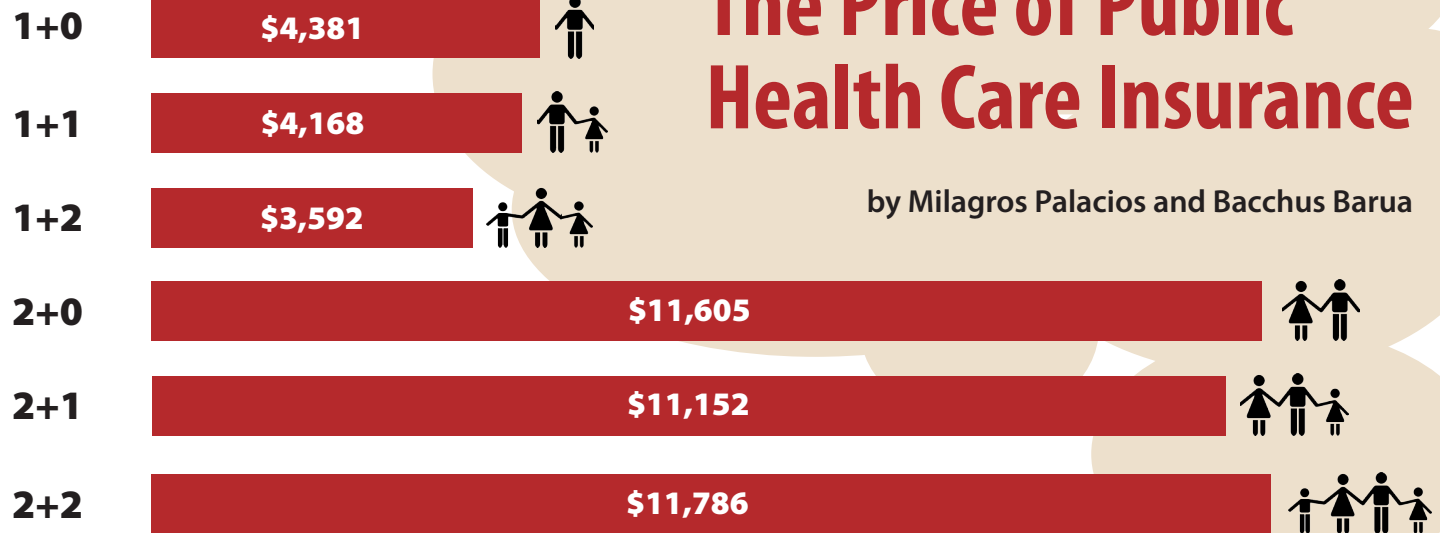


Parents + children
Average cost of health care insurance



The Price of Public Health Care Insurance

by 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 2014, the estimated average payment for public health care insurance ranges from \$3,592 to \$11,786 for six common Canadian family types, depending on the type of family.

■ For the average Canadian family, between 2004 and 2014, the cost of public health care

insurance increased about 1.5 times faster than average income, 1.3 times as fast as the cost of shelter, 1.6 times as fast as clothing, and more than three times as fast as food.

■ The 10 percent of Canadian families with the lowest incomes will pay an average of about \$523 for public health care insurance in 2014. The 10 percent of Canadian families who earn an average income of \$57,818 will pay an average of \$5,522 for public health care insurance and the families among the top 10 percent of income earners in Canada will pay \$37,239.

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.¹ 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.²

Furthermore, health care in Canada is financed through general government revenues rather

than through a dedicated tax,³ 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 \$138 billion of our tax dollars were estimated to have been spent on publicly funded health care in 2013 (CIHI, 2013).⁴

It is more informative to measure the cost of our health care system in per capita dollars: the \$138 billion spent equates to approximately \$3,933 per Canadian (CIHI, 2013; Statistics Canada, 2013; authors’ calculations). This would be the cost of the public health care insurance plan if every Canadian resident paid an equal share.

¹ 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.

² It is also important to consider the costs associated with funding health care through tax revenues. For more on this, see Esmail, 2008.

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

⁴ 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, 2014 (preliminary estimates)

Family Type	Average Cash Income (\$)	Average Total Tax Bill (\$)	Tax Rate	Health Care Insurance (\$)
Unattached Individuals	42,163	17,985	42.7%	4,381
2 Parents, 0 Children	101,724	47,637	46.8%	11,605
2 Parents, 1 Child	111,864	45,779	40.9%	11,152
2 Parents, 2 Children	117,984	48,381	41.0%	11,786
1 Parent, 1 Child	50,832	17,108	33.7%	4,168
1 Parent, 2 Children	52,955	14,744	27.8%	3,592

Source: The Fraser Institute's Canadian Tax Simulator, 2014.

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 2014, we must determine how much tax an average family pays to all levels of government and the percentage of the family's total tax bill⁵ that pays for public health

⁵The 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 and 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 and Lammam (2014).

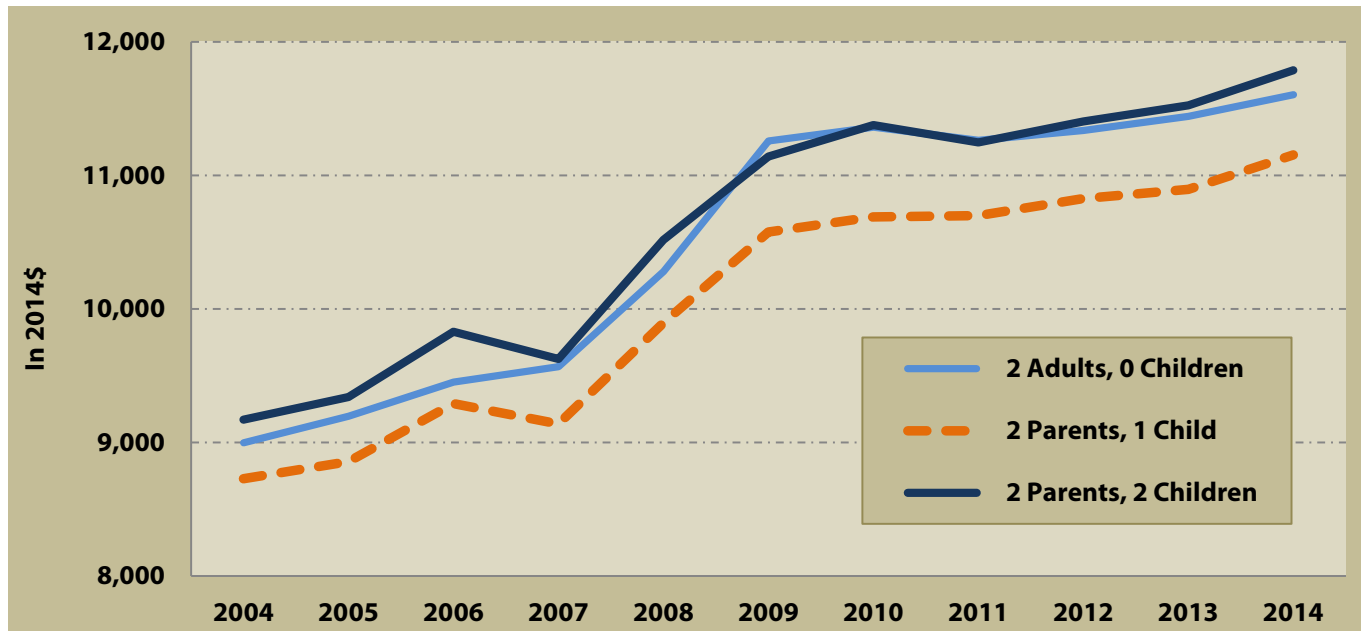
care insurance. In 2013/14, an estimated 24.4 percent of tax revenues (income) was spent on health care (Statistics Canada, 2009, 2014a, and 2014b; CIHI, 2013; authors' calculations).⁶

Table 1 shows six Canadian family types, the estimated average income⁷ for those family types

⁶The 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.

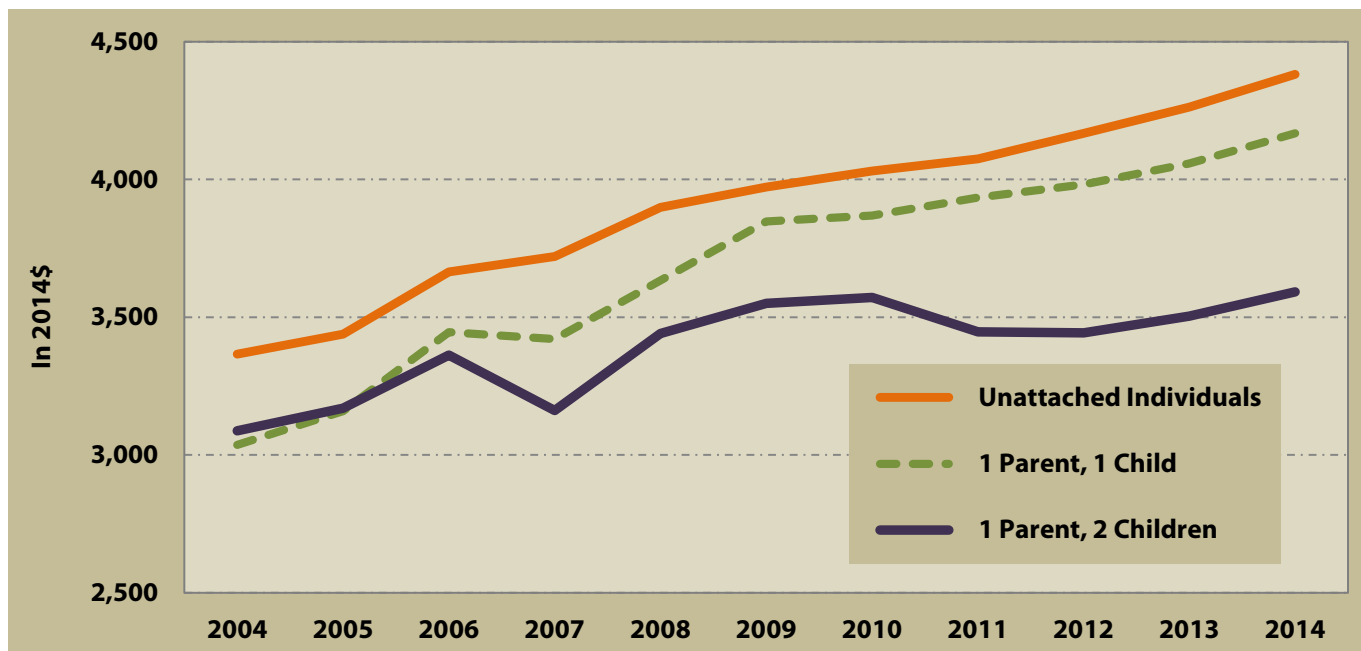
⁷The definition of "income" used throughout this article is cash income, which includes wages and salaries, self-employment income (farm and non-farm), interest, dividends, private and government

Figure 1: Inflation-adjusted cost of public health care insurance, for selected types of 2-parent families, 2004-2014



Sources: The Fraser Institute's Canadian Tax Simulator, 2014; Statistics Canada, 2014c; authors' calculations.

Figure 2: Inflation-adjusted cost of public health care insurance, for other selected types of families, 2004-2014



Sources: The Fraser Institute's Canadian Tax Simulator, 2014; Statistics Canada, 2014c; authors' calculations.

in 2014, and their estimated dollar contribution to health care. In 2014, the average unattached (single) individual, earning a little more than \$42,000, will pay approximately \$4,380 for public health care insurance. An average Canadian family consisting of two adults and two children (earning approximately \$118,000) will pay about \$11,790 for public health care insurance.

The impact of the increasing cost of health care on Canadian individuals and families

Figures 1 and 2 show the inflation-adjusted⁸ cost of public health care insurance for the six representative family types from 2004 to 2014. Over the last decade, the cost of public health care insurance (adjusted for inflation) has increased by:

- 29.0 percent for the average family consisting of 2 adults and no children⁹ (from \$8,998 to \$11,605);
- 27.8 percent for the average family consisting of 2 parents and 1 child (from \$8,728 to \$11,152);
- 28.5 percent for the average family consisting of 2 parents and 2 children (from \$9,171 to \$11,786);

pension payments, old age pension payments, and other transfers from governments (such as universal child care benefit).

⁸ Calculated using the consumer price index (CPI), and presented in constant 2014 dollars. For the year 2014, 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).

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

- 30.2 percent for the average unattached individual (from \$3,366 to \$4,381);
- 37.2 percent for the average family consisting of 1 parent and 1 child (from \$3,037 to \$4,168);
- 16.3 percent for the average family consisting of 1 parent and 2 children (from \$3,088 to \$3,592).

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 2 and figure 3 show that between 2004 and 2014, the average Canadian family’s cash income increased by 34.7 percent.¹⁰ At the same time, expenditures on shelter increased by 40.7 percent, spending on clothing increased by 33.4 percent, and spending on food rose by 15.6 percent. Over that decade, the cost of health care insurance for the average Canadian family (all family types) increased by 53.3 percent.

Put differently, the cost of public health care insurance for the average Canadian family grew about 1.5 times faster than the average income between 2004 and 2014. Further, over the decade the cost of public health care insurance increased 1.3 times as fast as the cost of shelter, 1.6 times as fast as clothing, and more than three times as fast as food.

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 2014.

According to this calculation, the 10 percent of

¹⁰ Before inflation.

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
2004	58,774	5,313	104.7	12,090	7,115	2,344
2006	64,981	5,876	109.1	12,736	7,424	2,428
2008	70,462	6,629	114.1	13,813	7,905	2,854
2010	71,370	7,387	116.5	14,364	7,517	2,636
2012	75,780	7,750	121.7	16,470	8,041	3,128
2013***	77,381	7,885	122.8	16,678	8,139	3,132
2014***	79,194	8,145	124.3	17,008	8,227	3,127
% increase 2004-2014	34.7%	53.3%	18.7%	40.7%	15.6%	33.4%

Notes:

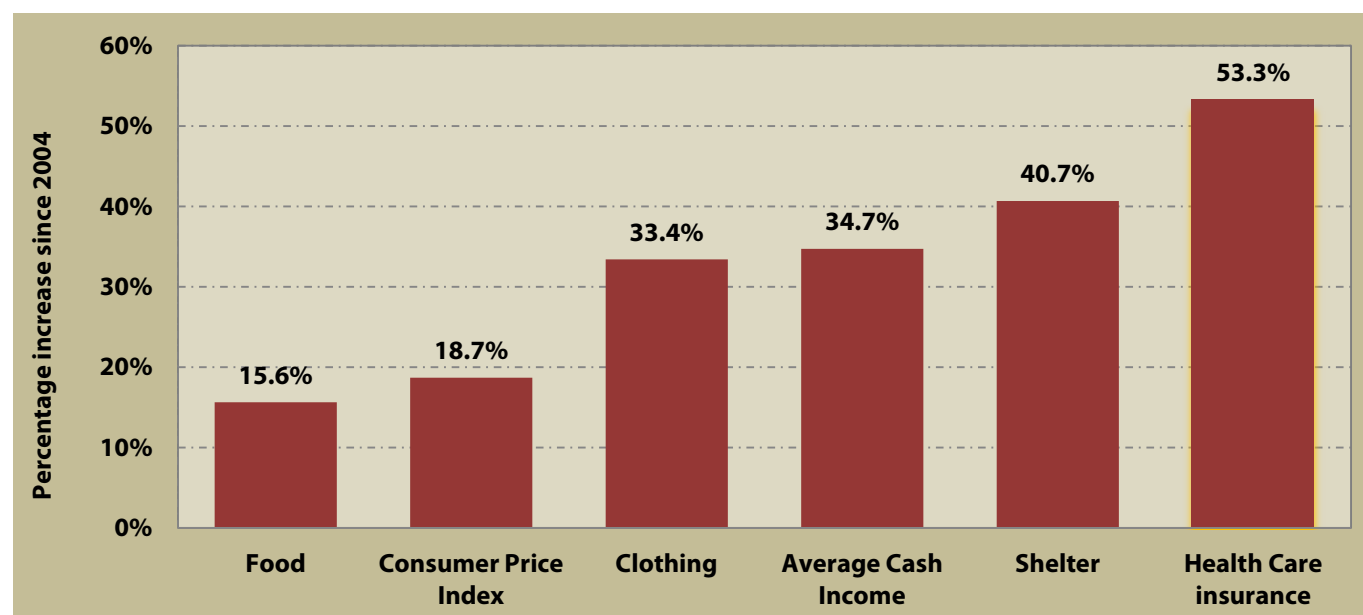
* The average family includes unattached individuals.

** All expenditure items include indirect taxes.

*** Expenditures for 2013 and 2014 were estimated using the results of the 2012 *Survey of Household Spending* and adjusting final results for inflation. Inflation numbers for 2014 are estimates.

Sources: Statistics Canada (various issues), *Spending Patterns in Canada*; Statistics Canada, 2014c and 2014d; The Fraser Institute's Canadian Tax Simulator, 2014; authors' calculations.

Figure 3: How health care insurance has increased relative to other costs, 2004-2014



Sources: Statistics Canada (various issues), *Spending Patterns in Canada*; Statistics Canada, 2014c and 2014d; The Fraser Institute's Canadian Tax Simulator, 2014; authors' calculations.

Table 3: Average income and total tax bill in each decile, 2014 (preliminary estimates)

Decile*	Average Cash Income (\$)	Average Total Tax Bill (\$)	Tax Rate	Health Care Insurance (\$)
1	13,447	2,148	16.0%	523
2	27,532	5,206	18.9%	1,268
3	37,673	10,129	26.9%	2,467
4	46,774	16,359	35.0%	3,985
5	57,818	22,667	39.2%	5,522
6	70,886	29,766	42.0%	7,251
7	86,235	37,487	43.5%	9,132
8	107,012	47,285	44.2%	11,519
9	137,525	63,382	46.1%	15,440
10	278,012	152,869	55.0%	37,239

Note:

*Deciles group families from lowest to highest incomes with each group containing ten 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, 2014.

Canadian families with the lowest incomes will pay an average of about \$523 for public health care insurance in 2014. The 10 percent of Canadian families who earn an average income of \$57,818 will pay an average of \$5,522 for public health care insurance and the families among the top 10 percent of income earners in Canada will pay \$37,239.

Conclusion

Tables 1 and 3 present a much different perspective on the costs of public health care insurance from the CIHI figure of \$3,933 per capita given earlier. In addition, the large gaps between the growth rates of spending on basic necessities and that of public health care insurance provide an 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. 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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