

September 2012

The Price of Public Health Care Insurance

2012 edition

by Nadeem Esmail and Milagros Palacios

Main Conclusions

- 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 2012, the estimated average payment for public health care insurance ranges from \$3,418 to \$11,401 for six common Canadian family types, depending on the type of family.
- For the average Canadian family, between 2002 and 2012, the cost of public health care insurance increased more than twice as fast as the cost of shelter, roughly four times as fast as food, more than five times as fast as clothing, and 1.6 times faster than average income.
- The 10 percent of Canadian families with the lowest incomes will pay an average of about \$487 for public health care insurance in 2012. The 10 percent of Canadian families who earn an average income of \$55,271 will pay an average of \$5,285 for public health care insurance, and the families among the top 10 percent of income earners in Canada will pay \$32,628.

Introduction

Canadians often misunderstand the true cost of our public health care system. This lack of understanding limits Canadians' ability to assess whether they are receiving value for their tax dollars. Were they to better understand what health care costs them on a personal level, Canadians would be better equipped to judge the performance of their governments in providing quality health care.

Why the misunderstanding?

One reason why Canadians don't know the true cost of health care is because physician and hospital services covered by tax-funded health care insurance are free at the point of use.¹ This situation leads many to grossly underestimate the actual cost of the health care delivered. One often hears people speaking of "free" health care in Canada—a

statement that entirely ignores the substantial taxpayer funded cost of the health care system.²

Furthermore, health care in Canada is financed through general government revenues rather than through a dedicated³ tax, which blurs the true dollar cost of the service. Indeed, it is not simple for Canadians to work out precisely what they pay to government each year due to the many different sources of government revenues including income taxes, Employment Insurance (EI) and Canada Pension Plan (CPP) premiums, property taxes, profit taxes, sales taxes, alcohol and tobacco taxes, and import duties, among others. Further, some Canadians might assume that health care premiums cover the cost of health care in those provinces that assess them. 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.

Further, the numbers that are available can be difficult to digest. For example, health spending numbers are often presented in aggregate, resulting in figures so large they are almost meaningless. For instance, approximately \$130 billion of our tax dollars were estimated to have been spent on publicly funded health care in 2011 (CIHI, 2011). It is more informative to measure the cost of our health care system in per capita dollars: the \$130 billion spent equates to approximately \$3,779 per Canadian (CIHI, 2011). This would be the cost of the public health care insurance plan if every Canadian resident paid an equal share.

However, Canadians certainly do not pay equal tax amounts each year. Some Canadians are children and dependents and are not taxpayers. 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 further complicate matters. Clearly, the per capita spending measure does not capture the cost of public health care insurance for a Canadian individual or family.

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 2012, we must determine how much tax an average family pays to all levels of government and the percentage of the family's total tax bill⁴ that pays for public health care insurance. In 2011/2012, an estimated 24.3 percent of tax revenues (income) was spent on health care (Statistics Canada, 2009 and 2012; CIHI, 2011; authors' calculations).

Table 1 shows six Canadian family types, the estimated average income⁵ for those family types in 2012, and their estimated dollar contribution to health care. In 2012, the average unattached (single) individual, earning a little more than \$37,800, will pay approximately \$3,707 for public health care insurance. An average Canadian family consisting of two adults and two children (earning a little more than \$113,200) will pay about \$11,400 for public health care insurance.

About the authors



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Table 1: Average income and average total tax bill of representative families, 2012*

Family type	Average cash income	Average total tax bill	Tax rate	Health care insurance
Unattached individuals	\$37,812	\$15,280	40.4%	\$3,707
2 adults, 0 children**	\$96,458	\$46,814	48.5%	\$11,358
2 parents, 1 child	\$106,808	\$43,785	41.0%	\$10,623
2 parents, 2 children	\$113,226	\$46,990	41.5%	\$11,401
1 parent, 1 child	\$46,134	\$14,090	30.5%	\$3,418
1 parent, 2 children	\$50,964	\$14,133	27.7%	\$3,429

* Preliminary estimates.

** “2 adults, 0 children” includes elderly couples who might have children, but those children do not live with them.

Source: The Fraser Institute’s Canadian Tax Simulator, 2012.

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
2002	\$54,023	\$4,801	100.0	\$11,566	\$6,902	\$2,329
2004	\$58,323	\$5,244	104.7	\$12,025	\$7,076	\$2,324
2006	\$63,874	\$5,749	109.1	\$12,688	\$7,401	\$2,404
2008	\$68,591	\$6,495	114.1	\$13,688	\$7,807	\$2,822
2010*	\$70,590	\$7,291	116.5	\$14,109	\$7,471	\$2,554
2012*	\$74,113	\$7,670	122.4	\$14,507	\$7,909	\$2,591
% increase 2002-2012	37.2%	59.8%	22.4%	25.4%	14.6%	11.2%

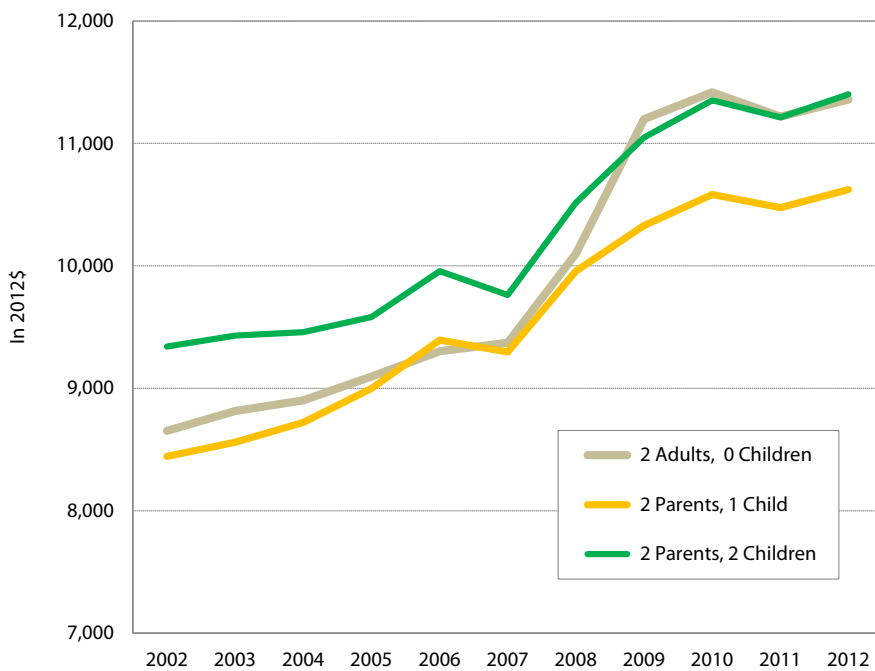
*The average family includes unattached individuals.

**All expenditure items include indirect taxes.

***Expenditures for 2010 and 2012 were estimated using the results of the 2009 *Survey of Household Spending* and adjusting final results for inflation.

Sources: Statistics Canada (various issues), *Survey of Household Spending*; Statistics Canada (various issues), *The Consumer Price Index*; The Fraser Institute’s Canadian Tax Simulator 2012; calculations by authors.

Figure 1: Inflation-adjusted cost of public health care insurance, for selected types of families, 2002-2012

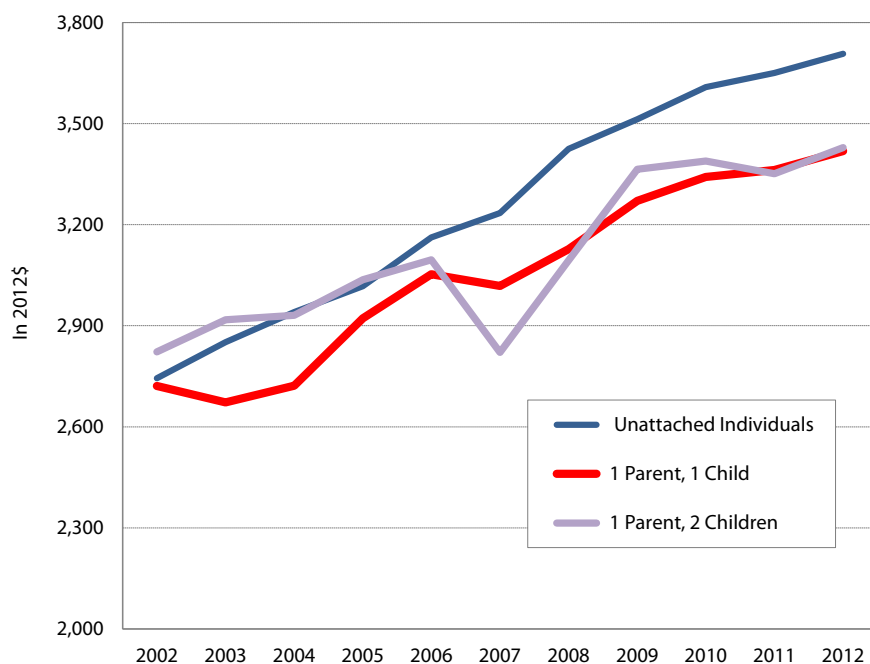


Source: The Fraser Institute's Canadian Tax Simulator, 2012; Statistics Canada (various issues), The Consumer Price Index; calculations by authors.

What impact does the increasing cost of health care have on Canadian individuals and families? Figures 1 and 2 show the inflation-adjusted cost of public health care insurance for the 6 representative family types from 2002 to 2012. Over the last decade, the cost of public health care insurance (after inflation) has increased by:

- 31.3 percent for the average family consisting of 2 adults and no children⁶ (from \$8,653 to \$11,358);
- 25.8 percent for the average family consisting of 2 parents and 1 child (from \$8,443 to \$10,623);
- 22.0 percent for the average family consisting of 2 parents and 2 children (from \$9,341 to \$11,401);
- 35.1 percent for the average unattached individual (from \$2,744 to \$3,707);
- 25.6 percent for the average family consisting of 1 parent and 1 child (from \$2,721 to \$3,418);
- 21.5 percent for the average family consisting of 1 parent and 2 children (from \$2,823 to \$3,429).

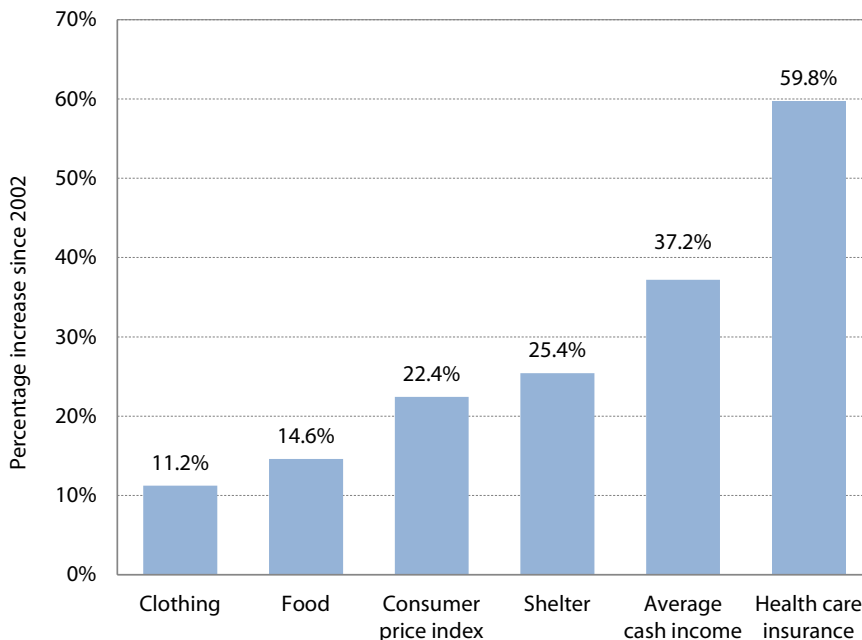
Figure 2: Inflation-adjusted cost of public health care insurance, for selected types of families, 2002-2012



Source: The Fraser Institute's Canadian Tax Simulator, 2012; Statistics Canada (various issues), The Consumer Price Index; calculations by authors.

To better understand the impact of the growing financing burden of public health care insurance, compare it with changes in the cost of the necessities of life (food, clothing, and shelter). Table 2 and figure 3 show that between 2002 and 2012, the average Canadian family's cash income increased by 37.2 percent

Figure 3: How Health Care Insurance has increased relative to other costs, 2002-2012



Sources: Statistics Canada (various issues), *Survey of Household Spending*; Statistics Canada (various issues), *The Consumer Price Index*; The Fraser Institute's Canadian Tax Simulator 2012; calculations by authors.

Table 3: Average income and total tax bill in each decile, 2012*

Decile	Average cash income	Average total tax bill	Tax rate	Health care insurance
1	\$12,369	\$2,006	16.2%	\$487
2	\$26,659	\$5,108	19.2%	\$1,239
3	\$36,176	\$10,085	27.9%	\$2,447
4	\$44,960	\$15,622	34.7%	\$3,790
5	\$55,271	\$21,783	39.4%	\$5,285
6	\$67,272	\$27,925	41.5%	\$6,775
7	\$81,602	\$35,871	44.0%	\$8,703
8	\$100,360	\$44,765	44.6%	\$10,861
9	\$128,094	\$59,512	46.5%	\$14,439
10	\$249,495	\$134,482	53.9%	\$32,628

*Preliminary estimates.

**Deciles group families from lowest to highest incomes. Each group contains 10 percent of all families. The first decile, for example, represents the ten percent of families with the lowest incomes.

Source: The Fraser Institute's Canadian Tax Simulator, 2012.

(before inflation). At the same time, expenditures on shelter increased by 25.4 percent, spending on food increased by 14.6 percent, and clothing rose by 11.2 percent. Over that decade, the cost of health care insurance for the average Canadian family (all family types) increased by 59.8 percent. This means that between 2002 and 2012, the cost of public health care insurance for the average Canadian family increased more than twice as fast as the cost of shelter, roughly four times as fast as food, and more than five times as fast as clothing. Further, the cost of public health care insurance grew 1.6 times faster than the average income over the decade.

The cost of health care by income group

Table 3 divides the Canadian population into 10 income groups (or "deciles") to show what families from various income brackets will pay for public health care insurance in 2012.

According to this calculation, the 10 percent of Canadian families with the lowest incomes will pay an average of about \$487 for public health care insurance in 2012. The 10 percent of Canadian families who earn an average income of \$55,271 will pay an average of \$5,285 for public health care insurance and the families among the top 10 percent of income earners in Canada will pay \$32,628.

Conclusion

Tables 1 and 3 present a much different perspective on the costs of public health care insurance than

the CIHI figure of \$3,779 per capita given earlier. In addition, the large gaps between the growth rates of spending on the necessities of life and that of public health care insurance provide important insight into the increasing 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 over time. 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.

Notes

- 1 In dollar terms. There are costs associated with health care use in Canada that are not monetized, such as wait times for access to medical services.
- 2 It is also important to consider the costs associated with funding health care through tax revenues. For more on this, see Esmail, 2008.

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ISSN 1714-6720

Date of Issue: September 2012

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Editing, design, and production

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- 3 A dedicated tax is earmarked and separated from other taxes; its revenues are used for a particular purpose.
- 4 The total tax bill includes income taxes (personal and business); property taxes; sales taxes; profit taxes; health, social security, and pension taxes; import duties; licence fees; taxes on the consumption of alcohol and tobacco; natural resource fees; fuel taxes; hospital taxes; and a host of other levies.
- 5 The definition of “income” used throughout this article is cash income, which includes wages and salaries, self-employment income (farm and non-farm), interest, dividends, private and government pension payments, old age pension payments, and other transfers from governments (such as universal child care benefit).

- 6 “2 adults, 0 children” includes elderly couples who might have children, but those children do not live with them.

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