



Publicly Financed Health Care in Canada: Who Pays and Who Benefits Over a Lifetime?

Overview

A new study by the Canadian Institute for Health Information (CIHI), *Lifetime Distributional Effects of Publicly Financed Health Care in Canada*, looks at who pays for and who uses publicly financed health care and how this affects the distribution of income in the country. Understanding these issues is important when discussing how best to address health care financing and income inequality in Canada.

About 70% of Canadian health care services are publicly financed, and taxation is the main revenue-generating mechanism used to pay for these services. All Canadian taxpayers contribute financially, regardless of their use of the health care system. This approach ensures universal access to most health care services, regardless of income and without financial hardship.

Taxation is not the only way to raise money for health care. Numerous jurisdictions around the world use alternative revenue-generating mechanisms such as user fees, medical savings plans and different insurance models. In Canada, debates are ongoing regarding the merits of various health care financing options, prompted by concerns related to the affordability and sustainability of the health system; these concerns include the aging population, changing illness patterns and technological innovations. These debates have also included discussions of fairness and equity related to the potential impacts of these options on the financial burden of health service costs and health care accessibility.¹

There is another aspect of health care financing in Canada that is not often examined: who pays for and who uses health care and the resulting effect on the distribution of income. In this study, we look at what happens to the distribution of income across five income groups when tax contributions and the value of benefits received from publicly financed health services are taken into account, with a focus on physician and hospital services and some drug costs. This involves estimating the health care payments made through taxes for each group, as well as the value of health care benefits received. Group 1 has the lowest income, group 5 the highest. Each income group represents 20% of the population.

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Overview

In the Canadian health care system, there will be people who pay more than the value of the services they receive, while others will use services that cost more than the contributions they make. In other words, the essence of our health system involves transfers from the healthy to the sick.

When taxation is progressive, such that those with higher incomes pay a relatively higher portion of their income in taxes than those with lower incomes, there is the potential for health system financing to bring about a transfer from the affluent to the less affluent. Those with higher incomes contribute more—both absolutely and relatively—than those with lower incomes, while those with greater need use more than those who are healthier.

There are other important factors to consider when looking at who pays for and who uses health care. First, people tend to pay more in taxes when they are middle-aged and to use more health care services when they are older (see Figure 1). Second, although lower-income groups have generally poorer health, they also have shorter average life expectancies than higher-income groups. This means that they live for a shorter amount of time in the periods of life when health care costs are higher and tax payments are lower. As a result, we get a more complete picture of who pays for and who uses health care when we measure over a lifetime.

Key Findings

Over a lifetime, tax payments made to finance health care are modestly progressive in that the most affluent pay relatively more of their income, although not by a substantive amount. For example, the highest income group in the study contributed 8% of their total income toward publicly financed health care, while the lowest income group paid close to 6% (see Figure 2).

Only in the highest-income group were tax payments much higher than the cost of health care received. Payments to health care made by income groups 3 and 4 (middle and upper middle) were very close to the health care costs for these groups.

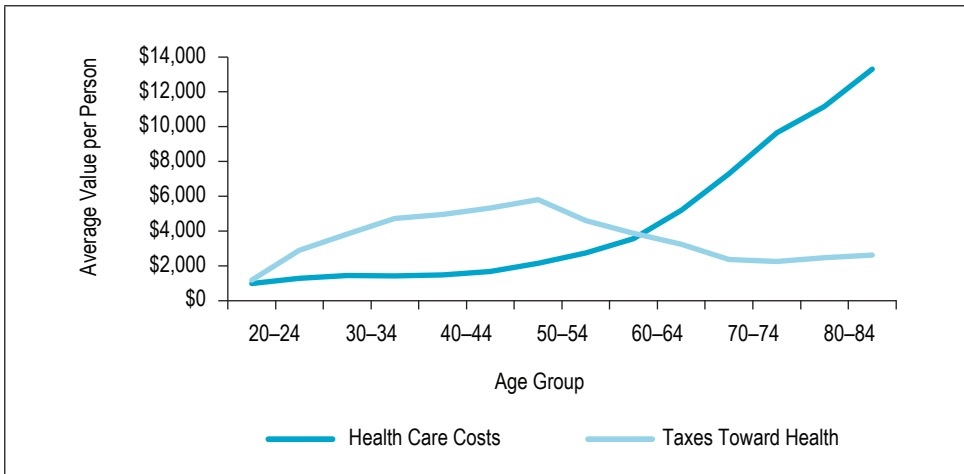
Health care costs for the highest-income group were 3% of average income for that group. Health care costs for the lowest-income group were 24% of average income for the group. Without access to publicly funded health care, individuals in this group could face hardship when attempting to pay for their health care costs.

Before taking into consideration the value of publicly funded health care, average income in the highest-income group was 5.1 times the income of the lowest-income group. After adding the value of health costs, the gap was reduced to 4.3 times. This represents a 16% reduction in this measure of income inequality.

Conclusion

All Canadian taxpayers contribute to publicly financed health care, regardless of their use of the system. Publicly funded health care services are available to all on the basis of need, regardless of ability to pay. When we look at the relationship over a lifetime, only the most affluent (the top 20%) contribute significantly more to health care than they receive. For other income groups, the value received from publicly funded health care is approximately the same as or more than the value of taxes paid to fund those services. The redistributive effect of publicly funded health care in Canada is a 16% reduction in the income gap between the highest- and lowest-income groups. Without the publicly financed health system, the lowest-income Canadians would be at risk of going without needed health care or of being impoverished by paying for it.

Figure 1: Publicly Financed Health Care Costs and Corresponding Tax Payments, by Age Group



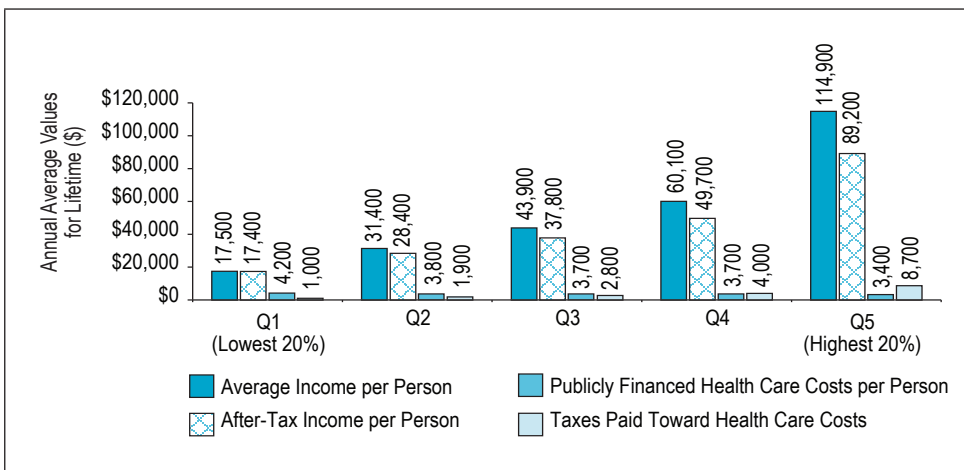
Reference

- Prada G and Brown T. *The Canadian Health Care Debate: A Survey and Assessment of Key Studies*. Conference Board of Canada; 2012.

Source

Analysis by the Canadian Institute for Health Information.

Figure 2: Lifetime Annual Average Publicly Financed Health Care Costs and Corresponding Tax Payments in Relation to Income, by Income Group



Source

Analysis by the Canadian Institute for Health Information.