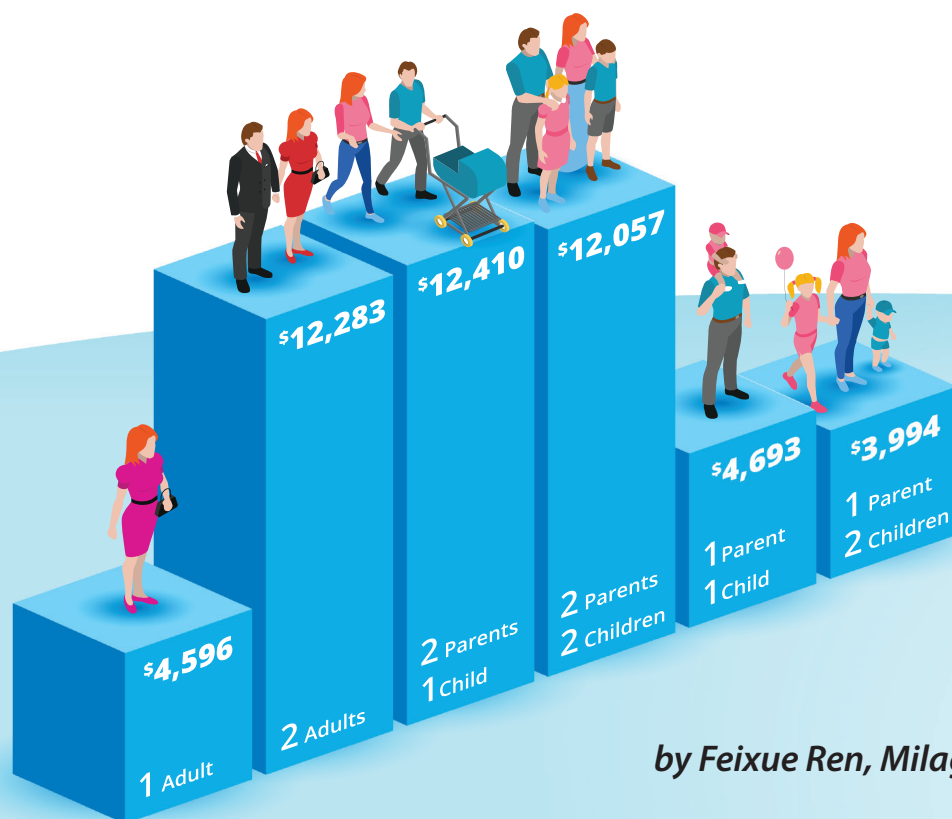


# The Price of Public Health Care Insurance 2017



by Feixue Ren, Milagros Palacios, 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 2017, the estimated average payment for public health care insurance ranges from \$3,994 to \$12,410 for six common Canadian family types, depending on the type of family.

■ For the average Canadian family, between 1997 and 2017, the cost of public health care

insurance increased 3.2 times as fast as the cost of food, 2.7 times as fast as the cost of clothing, 1.9 times as fast as the cost of shelter, and 1.8 times faster than average income.

■ The 10% of Canadian families with the lowest incomes will pay an average of about \$471 for public health care insurance in 2017. The 10% of Canadian families who earn an average income of \$63,163 will pay an average of \$5,789 for public health care insurance, and the families among the top 10% of income earners in Canada will pay \$39,123.

## 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 tax-funded health care insurance are free at the point of use.<sup>1</sup> 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 \$148 billion of our tax dollars were estimated to have been spent on publicly funded health care in 2016 (CIHI, 2016).<sup>4</sup>

It is more informative to measure the cost of our health care system in per capita dollars: the \$148 billion spent equates to approximately \$4,087 per Canadian (CIHI, 2016; Statistics Canada, 2016; authors’ calculations). This would be the cost of the public health care insurance plan if every Canadian resident paid an equal share.

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<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 Gliberman, 2013.

<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.

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

<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, 2017 (preliminary estimates)**

Family Type	Average Cash Income (\$)	Average Total Tax Bill (\$)	Tax Rate	Health Care Insurance (\$)
Unattached Individuals	44,674	19,570	43.8%	4,596
2 Parents, 0 Children	109,446	52,296	47.8%	12,283
2 Parents, 1 Child	129,099	52,839	40.9%	12,410
2 Parents, 2 Children	127,814	51,336	40.2%	12,057
1 Parent, 1 Child	60,063	19,981	33.3%	4,693
1 Parent, 2 Children	62,377	17,003	27.3%	3,994

Source: The Fraser Institute's Canadian Tax Simulator, 2017.

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 2017, 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

<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 con-

sumption of alcohol and tobacco; fuel taxes; carbon taxes; 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. (2017).

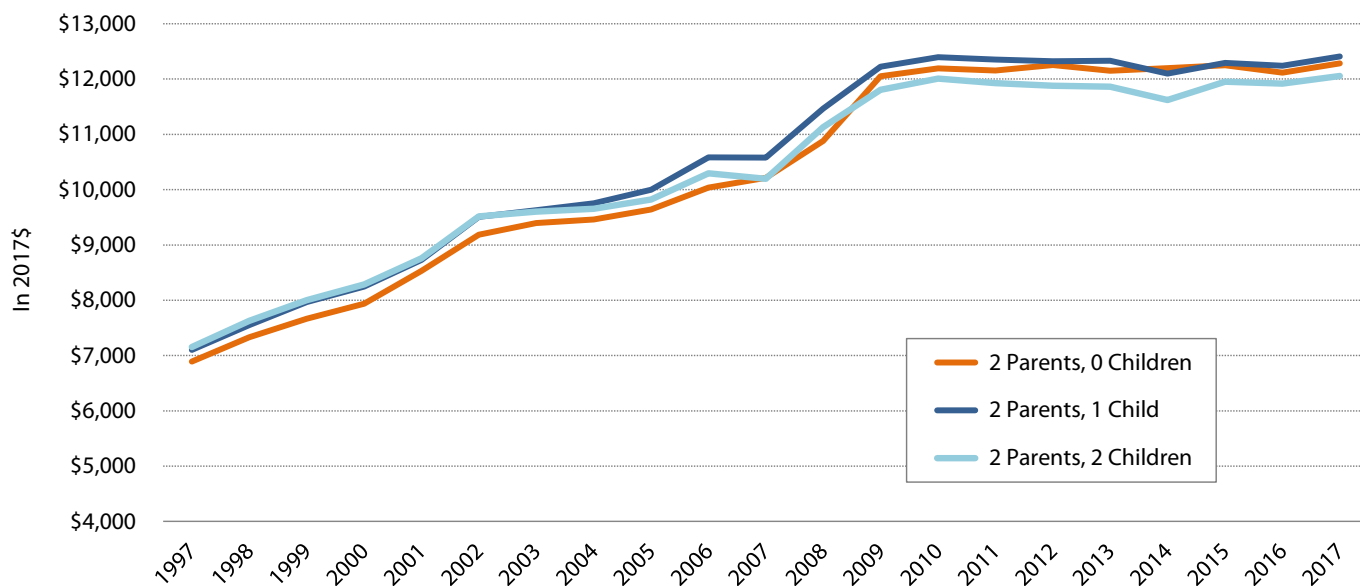
Table 1 shows six Canadian family types, the estimated average income<sup>7</sup> for those family types

care insurance. In 2016/17, an estimated 23.5% of tax revenues (income) was spent on health care (Statistics Canada, 2009, 2017b, and 2017c; CIHI, 2016; authors' calculations).<sup>6</sup>

<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.

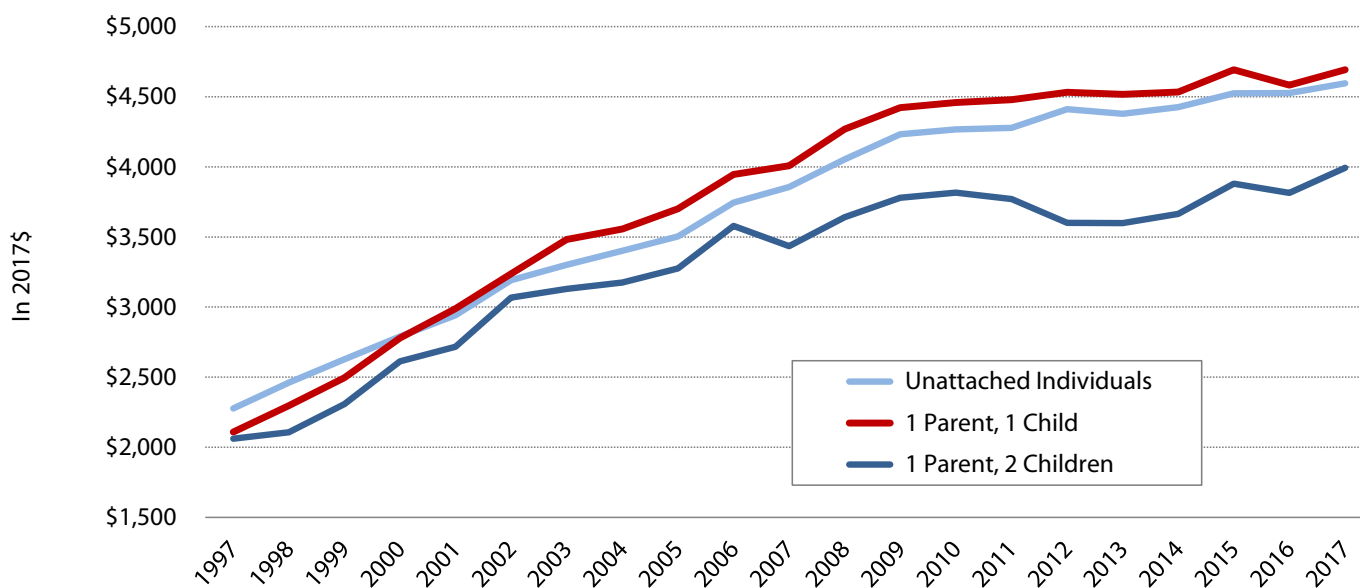
<sup>7</sup> The definition of "income" used throughout this article is cash income, which includes wages and salaries, self-employment income (farm and non-farm), interest, dividends, private and government pension payments, old age pension payments, and

**Figure 1: Inflation-adjusted Cost of Public Health Care Insurance, for Selected Types of 2-Parent Families, 1997-2017**



Sources: The Fraser Institute's Canadian Tax Simulator, 2017; Statistics Canada, 2017a; authors' calculations.

**Figure 2: Inflation-adjusted Cost of Public Health Care Insurance, for Selected Types of Other Families, 1997-2017**



Sources: The Fraser Institute's Canadian Tax Simulator, 2017; Statistics Canada, 2017a; authors' calculations.

**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
1997	43,264	3,111	90.4	9,644	5,984	2,028
1999	47,051	3,591	92.9	10,060	6,077	2,113
2001	54,282	4,466	97.8	11,001	6,606	2,262
2003	56,171	5,147	102.8	11,836	7,013	2,339
2005	61,544	5,547	107.0	12,280	7,245	2,465
2007	68,494	6,071	111.4	14,077	7,638	2,784
2009	70,702	7,303	114.4	14,186	7,417	2,694
2011	74,186	7,764	119.9	15,715	8,465	3,038
2013	77,565	7,928	122.8	16,151	8,151	3,937
2015	80,877	8,114	126.6	18,101	9,165	3,389
2016***	83,105	8,287	128.4	18,386	9,302	3,381
2017***	85,055	8,514	129.9	18,650	9,250	3,342
<b>% increase 2007-2017</b>	<b>24.2%</b>	<b>40.2%</b>	<b>16.6%</b>	<b>32.5%</b>	<b>21.1%</b>	<b>20.0%</b>
<b>% increase 1997-2017</b>	<b>96.6%</b>	<b>173.6%</b>	<b>43.7%</b>	<b>93.4%</b>	<b>54.6%</b>	<b>64.8%</b>

Notes:

\* The average family includes unattached individuals.

\*\* All expenditure items include indirect taxes.

\*\*\* Expenditures for 2016 and 2017 were estimated using the results of the 2015 *Survey of Household Spending* and adjusting final results for inflation. Inflation numbers for 2017 are estimates.

Sources: Statistics Canada (various issues), *Spending Patterns in Canada*; Statistics Canada, 2017a and 2017d; The Fraser Institute's Canadian Tax Simulator, 2017; authors' calculations.

in 2017, and their estimated dollar contribution to health care. In 2017, the average unattached (single) individual, earning an average income of \$44,674, will pay approximately \$4,596 for public health care insurance. An average Canadian family consisting of two adults and two children (earning approximately \$127,814) will pay about \$12,057 for public health care insurance.

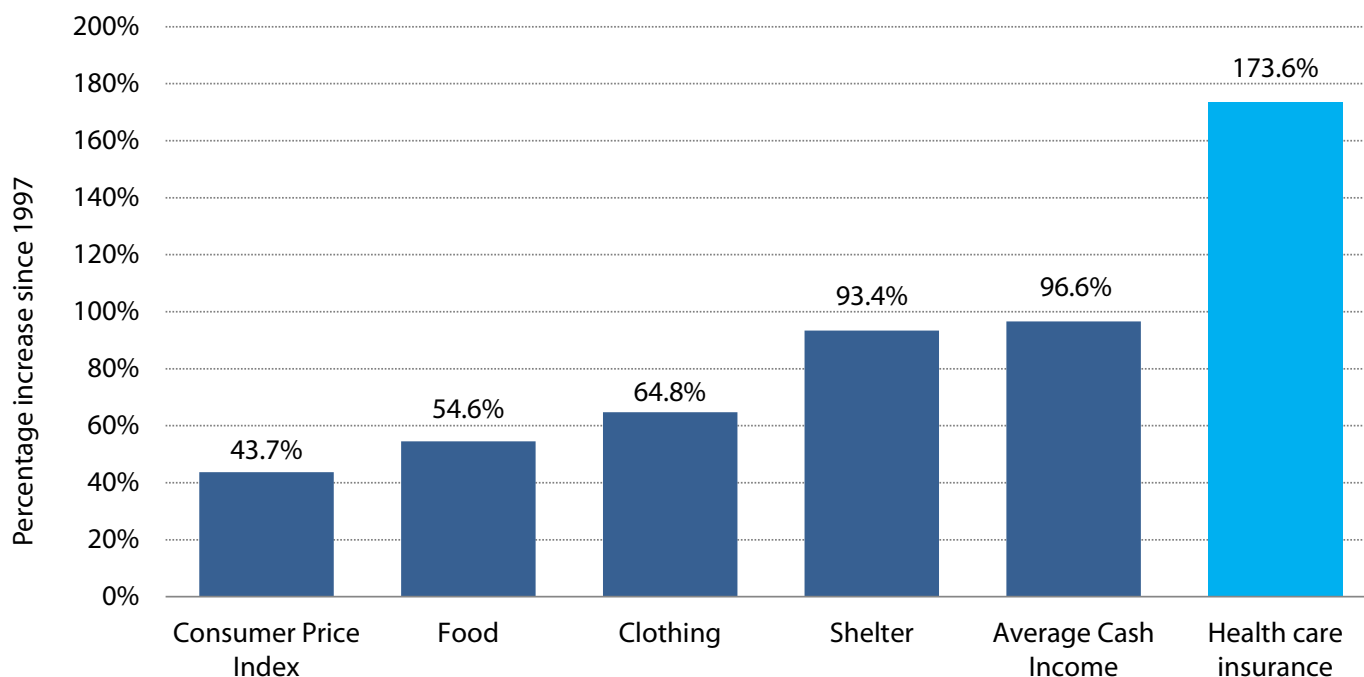
other transfers from governments (such as the universal child care benefit).

## 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

<sup>8</sup> Calculated using the consumer price index (CPI), and presented in constant 2017 dollars. For the year 2017, 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).

**Figure 3: How Health Care Insurance has Increased Relative to Other Costs, 1997-2017**



Source: Table 2.

representative family types from 1997<sup>9</sup> to 2017. Since 1997 (the earliest year for which data can be generated for comparison), the cost of public health care insurance (adjusted for inflation) has increased by:

- 78.2% for the average family consisting of 2 adults and no children<sup>10</sup> (from \$6,893 to \$12,283);

<sup>9</sup> Estimates in this study are based calculations by Palacios et al. (2017), who use Statistics Canada's Social Policy Simulation Database and Model (SPSD/M) to allocate federal taxes to the provinces as well as cash income and tax shares to various family types. 1997 is used as a base year for comparison in this study because it is the earliest year for which the SPSPD/M (version 22.3) is capable of generating results.

<sup>10</sup> "2 adults, 0 children" includes elderly couples who might have children, but those children do not live with them.

- 74.7% for the average family consisting of 2 parents and 1 child (from \$7,103 to \$12,410);

- 68.6% for the average family consisting of 2 parents and 2 children (from \$7,152 to \$12,057);

- 102.0% for the average unattached individual (from \$2,276 to \$4,596);

- 122.6% for the average family consisting of 1 parent and 1 child (from \$2,108 to \$4,693);

- 93.8% for the average family consisting of 1 parent and 2 children (from \$2,061 to \$3,994).

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 3: Average Income and Total Tax Bill in Each Decile, 2017 (preliminary estimates)**

Decile	Average Cash Income (\$)	Average Total Tax Bill (\$)	Tax Rate	Health Care Insurance (\$)
1	14,641	2,006	13.7%	\$471
2	29,506	5,512	18.7%	\$1,295
3	40,353	11,078	27.5%	\$2,602
4	50,548	18,055	35.7%	\$4,240
5	63,163	24,650	39.0%	\$5,789
6	76,519	32,230	42.1%	\$7,570
7	93,385	41,027	43.9%	\$9,636
8	116,006	50,872	43.9%	\$11,948
9	148,518	68,640	46.2%	\$16,121
10	292,063	166,575	57.0%	\$39,123

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, 2017.

Table 2 and figure 3 show that between 1997 and 2017, the average Canadian family's cash income increased by 96.6%.<sup>11</sup> At the same time, spending on shelter increased by 93.4%, spending on clothing increased by 64.8%, expenditures on food rose by 54.6%. Over that two decades, the cost of health care insurance for the average Canadian family (all family types) increased by 173.6%.

Put differently, the cost of public health care insurance for the average Canadian family grew 1.8 times faster than the average income be-

tween 1997 and 2017. Further, over the two decades, the cost of public health care insurance increased 3.2 times as fast as the cost of food, 2.7 times as fast as the cost of clothing, and 1.9 times as fast as the cost of shelter.

### 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 2017.

According to this calculation, the 10% of Canadian families with the lowest incomes will pay an average of about \$471 for public health care insurance in 2017. The 10% of Canadian families who earn an average income of \$63,163 will pay

<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.

an average of \$5,789 for public health care insurance and the families among the top 10% of income earners in Canada will pay \$39,123.

## Conclusion

Tables 1 and 3 present a much different perspective on the costs of public health care insurance from the CIHI figure of \$4,087 per capita given earlier. In addition, the large gap between the growth rate of income and that of public health care insurance between 1997 and 2017 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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