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

- **Potential**
- **Actual**
Ontario Potential Output Growth (per cent)
Projected Ontario GDP Growth (per cent)

Output Gap Closed

GDP
POTENTIAL
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

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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

CHT at 6 per cent  CHT at Nominal GDP
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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