# FRASER BULLETIN



August 2016

# The Price of Public Health Care Insurance

2016 FDITION

\$443 Health Care Cost

Family Income: \$14,028

\$5,516 **Health Care Cost** 

Family Income: \$60,850

\$37,361 Health Care Cost

Family Income: \$281,359



## by Milagros Palacios, Feixue Ren, and Bacchus Barua

#### **SUMMARY**

- Canadians often misunderstand the true cost of our public health care system. This occurs partly because Canadians do not incur direct expenses for their use of health care, and partly because Canadians cannot readily determine the value of their contribution to public health care insurance.
- In 2016, the estimated average payment for public health care insurance ranges from \$3,620 to \$11,795 for six common Canadian family types, depending on the type of family.
- For the average Canadian family, between 2006 and 2016, the cost of public health care insurance increased 1.4 times faster than average income, 1.3 times as fast as the cost of food and at about the same pace as the cost of shelter.
- The 10% of Canadian families with the lowest incomes will pay an average of about \$443 for public health care insurance in 2016. The 10% of Canadian families who earn an average income of \$60,850 will pay an average of \$5,516 for public health care insurance, and the families among the top 10% of income earners in Canada will pay \$37,361.

#### Introduction

Health care in Canada is not "free." While Canadians may not be billed directly when they use medical services, they pay a substantial amount of money for health care through the country's tax system. Unfortunately, the size of these tax payments is hard to determine because there is no "dedicated" health insurance tax. As a result, individuals and families often cannot fully appreciate the true cost they pay towards the public health care system.

The purpose of this research bulletin is to help individual Canadians and their families better understand how much health care actually costs them personally so they can determine whether they are receiving good value for their tax dollars

## Why the misunderstanding?

One reason why Canadians don't know the true cost of health care is because the physician and hospital services that are covered by taxfunded health care insurance are free at the point of use. This situation leads many people to grossly underestimate the true cost of health care. When people speak of "free" health care in Canada, they are entirely ignoring the substantial taxpayer-funded cost of the system.<sup>2</sup>

Furthermore, health care in Canada is financed through general government revenues rather

than through a dedicated tax,<sup>3</sup> which blurs the true dollar cost of the service. Indeed, Canadians cannot easily work out precisely what they pay to government each year for health care because there are many different sources of government revenues that may contribute to funding health care, including income taxes, Employment Insurance (EI) and Canada Pension Plan (CPP) premiums, property taxes, profit taxes, sales taxes, taxes on the consumption of alcohol and tobacco, and import duties, among others. Some Canadians might assume that in those provinces that assess them, health care premiums cover the cost of health care. However, the reality is that these premiums cover just a fraction of the cost of health care and are paid into general revenues from which health care is funded.

The available numbers can be difficult to digest. For example, health spending figures are often presented in aggregate, resulting in numbers so large they are almost meaningless. For instance, approximately \$144 billion of our tax dollars were estimated to have been spent on publicly funded health care in 2015 (CIHI, 2015).4

It is more informative to measure the cost of our health care system in per capita dollars: the \$144 billion spent equates to approximately \$4,024 per Canadian (CIHI, 2015; Statistics Canada, 2015; authors' calculations). This would be the cost of the public health care insurance plan if every Canadian resident paid an equal share.

<sup>&</sup>lt;sup>1</sup> In a monetary sense. There are, however, costs associated with health care use in Canada that are not monetized, such as wait times for access to medical services. For more on this, see Globerman, 2013.

<sup>&</sup>lt;sup>2</sup> It is also important to consider the costs associated with funding health care through tax revenues. For more on this, see Esmail, 2008.

<sup>&</sup>lt;sup>3</sup> A dedicated tax is earmarked and separated from other taxes; its revenues are used for a particular purpose.

<sup>&</sup>lt;sup>4</sup> This figure includes health spending from provincial and territorial government funds, federal health transfers to the provinces and territories, and provincial government health transfers to local governments.

Table 1: Average income and average total tax bill of representative families in Canada, 2016 (preliminary estimates)

Family Type	Average Cash Income (\$)	Average Total Tax Bill (\$)	Tax Rate	Health Care Insurance (\$)
Unattached Individuals	42,914	18,030	42.0%	4,257
2 Parents, 0 Children	105,656	49,316	46.7%	11,642
2 Parents, 1 Child	124,493	49,964	40.1%	11,795
2 Parents, 2 Children	122,101	48,685	39.9%	11,494
1 Parent, 1 Child	56,386	18,845	33.4%	4,449
1 Parent, 2 Children	56,349	15,333	27.2%	3,620

Source: The Fraser Institute's Canadian Tax Simulator, 2016.

However, not all Canadians pay equal tax amounts each year. Some Canadians are children and dependents and are not taxpayers. Conversely, higher-income earners bear a greater proportion of the tax burden than lower-income earners and thus contribute proportionally more to our public health care system. Various tax exemptions and credits also further complicate matters. Clearly, the per capita spending measure does not accurately represent the true cost of public health care insurance for Canadian individuals and families.

### The cost of health care by family type

In order to more precisely estimate the cost of public health care insurance for the average Canadian family in 2016, we must determine how much tax an average family pays to all levels of government and the percentage of the family's total tax bill<sup>5</sup> that pays for public health care insurance. In 2015/16, an estimated 23.6% of tax revenues (income) was spent on health care (Statistics Canada, 2009, 2016b, and 2016c; CIHI, 2015; authors' calculations).6

Table 1 shows six Canadian family types, the estimated average income<sup>7</sup> for those family types

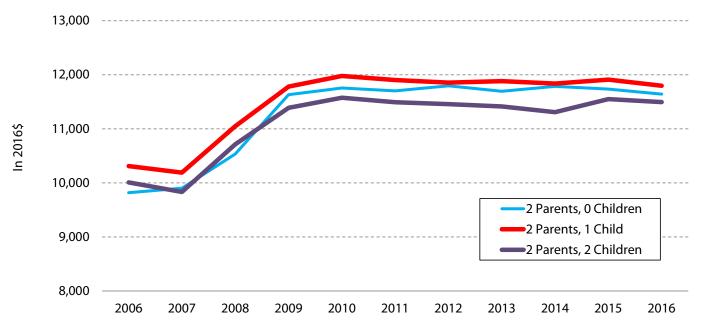
consumption of alcohol and tobacco; fuel taxes and motor vehicle licence fees; natural resource fees; and a host of other levies. For further details on how the total tax bill is calculated for the average Canadian family, see the methodology section at Palacios et al. (2016).

<sup>&</sup>lt;sup>5</sup> The total tax bill includes income taxes (personal and business); property taxes; sales taxes; payroll taxes; health taxes; import duties; taxes on the

<sup>&</sup>lt;sup>6</sup> The calculations presented in this bulletin assume that the health care insurance paid by each Canadian family comes from their total tax bill. The proportion of the family's tax bill devoted to health care insurance is assumed to be the same proportion of tax revenues spent on health care by the government.

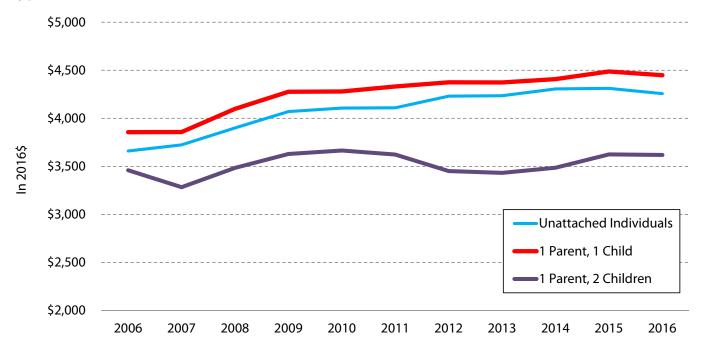
<sup>&</sup>lt;sup>7</sup>The definition of "income" used throughout this article is cash income, which includes wages and salaries, self-employment income (farm and nonfarm), interest, dividends, private and government pension payments, old age pension payments, and

Figure 1: Inflation-adjusted cost of public health care insurance, for selected types of 2-parent families, 2006-2016



Sources: The Fraser Institute's Canadian Tax Simulator, 2016; Statistics Canada, 2016a; authors' calculations.

Figure 2: Inflation-adjusted cost of public health care insurance, for other selected types of families, 2006-2016



Sources: The Fraser Institute's Canadian Tax Simulator, 2016; Statistics Canada, 2016a; authors' calculations.

in 2016, and their estimated dollar contribution to health care. In 2016, the average unattached (single) individual, earning an average income of \$42,914, will pay approximately \$4,257 for public health care insurance. An average Canadian family consisting of two adults and two children (earning approximately \$122,101) will pay about \$11,494 for public health care insurance.

### The impact of the increasing cost of health care on Canadian individuals and families

Figures 1 and 2 show the inflation-adjusted<sup>8</sup> cost of public health care insurance for the six representative family types from 2006 to 2016. Over the last decade<sup>9</sup>, the cost of public health care insurance (adjusted for inflation) has increased by:

- 18.6% for the average family consisting of 2 adults and no children<sup>10</sup> (from \$9,817 to \$11,642);
- 14.4% for the average family consisting of 2 parents and 1 child (from \$10,309 to \$11,795);

other transfers from governments (such as the universal child care benefit).

- <sup>8</sup> Calculated using the consumer price index (CPI), and presented in constant 2016 dollars. For the year 2016, the CPI index was forecast to December based on the average of the monthly index up to April (the most recent month for which information was available).
- <sup>9</sup> Current estimates suggest that between 2015 and 2016, all six family types experienced a slight fall in the cost of public health care insurance (inflation adjusted). However, this result is based on preliminary (and pro-rated) data and should be interpreted with caution.
- <sup>10</sup> "2 adults, 0 children" includes elderly couples who might have children, but those children do not live with them.

- 14.8% for the average family consisting of 2 parents and 2 children (from \$10,008 to \$11,494);
- 16.3% for the average unattached individual (from \$3,661 to \$4,257);
- 15.4% for the average family consisting of 1 parent and 1 child (from \$3,857 to \$4,449);
- 4.6% for the average family consisting of 1 parent and 2 children (from \$3,460 to \$3,620).

One way to understand the impact of the growing financing burden of public health care insurance on Canadian families is to compare it with changes in income, and the cost of basic necessities (food, clothing, and shelter).

Table 2 and figure 3 show that between 2006 and 2016, the average Canadian family's cash income increased by 26.2%.<sup>11</sup> At the same time, spending on clothing increased by 50.8%, expenditures on shelter increased by 36.6%, and spending on food rose by 30.0%. Over that decade, the cost of health care insurance for the average Canadian family (all family types) increased by 37.8%.

Put differently, the cost of public health care insurance for the average Canadian family grew 1.4 times faster than the average income between 2006 and 2016. Further, over the decade the cost of public health care insurance increased 1.3 times as fast as the cost of food and at about the same pace as the cost of shelter. 12

<sup>&</sup>lt;sup>11</sup> The results showed in table 2 and figure 3 are not adjusted by inflation since the consumer price index (CPI) is used as one of the measures to compare health care insurance, income and other expenditures.

<sup>12</sup> Over the last ten years, the cost of clothing increased 1.3 times as fast as the cost of public health

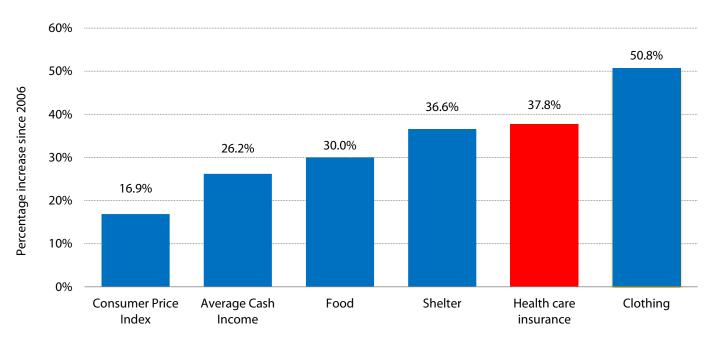
Table 2: Income, cost of health care, and selected expenditures of the average Canadian family\* (current dollars)

Year	Average Cash Income (\$)	Health care insurance (\$)	Consumer Price Index (2002=100)	Average Expenditures (\$)**		
				Shelter	Food	Clothing
2006	64,890	5,878	109.1	12,719	7,415	2,419
2008	70,310	6,564	114.1	13,803	7,897	2,851
2010	72,024	7,437	116.5	14,384	7,521	2,642
2012	75,839	7,759	121.7	16,477	8,042	3,127
2014	79,079	7,952	125.2	17,044	9,041	3,627
2015***	80,593	8,063	126.6	17,237	9,374	3,682
2016***	81,885	8,098	127.5	17,372	9,639	3,648
% increase 2006-2016	26.2%	37.8%	16.9%	36.6%	30.0%	50.8%

#### Notes:

Sources: Statistics Canada (various issues), *Spending Patterns in Canada*; Statistics Canada, 2016a and 2016d; The Fraser Institute's Canadian Tax Simulator, 2016; authors' calculations.

Figure 3: How health care insurance has increased relative to other costs, 2006-2016



Sources: Statistics Canada (various issues), *Spending Patterns in Canada*; Statistics Canada, 2016a and 2016d; The Fraser Institute's Canadian Tax Simulator, 2016; authors' calculations.

<sup>\*</sup> The average family includes unattached individuals.

<sup>\*\*</sup> All expenditure items include indirect taxes.

<sup>\*\*\*</sup> Expenditures for 2015 and 2016 were estimated using the results of the 2014 *Survey of Household Spending* and adjusting final results for inflation. Inflation numbers for 2016 are estimates.

Table 3: Average income and total tax bill in each decile, 2016 (preliminary estimates)

Decile	Average Cash Income (\$)	Average Total Tax Bill (\$)	Tax Rate	Health Care Insurance (\$)
1	14,028	1,876	13.4%	443
2	28,694	5,322	18.5%	1,256
3	39,367	10,431	26.5%	2,463
4	48,980	16,956	34.6%	4,003
5	60,850	23,365	38.4%	5,516
6	73,691	30,472	41.4%	7,194
7	90,247	39,074	43.3%	9,225
8	112,491	48,456	43.1%	11,439
9	144,590	65,250	45.1%	15,404
10	281,359	158,255	56.2%	37,361

Note: Deciles group families from lowest to highest incomes with each group containing 10% of all families. The first decile, for example, represents the 10% of families with the lowest incomes.

Source: The Fraser Institute's Canadian Tax Simulator, 2016.

## The cost of health care by income group

Table 3 divides Canadian families into 10 income groups (or "deciles") to show what families from various income brackets will pay for public health care insurance in 2016.

According to this calculation, the 10% of Canadian families with the lowest incomes will pay an average of about \$443 for public health care insurance in 2016. The 10% of Canadian families who earn an average income of \$60,850 will pay an average of \$5,516 for public health care insurance and the families among the top 10% of income earners in Canada will pay \$37,361.

care insurance. But, since 2000, the cost of public health care increased 1.5 times faster than clothing.

#### Conclusion

Tables 1 and 3 present a much different perspective on the costs of public health care insurance from the CIHI figure of \$4,024 per capita given earlier. In addition, the large gap between the growth rate of income and that of public health care insurance between 2006 and 2016 provides an important insight into the impact of changes in the cost of health care for Canadian individuals and families. Our hope is that these figures will enable Canadians to more clearly understand just how much they pay for public health care insurance, and how that amount is changing. With a more precise estimate of what they really pay, Canadians will be in a better position to decide whether they are getting a good return on the money they spend on health care.

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