Health Care Cost Drivers: The Facts.

After general inflation and population growth are taken into account, by how much has public-sector health care spending grown?

*Health Care Cost Drivers: The Facts.* looks at health spending from 1998 to 2008. During this time, total public-sector spending on health care increased at an average annual rate of 7.4%; after general inflation and population growth were factored in, it grew at a rate of 3.6%. Additionally, according to *National Health Expenditure Trends, 1975 to 2011*, a separate report from the Canadian Institute for Health Information (CIHI), total spending on health care is projected to reach $200 billion in 2011, but forecasts show a slowing of the rate of growth. Public-sector spending grew 6.0% and 3.0% in 2010 and 2011, respectively.

**Did health spending grow faster than income and by how much?**

Over the last decade, health spending growth exceeded the rate of economic growth. The average annual growth rate in GDP from 1998 to 2008 was 5.75%, while the average annual growth rate for health expenditure for the same time period was 7.4%.

Provincial/territorial government health spending grew faster than the rate of revenue growth from 1998 to 2008. From 1998 to 2008, the average annual growth rate for provincial/territorial government–sector health spending was 7.5%, while average annual growth for revenue was 5.4%.

**How will demographic shifts in the Canadian population affect health spending?**

While demographic shifts have played a role in driving health
spending, the impact has been minimal. Contrary to public perception, population aging has been a modest cost driver overall, contributing an annual average growth of only 0.8%.

**How have physicians affected the growth of public-sector health spending?**

Physician spending has been among the fastest-growing health categories in recent years, increasing at an annual rate of 6.8%. More than half of this growth—3.6 percentage points per year—is due to increases in the prices paid for physician services, while the rest is due to population growth, population aging and per capita utilization adjusted for aging.

In 2009, there were 201 physicians per 100,000 population—the highest number ever in Canada. Most of the growth in the physician workforce is due to an increase in the number of doctors graduating from Canadian medical schools, as well as a large number of doctors who were educated outside of Canada. The larger supply of physicians, in addition to other supply and demand factors, contributed 1.5 percentage points to the overall average annual growth in the form of increased utilization.

**What role do drug patents play in health spending?**

Drug price inflation has remained stable. This can be explained by the price regulation of patented drugs, the lapsing of some major patents and the substitution of lower-price generics for brand name drugs. On average, Canadian generic prices in 2008 were approximately 60% of the prices of brand name pharmaceuticals. Since 2010, most provincial governments have reduced the amount that they are willing to pay for generic drugs. Generic drug prices are now regulated to be at most 25% to 56% of the price of brand name products.

**What drives drug spending?**

From 1998 until 2007, prescription drug spending outside of hospitals grew at an annual average of 10.1%. Increased utilization has been the major driver for drug spending. This involved both an increase in volume, contributing 6.2% per year, as well as a change in the mix of drug types, which added 2% per year. Volume increases were especially evident in three types of drugs: antihypertensive drugs, cholesterol-lowering drugs and gastrointestinal drugs.

The drug classes that drive pharmaceutical spending in Canada have changed over the past decade. Drug classes for relatively common conditions—such as hypertension, high cholesterol, ulcers and heart burn, and depression—were the largest contributors to drug spending in the 1990s and early 2000s. Since 2005, immunosuppressants and cancer drugs have been the two largest contributors to growth in drug spending, due in large part to the introduction of newer biologic medications in these classes. Trends in drug development suggest that these two classes may continue to drive drug spending in the years ahead.
How have changes in the services hospitals provide affected spending?

While there has been a slight decrease in the number of hospital beds, there has been a modest increase in the average length of stay as well as in the average amount of resources consumed by inpatients. Inpatient-to-outpatient shifting continued but at a more moderate pace than was seen in the 1990s. An increasing number of computed tomography (CT) and magnetic resonance imaging (MRI) scanners was installed and went into operation at Canadian hospitals. The use of medical imaging technology, with its ability to detect more anomalies, has contributed to growth in hospital services. In 2009–2010, 1.4 million MRI exams and 4.2 million CT exams were performed on Canadian patients. This represents annual increases in the numbers of MRI and CT exams of 6.9% and 6.2%, respectively, and nearly double the number of exams performed in 2003–2004.

How has compensation been a cost driver for hospitals?

Health-sector inflation has been above the rate of general inflation for core medicare services such as hospitals. Much of this is due to inflation associated with increases in the earnings of health professionals. Compensation constitutes 60% of the total cost of hospital budgets. Compensation of the hospital workforce has grown faster than compensation in non-health sectors since 1998.

How does public-sector health spending in Canada compare internationally?

Canadians are not alone in their concern about rising health care costs and what this means in terms of the future of publicly funded health care. In almost all high-income countries, there are similar trends and concerns as well as debates concerning the sustainability of public health care. When it comes to health spending, Canada’s experience parallels that of other countries in the Organisation for Economic Co-operation and Development (OECD). The most obvious similarity is the positive correlation between growth in the economy and public-sector spending.

With a 70:30 ratio between the public and private shares of total health spending, Canada is at the low end of public spending relative to private spending among OECD countries.