



Parliamentary Information and Research Service  
Library of Parliament

# IN BRIEF

Philippe Le Goff  
17 January 2005

## The Canadian and American Health Care Systems: Funding and Effectiveness

If there is one issue that attracts public interest and is a key benefit – not only from a societal point of view but also in terms of competitiveness – of Canada's economy compared to that of the United States, it is universal public health care.<sup>(1)</sup> This paper briefly examines health care funding in the two countries and compares some of the advantages and disadvantages of their respective systems.

### HEALTH CARE FUNDING

In 2002, *public* spending on health care totalled approximately 7.3% of Canada's gross domestic product (GDP), compared to 6.8% of the United States' (see Table 1), a mere half a percentage point difference that will likely vary according to economic conditions. *Private* spending, however, totalled 3% and 8% of GDP respectively, a significant gap of five percentage points.

Americans therefore spent a *total* (public and private spending) of close to 15% of their national wealth on health care, a substantially larger share than in Canada (10.3%) and other OECD countries (8% on average). However, they have to deal with a health care system that is extremely complex to administer and fund. Furthermore, recent studies show that a large part of their additional health care spending<sup>(2)</sup> (primarily private) goes toward administrative costs.<sup>(3)</sup>

A study published in 2003 indicated that the administrative costs paid by insurers, employers and health care providers in the United States totalled at least US\$294.3 billion<sup>(4)</sup> in 1999, almost 24% of all health care expenditures.<sup>(5)</sup> According to this study, conducted in partnership with the Canadian Institute for Health Information, administrative costs totalled US\$1,059 per capita in the United States, as compared with US\$307 per capita in Canada<sup>(6)</sup> (see Table 2).

**Table 1: Health Care Expenditures by Source of Finance, Canada and the United States, 2002**

	% of Total Expenditures	% of GDP
<b>Canada</b>		
Federal government <sup>(7)</sup>	5.9	0.6
Provinces/territories and municipalities	64.0	6.7
<i>Total public spending</i>	69.9	7.3
<i>Private spending</i>	30.1	3.0 <sup>(8)</sup>
<b>TOTAL</b>	<b>100.0</b>	<b>10.3</b>
<b>United States</b>		
Federal government	32.5	4.8
States and local administrations	13.4	2.0
<i>Total public spending</i>	45.9	6.8
<i>Private spending</i>	54.0	8.0
<b>TOTAL</b>	<b>100.0</b>	<b>14.8</b>

Source: Canadian Institute for Health Information; Statistics Canada; Centers for Medicare & Medicaid Services.

Three factors account for the increased costs:

1. The strong presence of private insurers in the American health care system increases administrative costs. Functions such as underwriting, marketing and claims administration, absent from the Canadian public system, account for two-thirds of insurers' administrative costs. The earnings of for-profit facilities, which are more common in the American system, must be added to this as well.
2. A system with multiple insurers is costlier than a single-payer system (the government), such as Canada's. The fragmentation of the clientele among different insurers also means smaller

insured groups (higher risk and therefore higher costs) and multiple duplicative claims processing services.

- Multiple insurance products raise costs for providers, who must manage more complex administrative and billing functions.

**Table 2: Costs of Health Care Administration<sup>(9)</sup> in the United States and Canada, 1999**

Cost Category	Spending per capita (\$US)	
	U.S.	Canada
Insurance overhead	259	47
Employers' costs to manage health benefits	57	8
Hospital administration	315	103
Nursing home administration	62	29
Administrative costs of practitioners	324	107
Home care administration	42	13
<b>TOTAL</b>	<b>1,059</b>	<b>307</b>

Source: S. Woolhandler *et al.*, "Costs of Health Care Administration in the United States and Canada," *New England Journal of Medicine*, Vol. 349, No. 8, 2003, p. 771.

The study showed that private health care systems have higher administrative costs, in the United States as well as in Canada. Given the large role of private insurers in the American system, it is not surprising that the administrative costs of the health care system are lower in Canada than in the United States.

## PUBLIC OR PRIVATE FUNDING

Those who support adopting a universal public health care system in the United States argue that the savings would allow health care coverage to be extended to all Americans (more than 40 million of whom have no medical coverage whatsoever) or provide the funding for a national drug insurance program.

On the other hand, while the Canadian system has lower administrative costs because of its single-payer system (the government), it is a source of great frustration for users, who have to deal with the rationing of health care. In theory, there is no direct causal link between the single-payer system and the health care shortage in Canada; but the reality seems to be otherwise, prompting many Canadians to

demand greater access to private health care. That said, everyone agrees that underfunding is the main cause of the health care shortage in Canada.

In the United States, people who want extended health care services can enrol in a private plan and pay higher insurance premiums. This option is practically non-existent in Canada, and any improvement to health care services must be funded almost exclusively through taxes.

Surveys show that Canadians are prepared to spend a larger portion of their income on health care. In fact, were it not for the promises made in the election campaign, the Ontario government's recent decision to impose a new tax and put the resulting proceeds directly toward health care would probably have met with less criticism.

Given the administrative costs of the American system, the new Ontario tax, if it leads to a noticeable improvement in health care or shorter waiting lists, will no doubt be a step in the right direction in addressing the underfunding of the Canadian health care system. It remains to be seen whether this will be enough to overcome scepticism about the real impact of injecting new funds into the health care system.

If the additional funding significantly improves access to health care and reduces waiting times, the calls for greater access to private care in Canada will subside. Otherwise, there will be increasing pressure to give taxpayers more money so that they can decide for themselves what health care goods and services they wish to purchase.

When the time comes to make a choice, however, we must not forget the lessons of the American system.

- According to a recent study, the annual premium for a conventional health insurance policy for a family of four provided by a U.S. employer as part of an employee's social benefits was, on average, US\$9,602 in 2004. The employer covered 75% of this amount, while the employee covered the rest. Health care costs have risen to the point that premiums increased by almost 59% between 2000 and 2004. At this rate, employers will no longer be able to support current total compensation levels, given the actual and forecast increase in labour productivity. As a result, many companies, particularly the smallest, may stop providing health coverage to their employees in order to remain competitive. Henry J. Kaiser Family Foundation and Health Research and Educational

Trust, "Summary of Findings," *Employer Health Benefits – 2004 Annual Survey*, 2004, p. 2

(<http://www.kff.org/insurance/7148/loader.cfm?url=/commonspot/security/getfile.cfm&PageID=46288>).

- (2) Spending that cannot be attributed to greater household wealth.
- (3) Uwe E. Reinhardt *et al.*, "U.S. Health Care Spending in an International Context," *Health Affairs*, Vol. 23, No. 3, May/June 2004.
- (4) S. Woolhandler, T. Campbell, and D. U. Himmelstein, "Costs of Health Care Administration in the United States and Canada," *New England Journal of Medicine*, Vol. 349, No. 8, 21 August 2003, pp. 768-775 (<http://content.nejm.org/cgi/reprint/349/8/768.pdf>).  
According to the non-profit organization Public Citizen, this figure would have been US\$399.4 billion in 2003.
- (5) This amount does not include costs borne by individuals, who must choose among a multitude of health insurance packages and fill out the claim forms themselves.
- (6) The authors calculated the administrative costs of health insurers, employers' health care plans, nursing homes, home care agencies, hospitals, clinics, medical centres and other health care providers in Canada and the United States.
- (7) Direct spending by the federal government, not including transfers to the provinces and territories or payments to cities or social security funds.
- (8) Calculation based on data from the Canadian Institute for Health Information and the National Accounts.
- (9) Spending related to retail pharmacy sales, medical supplies and equipment, infrastructure, public health and research was excluded from the study. According to the authors, these excluded categories accounted for 21.6% of U.S. health care expenditures and 27.6% of Canadian health care expenditures in 1999.