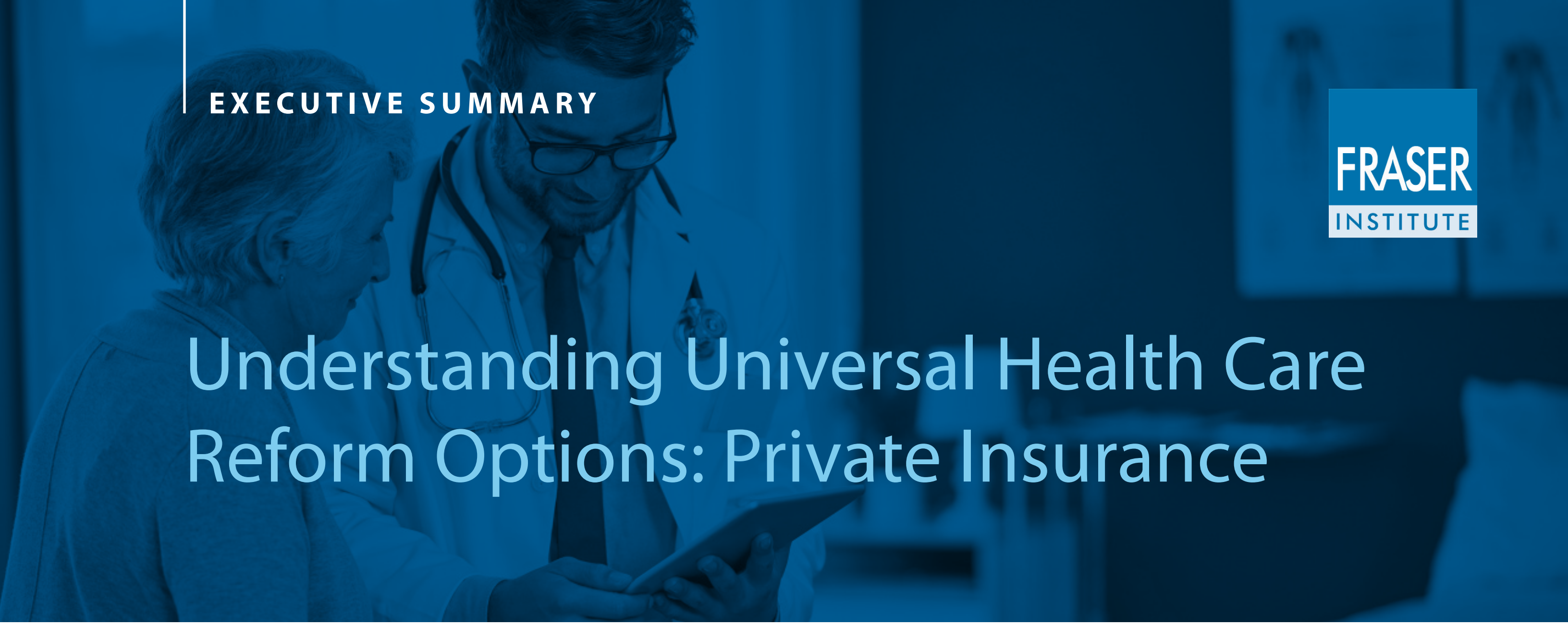


EXECUTIVE SUMMARY

Understanding Universal Health Care Reform Options: Private Insurance

By Steven Globerman

Canada's health care system has prominent features that distinguish it from virtually all other high-income countries that provide universal health care coverage. One such feature is the absence of private insurance markets for medically necessary services.

The Canada Health Act, along with the potential loss of federal government funding if the Act is violated, has resulted in provincial governments either prohibiting or severely discouraging health care providers from treating patients under both public and private insurance schemes. Providers are also prohibited or discouraged from operating completely outside of the public insurance scheme. Consequently, there is little legal scope or economic opportunity for suppliers of private insurance to operate in Canada, either by offering insurance coverage that replicates coverage under the public scheme or by supplementing coverage under the government insurance scheme. Conversely, in most high-income countries with universal coverage, residents are free to choose between two options: full private coverage of all medically necessary services, or supplementary private coverage that facilitates faster access to medical procedures and treatments, wider selection of providers, and amenities such as private hospital rooms.

The Canadian health care system also provides "first-dollar coverage" for medically necessary services. That is, there is no patient cost sharing for services provided under the public insurance scheme. Hence, there is no market demand for private insurance, including self-insurance, to cover expenditures incurred using the government insurance plan. The absence of patient cost sharing for publicly insured basic health care services is another feature of the Canadian health care system that distinguishes it from other countries with universal health insurance coverage. The overall result of restrictions on private payments for medically necessary services and first-dollar coverage is that there is no private insurance coverage or out-of-pocket payment for basic health care services in Canada. which distinguishes Canada's health care system from those of other high-income countries.

Opposition in Canada to private insurance markets for medically necessary services is ostensibly based on two concerns. These concerns are that allowing private insurance coverage will result in substantially reduced access to health care under the public insurance scheme; or that private insurance will result in inequities whereby wealthier Canadians obtain "better" health care than other Canadians. The former concern is linked to an argument that the growth of private insurance options will weaken political support for the tax-funded public insurance option leading to reduced funding for the government plan and, consequently, reduced coverage for medically necessary services under that plan. In fact, the experience of other high-income countries that allow private insurance markets does not support this argument. Specifically, there is no evidence that the availability and use of private insurance options for basic health care services leads to reduced access to health care under the public insurance scheme.

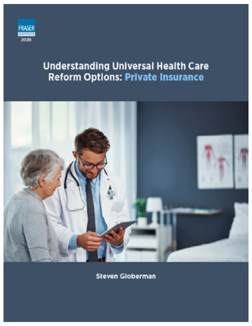
The argument that a private insurance market will result in inequities in access to health care services along socioeconomic lines is complex, and any evaluation of the argument is conditioned by the standard used to assess the overall social welfare impact of allowing private insurance for basic health care. For example, it is likely that wealthier Canadians would enjoy faster access to services and, perhaps, a wider choice of providers and in-patient amenities compared to their less-wealthy counterparts. However, it is also likely that the existence of a private insurance market would reduce wait times for those Canadians exclusively using the public insurance scheme, especially in the case of services provided on an out-patient basis. This substitution phenomenon, whereby those using private insurance reduce their demand for services insured under the public scheme, has been observed in a number of European countries, especially where private insurance is used to obtain quicker access to health care services than through the public insurance scheme.

The inference from the evidence is that a private health insurance market in Canada would reduce wait times for most, if not all, Canadians. In this regard, lower-income Canadians would enjoy improved access to health care services, notwithstanding that their improved access would not be identical to that enjoyed by wealthier Canadians. However, the existence of a single-payer system does not ensure identical access, either. Under the current system, wealthier Canadians can obtain faster service by paying out of pocket for health care delivered outside the country. Moreover, a major concern about wait times for medically necessary services is that waiting will compromise the health of patients, resulting in the loss of income, reduced quality of life, and increased morbidity and mortality. Hence, to the extent that a private insurance market would reduce wait times in Canada for many patients, allowing private insurance is a significant policy instrument to improve the efficiency of Canada's health care system.

The linkage between single-payer coverage and longer wait times is underscored by Canada having the longest wait times for medically necessary services among all high-income countries with universal coverage. At the same time, there is no consistent evidence that a "two-tier" health care system, in which some people use private insurance to pay for medically necessary services, results in unequal outcomes in health. More specifically, there is no evidence that the poorer health typically suffered by individuals with below-average incomes and education is linked to the usage of private insurance markets by wealthier and more highly educated individuals.

While reducing wait times would be a substantial improvement in Canada's health care system, perhaps the most significant benefit of allowing a private insurance market is that it will promote welfare-enhancing innovation in the provision of health care. Strong arguments can be made that private markets promote welfare-improving innovations. Improvements in health care technology should benefit all Canadians. As developments proceed in areas such as artificial intelligence and genomics, the health care sector is arguably already realizing breakthroughs in diagnostic and treatment protocols that promise major improvements in morbidity and mortality rates. In this context, continuing to restrict the emergence of a private insurance market for medical services threatens to impose major costs on Canadians in the form of foregone improvements in the quality and timeliness of delivered health care services.

Arguments surrounding the pros and cons of private health insurance received some attention in the Chaoulli court case in Quebec, as well as in the case brought by Dr. Brian Day in British Columbia. That said, a systematic reevaluation of allowing access to private health insurance for basic services seems appropriate, especially in light of theory and evidence that argues, on balance, that doing so would have net social benefits.



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