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## The Price of Public Health Care Insurance

2013 edition

by Nadeem Esmail and Milagros Palacios

### Main Conclusions

- **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 2013, the estimated average payment for public health care insurance will range from \$3,387 to \$11,381 for six common Canadian family types, depending on the type of family.**
- **For the average Canadian family, between 2003 and 2013 the cost of public health care insurance increased more than 1.5 times faster than the cost of shelter and clothing, more than twice as fast as food, and nearly 1.5 times faster than average income.**
- **The 10 percent of Canadian families with the lowest incomes will pay an average of about \$482 for public health care insurance in 2013. The 10 percent of Canadian families who earn an average income of \$56,596 will pay an average of \$5,364 for public health care insurance, while those families that are among the top 10 percent of income earners in Canada will pay about \$35,309.**

## Introduction

Canadians often misunderstand the true cost of our public health care system. This lack of understanding limits Canadians' ability to assess whether they are receiving value for their tax dollars. Were they to better understand what health care costs them on a personal level, Canadians would be better equipped to judge the performance of their governments in providing quality health care.

## Why the misunderstanding?

One reason why Canadians don't know the true cost of health care is because physician and hospital services covered by tax-funded health care insurance are free at the point of use.<sup>1</sup> This situation leads many to grossly underestimate the actual cost of the health care delivered. One often hears people speaking of "free" health care in Canada—a statement that entirely ignores the

substantial taxpayer funded cost of the health care system.<sup>2</sup>

Furthermore, health care in Canada is financed through general government revenues rather than through a dedicated<sup>3</sup> tax, which blurs the true dollar cost of the service. Indeed, it is not simple for Canadians to work out precisely what they pay to government each year due to the many different sources of government revenues including income taxes, Employment Insurance (EI) and Canada Pension Plan (CPP) premiums, property taxes, profit taxes, sales taxes, alcohol and tobacco taxes, and import duties, among others. Some Canadians might assume that health care premiums cover the cost of health care in those provinces that assess them. 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 numbers that are available can be difficult to digest. For example, health spending numbers are often presented in aggregate, resulting in figures so large they are almost meaningless. For instance, approximately \$135 billion of our tax dollars were estimated to have been spent on publicly funded health care in 2012 (CIHI, 2012).

It is more informative to measure the cost of our health care system in per capita dollars: the \$135 billion spent equates to approximately \$3,870 per Canadian (CIHI, 2012; Statistics Canada, 2012a; authors' calculations). This would be the cost of the public health care insurance plan if every Canadian resident paid an equal share.

Canadians certainly do not pay equal tax amounts each year, however. Some Canadians are children and dependents and are not taxpayers. 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 further complicate matters. Clearly, the per capita spending measure does not capture the cost of public health care insurance for a Canadian individual or family.

## 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 2013, 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>4</sup> that pays for public health care insurance. In 2012/13, an estimated 24.3 percent of tax revenues (income) was spent on health care (Statistics Canada, 2009 and 2012b; CIHI, 2012; authors' calculations).

Table 1 shows six Canadian family types, the estimated average income<sup>5</sup> for those family types in 2013, and their estimated dollar contribution to health care. In 2013, the average unattached (single) individual, earning a little more than \$39,000, will pay approximately \$3,780 for public health care insurance. An average Canadian family consisting of two adults and two children (earning a little more than \$113,247) will pay about \$11,320 for public health care insurance.

### About the authors



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**Table 1: Average income and average total tax bill of representative families, 2013\***

Family type	Average cash income	Average total tax bill	Tax rate	Health care insurance
Unattached Individuals	\$39,039	\$15,527	39.8%	\$3,780
2 Parents, 0 Children	\$99,226	\$46,743	47.1%	\$11,381
2 Parents, 1 Child	\$108,609	\$45,134	41.6%	\$10,989
2 Parents, 2 Children	\$113,247	\$46,493	41.1%	\$11,320
1 Parent, 1 Child	\$49,619	\$16,037	32.3%	\$3,905
1 Parent, 2 Children	\$49,372	\$13,913	28.2%	\$3,387

\*Preliminary estimates.

Source: The Fraser Institute's Canadian Tax Simulator, 2013; calculations by authors.

**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
2003	\$55,901	\$5,126	102.80	\$11,795	\$6,989	\$2,327
2005	\$61,431	\$5,539	107.00	\$12,250	\$7,231	\$2,449
2007	\$68,045	\$5,915	111.50	\$13,904	\$7,595	\$2,749
2009	\$70,068	\$7,054	114.40	\$13,914	\$7,368	\$2,604
2011	\$72,851	\$7,468	119.90	\$15,525	\$8,333	\$3,072
2013***	\$76,214	\$7,860	123.28	\$15,827	\$8,621	\$3,080
% increase 2003-2013	36.3%	53.3%	19.9%	34.2%	23.4%	32.4%

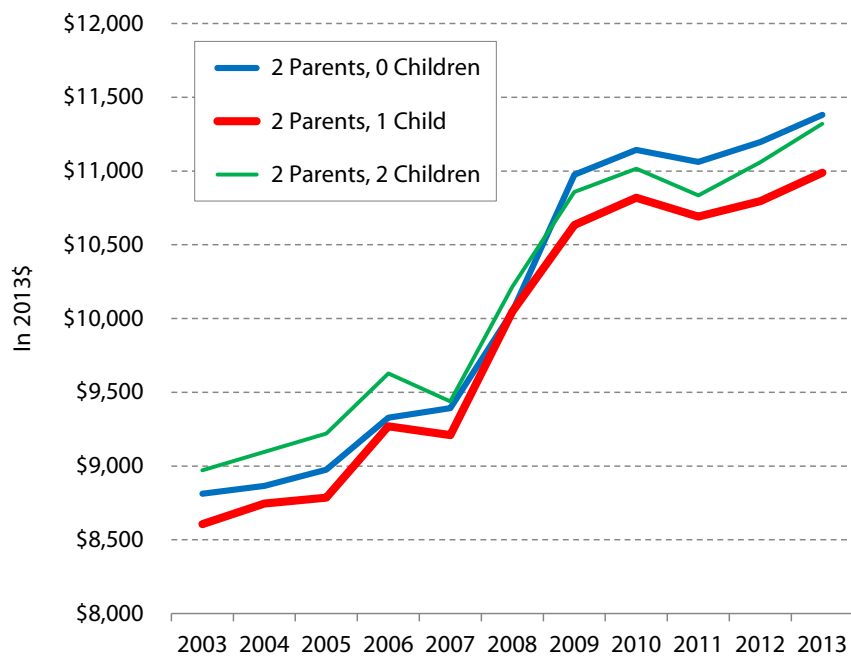
\*The average family includes unattached individuals.

\*\*All expenditure items include indirect taxes.

\*\*\*Expenditures for 2013 were estimated using the results of the 2011 *Survey of Household Spending* and adjusting final results for inflation.

Sources: Statistics Canada (various issues), *Spending Patterns in Canada*; Statistics Canada (2011 and 2013b); The Fraser Institute's Canadian Tax Simulator 2013; calculations by authors.

**Figure 1a: Inflation-adjusted cost of public health care insurance, for selected types of families, 2003-2013**

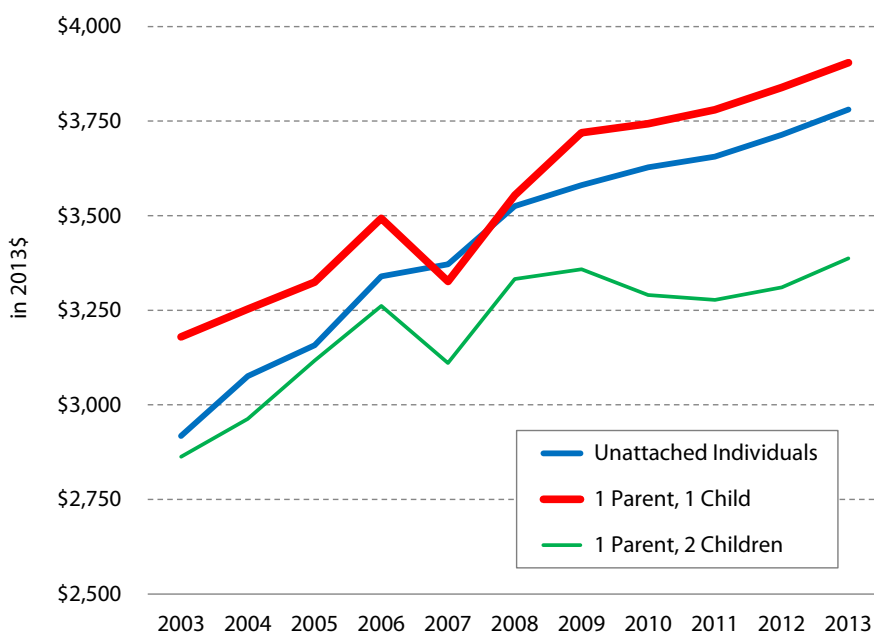


Source: The Fraser Institute's Canadian Tax Simulator, 2013; Statistics Canada, 2013a; calculations by authors.

What impact does the increasing cost of health care have on Canadian individuals and families? Figures 1a and 1b show the inflation-adjusted cost of public health care insurance for the six representative family types from 2003 to 2013. Over the last decade, the cost of public health care insurance (after inflation) has increased by:

- 29.1 percent for the average family consisting of 2 adults and no children<sup>6</sup> (from \$8,812 to \$11,381);
- 27.7 percent for the average family consisting of 2 parents and 1 child (from \$8,606 to \$10,989);
- 26.2 percent for the average family consisting of 2 parents and 2 children (from \$8,972 to \$11,320);
- 29.6 percent for the average unattached individual (from \$2,917 to \$3,780);
- 22.8 percent for the average family consisting of 1 parent and 1 child (from \$3,179 to \$3,905);
- 18.3 percent for the average family consisting of 1 parent and 2 children (from \$2,863 to \$3,387).

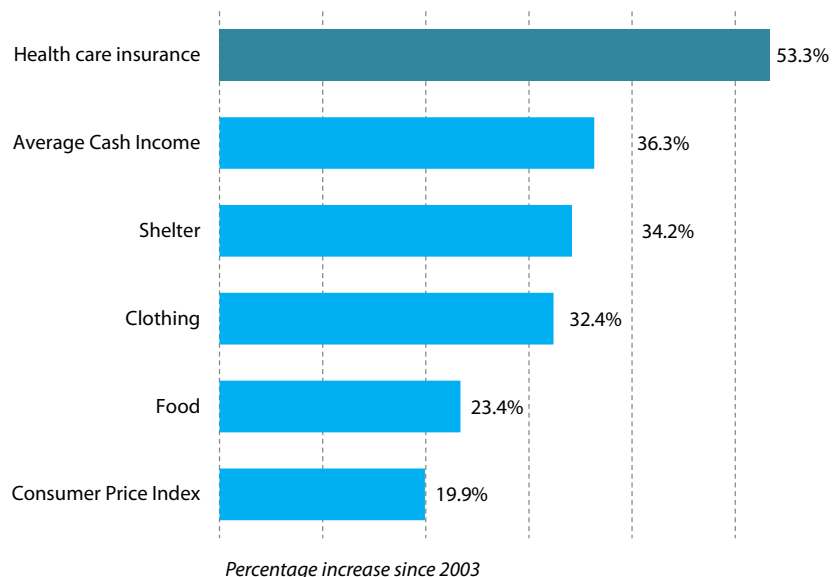
**Figure 1b: Inflation-adjusted cost of public health care insurance, for selected types of families, 2003-2013**



Source: The Fraser Institute's Canadian Tax Simulator, 2013; Statistics Canada, 2013a; calculations by authors.

To better understand the impact of the growing financing burden of public health care insurance, compare it with changes in the cost of the necessities of life (food, clothing, and shelter). Table 2 and figure 2 show that between 2003 and 2013, the average Canadian family's cash income increased by 36.3 percent (before inflation). At the same time,

**Figure 2: How health care insurance has increased relative to other costs, 2003-2013**



Sources: Statistics Canada (various issues), *Spending Patterns in Canada*; Statistics Canada (2011 and 2013b); The Fraser Institute’s Canadian Tax Simulator 2013; calculations by authors.

**Table 3: Average income and total tax bill in each decile, 2013\***

Decile**	Average cash income	Average total tax bill	Tax rate	Health care insurance
1	\$13,011	\$1,976	15.2%	\$482
2	\$26,712	\$4,905	18.4%	\$1,197
3	\$36,318	\$9,893	27.2%	\$2,415
4	\$45,757	\$15,508	33.9%	\$3,785
5	\$56,596	\$21,976	38.8%	\$5,364
6	\$68,928	\$29,128	42.3%	\$7,109
7	\$83,657	\$36,427	43.5%	\$8,891
8	\$104,110	\$45,886	44.1%	\$11,200
9	\$132,494	\$61,202	46.2%	\$14,938
10	\$260,533	\$144,663	55.5%	\$35,309

\*Preliminary estimates.

\*\*Deciles group families from lowest to highest incomes. Each group contains 10 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, 2013; calculations by authors.

expenditures on shelter increased by 34.2 percent, spending on clothing increased by 32.4 percent, and food rose by 23.4 percent. Over that decade, the cost of health care insurance for the average Canadian family (all family types) increased by 53.3 percent. This means that between 2003 and 2013, the cost of public health care insurance for the average Canadian family increased more than 1.5 times faster than the cost of shelter and clothing, and more than twice as fast as food. Further, the cost of public health care insurance grew nearly 1.5 times faster than the average income over the decade.

### The cost of health care by income group

Table 3 divides the Canadian population into 10 income groups (or “deciles”) to show what families from various income brackets will pay for public health care insurance in 2013.

According to this calculation, the 10 percent of Canadian families with the lowest incomes will pay an average of about \$482 for public health care insurance in 2013. The 10 percent of Canadian families who earn an average income of \$56,596 will pay an average of \$5,364 for public health care insurance, and the families that are among the top 10 percent of income earners in Canada will pay about \$35,309.

### Conclusion

Tables 1 and 3 present a much different perspective on the costs of public health care insurance than the CIHI figure of \$3,870 per capita

given earlier. In addition, the large gaps between the growth rates of spending on the necessities of life and that of public health care insurance provide 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 over time. 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.

## Notes

- 1 In dollar terms. There are costs associated with health care use in Canada that are not monetized, such as wait times for access to medical services.
- 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 The total tax bill includes income taxes (personal and business); property taxes; sales taxes; profit taxes; health, social security, and pension taxes; import duties; licence fees; taxes on the consumption of alcohol and tobacco; natural resource fees; fuel taxes; hospital taxes; 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 in Palacios and Lammam (2013).
- 5 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

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

- 6 “2 adults, 0 children” includes elderly couples who might have children, but those children do not live with them.

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