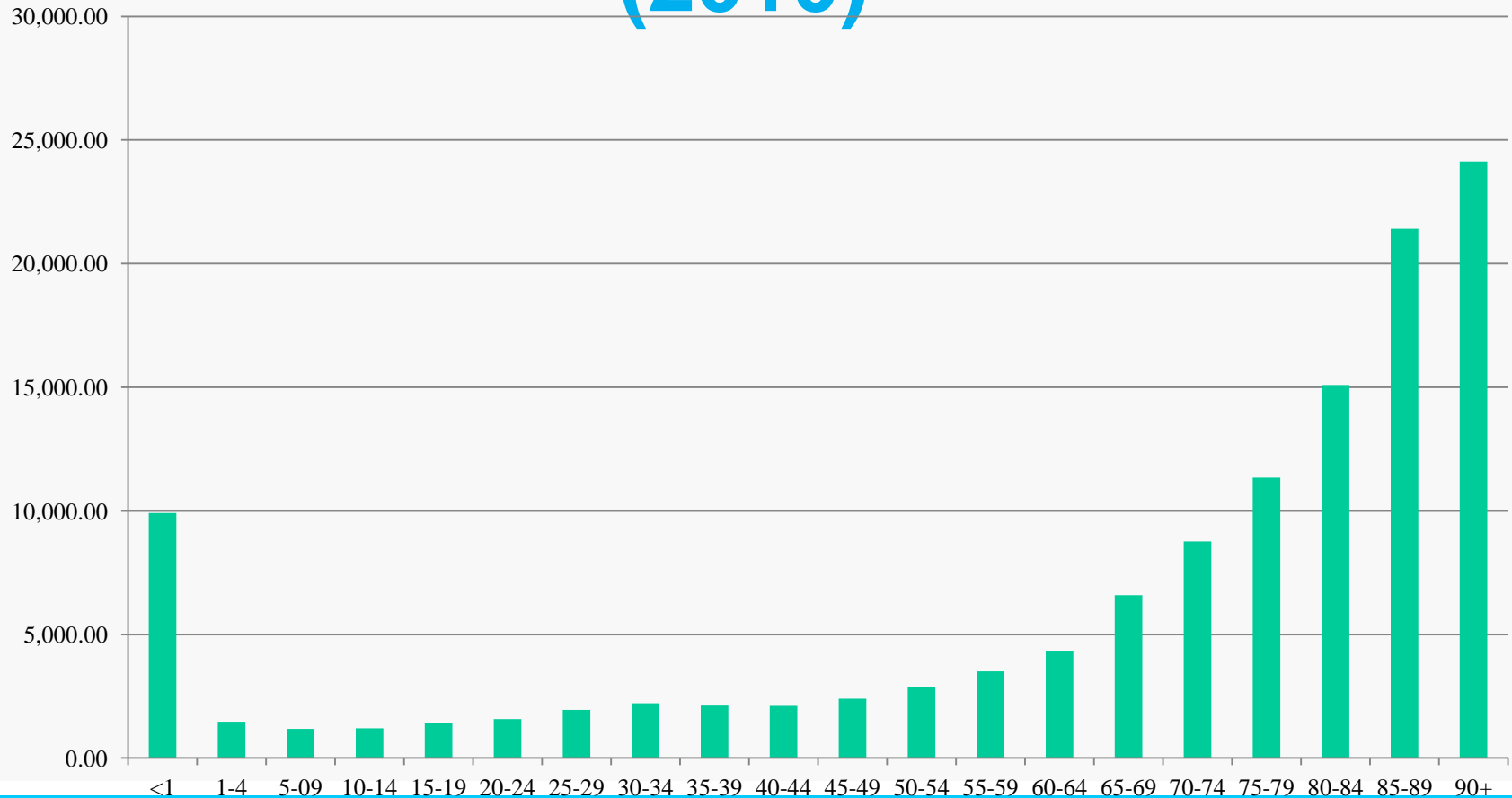


The Health and Education Models

- The Conference Board uses a detailed, demographically driven health expenditure model to assess future demand for health care.
- The Board also has an education model that forecasts education spending on a real per-student basis.



Total Average Per Capita Public Health Expenditures by Age Category (2010)

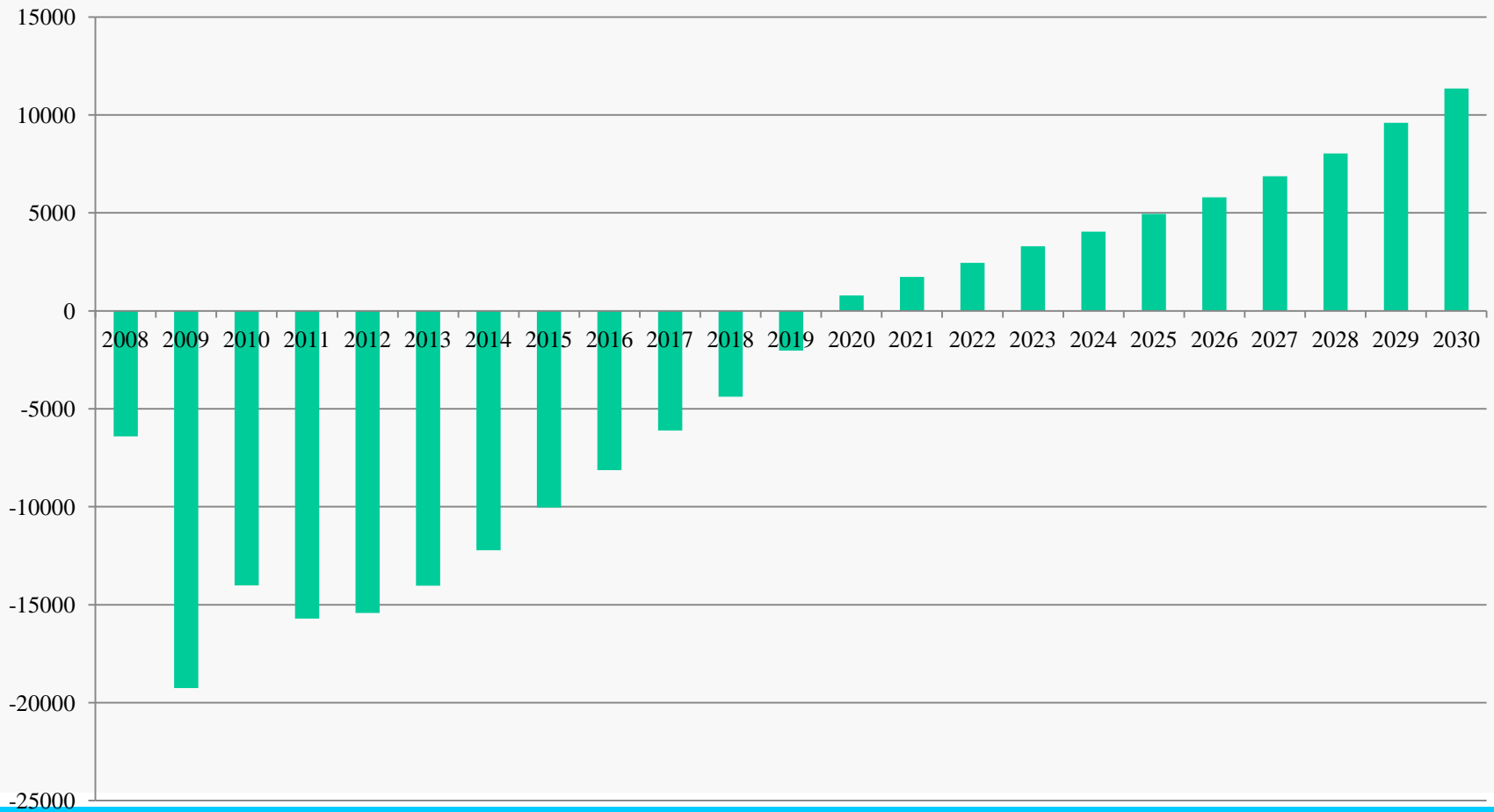


Scenario 1

- Growth in nominal GDP determines revenue available to government.
- Spending assumptions based on the April 2011 budget and economic numbers:
 - Average growth of 3 per cent for health care
 - Average growth of 2.4 per cent for education
 - Average growth of 2.8 per cent for social programs
 - Contraction of 5 per cent for other programs



Books Balanced in 2020-21

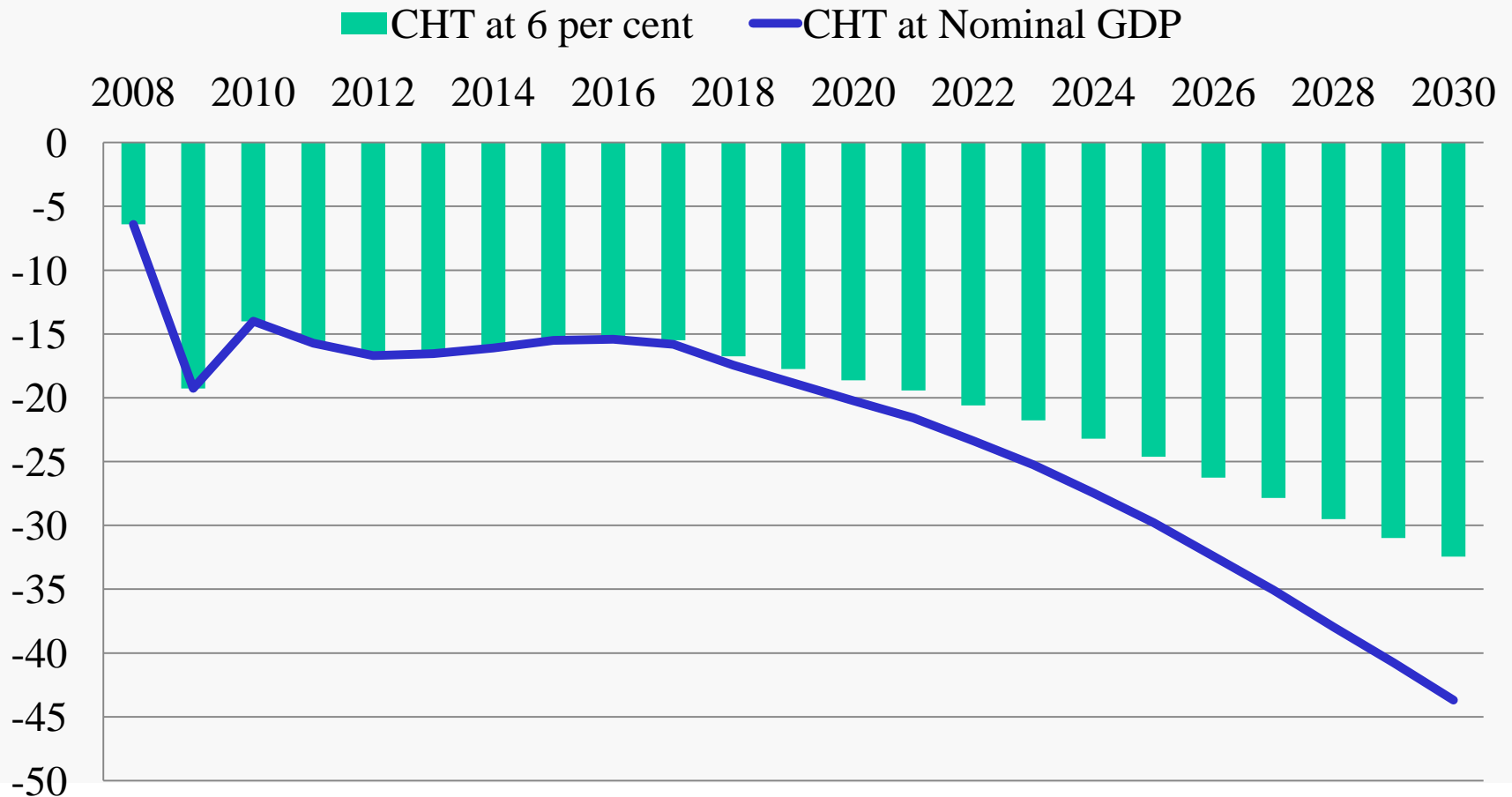


Scenario 2

- Health and education spending increase in the long term based on population growth.
- Average health care spending is estimated at 4.7 per cent.
 - 2.5 per cent is due to inflation
 - 1.2 per cent is due to population increases
 - 1 per cent to changing demographics
- Other program spending targets maintained.



Deficit Reaches \$32 billion by 2030



Scenario 3

- Average health care spending is estimated at 5.6 per cent.
 - 2.5 per cent is due to inflation
 - 1.2 per cent is due to population increases
 - 1 per cent to changing demographics
 - 0.9 per cent increased access
- Other program spending targets maintained.



Scenario 3

- Provincial sales tax would have to increase from 8 per cent to 14 per cent to balance the budget by 2017-18.



Ontario 2012 Budget Plan

- Budget 2012 aims for fiscal balance in 2017-18 without major tax increases
- Health spending to grow 2.1 per cent annually, vs. historic trend of 6.9 per cent
- Education spending to grow under 2 per cent annually, vs. historic trend of 6 per cent
- Other program spending to be cut by almost 3.5 per cent per year
- Adjustment is back-end loaded and depends heavily on slow or no growth in compensation



Implications

- Ontario has entered a new fiscal reality
- Major programs – health, education, social support – facing sharp funding squeeze, largely via compensation freezes
- Other programs already designated for funding cuts
- Design and delivery of government services will require transformation





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