



Sustainable Healthcare for Seniors

Keeping it Public

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Executive Summary

The government of Alberta has consistently used the threat of the aging baby boomers to undermine confidence in the sustainability of public healthcare. According to the Alberta government, "In coming years, Alberta's healthcare system will face increasing pressure from an aging population, new medical advances and the rising cost of prescription drugs. Without making changes, Alberta's public healthcare system will not be sustainable."

The government has established a commission to review demographic trends and the implications of aging for seniors supports. The anticipated outcomes will include "strategies that encourage future seniors to plan for self-reliance and independence."

This report peels back the rhetoric to evaluate the real situation for seniors healthcare in the province. The objectives are to shed light on sustainability, and to consider what will be needed in the next 20 years to maintain the optimum health and wellbeing of seniors.

The report includes an independent demographic analysis of the growing number of seniors in Alberta, and a calculus of their added costs to the healthcare system. It will place this into the context of an economic analysis of affordability, putting Alberta's healthcare costs in perspective, using international, national, and provincial considerations of affordability. Finally, the report presents recommendations for both an improved healthcare model for seniors and reductions in health expenditures in the long-term.

However, the motivation for reform is better health, not cost savings.

Demographics: An Aging Population

We have all heard of the coming tsunami of seniors in Canada as the baby boom generation ages. We have also been inundated with warnings that public healthcare will become unsustainable due to rising costs in general and the aging population in particular.

Demographic analysis is the study of populations, their composition, and how they change over

time. Demographics have been influenced greatly by the implementation of population health and individual healthcare: birth rates, infant mortality, death rates, and longevity, for example.

Models predicting population are often wrong, especially the further into the future they attempt to predict. However, in the case of Alberta, population and age distribution should be relatively easy to predict. Changes in the birth rate, while considerable over time, have been gradual and death rates overall have been relatively stable. Historically, Alberta's net migration has had little effect on the population mean age.

Of course, any of these factors could change. For instance, net migration could change the age distribution of the population in the future either by self-selection (Alberta baby boomers retiring to BC), or through explicit government policy. As another example, some suggest that life expectancy may begin to decline due to growing rates of obesity and type II diabetes. This reinforces the caution of predicting too far in to the future.

Nonetheless, with the best evidence available, a robust demographic model predicts that the proportion of seniors in the Alberta population will increase by almost 50 percent within 10 years, and double in the next 20 years. Clearly, this demographic conclusion is important in anticipating healthcare costs.

Costs to the Healthcare System

Seniors incur greater than average healthcare costs, and costs escalate with age. The reality is that as we age health needs increase. Illness,

time with a physician and hospital use, care services, medical lab services, and pharmaceutical usage are highly correlated with age. Healthcare costs start to rise after age 55 and costs become significantly higher for seniors over 65. Similarly, overall healthcare system costs will increase due to Alberta's aging population.

Seniors currently account for approximately 35 percent of total public healthcare expenditures. Assuming we maintain current standards of healthcare, considering the costs among population age groups, Alberta's growing seniors population is likely to cost the healthcare system 30 percent more in real per capita terms over the next 20 years. This will require an annual increase above inflationary costs and costs associated with population growth of approximately 1.32 percent a year.

However, as discussed below, the current state of healthcare, especially for seniors, is inadequate. Thus, although it is possible to boost savings by better managing our resources, it is more probable that healthcare expenditures will need to increase more than 1.32 percent per year, at least in the short run.

Can this be managed financially?

Sustainability

It is clear that the Alberta government is obsessed with the affordability or sustainability of the publicly funded health system. Consider the following, a typical government statement: "there is no question that long term sustainability is a major challenge of Alberta's publicly funded health system."

In reality, the introduction of Medicare in the 1960s stabilized Canadian healthcare expenditures, which had been on a runaway trajectory similar to the United States. Canadian innovation in public financing of health has kept healthcare affordable while the United States has continued on its escalating trajectory with largely private funding.

Sustainability is a matter of whether the people of a jurisdiction can afford a given level of care. The relevant financial ratios in this analysis are healthcare expenditure to GDP, debt to GDP, and healthcare expenditure to total public expenditure.

Healthcare Expenditure to GDP

Of course, there is no standard as to what the people of a jurisdiction should spend on healthcare. This will depend on their wishes.

However, national income will be the budget that limits their spending.

Alberta has the highest GDP of any province, but healthcare spending in GDP terms in Alberta is low by any comparison – a fraction of the Canadian average. It is extremely low using international comparisons, and in particular in comparison to the US, which has the highest ratio of health spending to GDP in the world (60 percent higher than Canada's).

Public healthcare expenditure in Alberta is a very low fraction of overall income, currently at approximately four percent of GDP. The current level is also low compared to the level in the mid-1990s, and has remained relatively stable over the last 10 years.

GDP has grown at an annual rate of 4.2 percent per capita in the last decade, far outstripping the projected increase in healthcare costs of 1.32 percent. At these rates of GDP growth and healthcare expenditures, healthcare expenditures would fall in relation to GDP.

Clearly from a GDP measure of the productivity, income, and the wealth of Albertans, current healthcare expenditures are affordable and sustainable. Moreover, Albertans could spend much more on healthcare and remain low compared to other jurisdictions in Canada and abroad.

Debt to GDP

Canada is by far in the best fiscal shape of all the G8 nations, with the lowest debt/GDP ratio, one that has steadily declined in recent years with government surpluses and robust growth in GDP. With a low debt/ GDP ratio Canadian healthcare expenditure (as a ratio of GDP) is easily manageable in comparison to other countries. Alberta is even better off, as it has no deficits or debt and has been running large surpluses every year since 1996. In fact, Alberta has been accumulating large net financial reserves since 1999.

Health Expenditure to Total Expenditures

Although healthcare spending has been rising as a proportion of the overall provincial budget, it has not been rising as a proportion of GDP. Instead, government expenditure has been cut in relation to GDP. Under Premier Klein's tenure, government's share of the overall economy fell from 22 percent of GDP to 12 percent – a 45 percent reduction.

Despite what government officials might argue about the sustainability or affordability of the healthcare system, there is no need for the Alberta government to raise either royalty or tax revenues – now or in the foreseeable future – in order to appropriately fund Medicare. Alberta's annual surpluses are more than adequate to cover the costs, and again this year high oil and natural gas prices have Alberta on track for a record surplus.

However, if Albertans decided to increase taxes there is considerable tax room to do so. Alberta is the only Canadian province without a sales tax, and in 2000 Alberta cut income taxes – mainly for the wealthiest – foregoing over \$2 billion dollars a year in revenues. Although Alberta need not raise revenues to pay for healthcare improvements, it has the tax room to do so.

Thus unsustainability claims seem less a genuine concern, and more a smokescreen for a particular ideological perspective. The Klein era was one of diminishing the public sector share of the economy and attempting to reduce healthcare costs wherever possible. This effort has paid off only in demolishing or privatizing public assets, increasing the inefficiencies in healthcare, and overextending healthcare workers.

It is clear that healthcare costs will occur, and they will likely increase. Reducing public expenditure will not make them go away; it would only shift them to personal out-of-pocket expenses, for those who can afford it, and private insurance for those who have it. Or it will drive costs into the implicit realm (costs not accounted in exchanged dollars) where it increases stress on caregivers, increases absenteeism from work, and reduces productivity and GDP. Most importantly, shifting costs will undermine the highly valued universality and equity aspects of Medicare.

Improving Seniors Healthcare

Expanding healthcare expenditures by 1.32 percent per year to address the growing seniors population will not be enough. Continuing the status quo in health services is not sufficient for seniors, nor is it good enough for healthcare in general.

What is needed is a more than doubling of long-term care facilities and assisted living spaces, an increase in home care and palliative care, an improved process of delivering and monitoring pharmaceutical use, a much greater number of staff and higher quality of training for staff,

increased standards and their universal enforcement, and greater regulation of private and voluntary providers to ensure public standards and fees are maintained across the board.

There are some opportunities to more appropriately target the use of public resources. For example, increasing the number of long-term care beds would free up much more expensive acute care beds. The reality, however, is that greater per capita funding in addition to that required to maintain current standards will be necessary.

The approach of shifting more costs on to the individual decreases the efficiency and effectiveness of the healthcare system and also diminishes equity. Today's and tomorrow's seniors expect that healthcare will be there for them when they need it at an appropriate level; that it be accessible, affordable, and of top quality; and that they need not burden others, especially family, in their later years.

In order to reduce overall costs and improve the wellbeing of seniors, some healthcare services should be returned to the public realm. Increasing the public explicit expenditures beyond the status quo is likely inevitable.

Freedom from the fear of healthcare expenditures in old age will allow for improved creativity, productivity, and income to a greater extent than any age-related cost increases.

Specific Recommendations

It is clear that the healthcare for seniors requires a considerable injection of new resources right now, both to serve current seniors better and to be prepared for the substantial future increase in the senior population cohort. Specifically, the government of Alberta should:

- Build more long-term care units. Alberta needs a building program started now that will continue until at least another 14,000 beds are in place and staffed by 2025.
- Increase sub-acute beds and services for patients, who after an acute hospital stay has ended are not able to return home.
- Increase hospice and palliative care services as the number of people dying in Alberta will double over the next 20 years.

- Increase educational places for healthcare professional programs, including specialized geriatric training.
- Hire more staff graduates of these programs. There are far too few medical professionals now and more are required.
- Increase resources for on-the-job training.
- Improve working conditions for medical professionals.
- Improve care standards and their enforcement across public, voluntary, and private services.
- Control and regulate housing costs of continuing care residents in all settings.

- Introduce "Phase 2" Medicare for seniors now, including an increase in public home care resources, improved access, integration and coordination of medical and other care and support services, and improved management and supervision of alternative therapies, particularly pharmaceutical treatments.

More than any other jurisdiction, Alberta has the resources and the opportunity to implement an ideal Medicare system – publically administered and paid. There have been enough studies, and now it is time to implement Phase Two of Medicare. With our wealth, there has never been a better opportunity. The model can then be exported to the rest of Canada and even the rest of the world. What greater legacy could there be?

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