



Federal Support for Health Care: The Facts

September 2004

Federal Support for Health Care: The Facts

Repeated provincial claims that the federal share of health care spending is 16 cents, down from 50 cents in the 1960s, are false.

Analyzing provincial claims

Provincial claim: The federal share of health care spending is 16 cents on the dollar.

Fact: To arrive at this figure, provinces divide the combined cash portions of the Canada Health Transfer (CHT) and the Canada Social Transfer (CST), as well as the Health Reform Transfer (HRT), by all of their social spending, not just their health care spending – they also include social services and primary, secondary and post-secondary education in their calculation.

Comment:

It is misleading to use the total amount of provincial social spending to calculate the federal share of provincial health care spending. Total provincial health spending is estimated at \$83 billion in 2004–05, compared to \$155 billion for social spending.

Using the total amount of provincial social spending in itself is an inappropriate comparison in any event. This figure includes provincial spending on primary and secondary education, which has never been directly supported by federal transfers.

It is also misleading for the provinces to ignore the \$17 billion in CHT/CST tax points provided by the federal government and about \$9.5 billion transferred to provinces through the equalization program.¹ Provinces have the flexibility to spend all or any part of these amounts on health care.

Provincial claim: The federal government covered half of provincial health spending in the 1960s and through to 1977 through a 50:50 cost-sharing regime.

Fact: The federal government never cost-shared 50% of all provincial health care spending, and since 1977 has provided block-funding support to provincial health care and post-secondary education spending through a combination of cash and tax transfers.

¹ Finance Canada (February 2004 estimates).

Comment:

*The 50:50 cost-sharing regime covered a defined and restricted range of provincial spending on health care. For example, expenditures on mental and tuberculosis hospitals, home care, certain outpatient diagnostic services, and administration costs were **not cost-shared**. As a result, pre-1977, the federal share of **total provincial health care spending** was never greater than 41% (in the 1960s).²*

Once programs became established, all governments agreed to replace cost sharing of specific provincial expenditures on health and post-secondary education with block funding. Block funding, which gives provinces much greater flexibility in how they allocate federal transfers, addressed provincial concerns that cost sharing distorted provincial spending decisions and favoured better-off provinces since they could afford to spend more and so attract more federal dollars than less well-off provinces.

Furthermore, the value of CHT/CST tax points cannot be ignored in comparisons between the present and the past, since half the cash under the cost-sharing regime was converted into tax points in 1977 by mutual consent.

What is the federal contribution to health spending?

The Government of Canada contributes to provincial health spending through the CHT (both cash and tax points), targeted funding for medical equipment and health reform, and equalization. It also makes substantial direct contributions to health care and health research.

1. The federal contribution to provincial health spending through transfers for health

First, let's look at total CHT – that is, cash and tax points – which amounts to \$25.0 billion in 2004–05, including \$1.6 billion from supplements.

Adding in the \$1.5 billion in support from the Health Reform Transfer, \$500 million from the 2003 Diagnostic/Medical Equipment Fund and \$130 million for public health and immunization increases this amount to \$27.2 billion.

This total of \$27.2 billion amounts to **33% of provincial health care spending of \$83 billion.**

2. The additional federal contribution to provincial health spending through equalization³

Next, the Government of Canada provides 8 of the 10 provinces with equalization, and they have the flexibility to allocate as much of this money to health as they choose.

² Finance Canada estimate.

³ The Government of Canada also supports territorial health care spending through Territorial Formula Financing, in addition to the figures provided.

Equalization is not targeted just to social spending, so let's look at all provincial program spending in order to determine a reasonable amount.

On average, provinces spend about 39% of their program budgets on health care. It is reasonable to assume 39% of annual equalization goes to health, which means about \$3.3 billion a year for health care.⁴

Added to the \$27.2 billion in federal support through the CHT, HRT and Diagnostic/Medical Equipment Fund, and funding for public health and immunization, this brings the federal contribution to about **\$30.5 billion, or 37% of provincial health care spending.**

3. Direct federal contributions to total public health spending

In addition, the Government of Canada's direct spending on health care is estimated at approximately \$5 billion in 2004–05.⁵ This is for First Nations' health, veterans' health, health protection, disease prevention, health information and health-related research.

When you add the \$5 billion in direct spending to \$30.5 billion in transfers to provinces, the federal government is providing about **\$35.5 billion a year, or about 40% of all federal/provincial/territorial spending on health care in Canada, estimated at \$88 billion.**⁶

The Government of Canada also provides support through the tax system. Tax measures such as credits for medical expenses, disability, caregivers and infirm dependants amount to about \$1 billion a year.

In short:

1. Together, the Canada Health Transfer, Health Reform Transfer and Diagnostic/Medical Equipment Fund, as well as funding for public health and immunization, make up a federal contribution of about \$27.2 billion, or an average of 33% of provincial health spending.
2. When an amount of equalization payments corresponding to the amount of total program spending that provinces allocate to health is added, the federal share rises to 37%.
3. When direct federal support of over **\$5 billion** annually is included, the total federal contribution to national public health spending (what all governments spend) is about 40%.
4. So while there is no single correct number for the federal share of provincial health care spending, the numbers above show substantial federal support for health care in Canada.

⁴ Finance Canada estimate based on February 2004 estimates.

⁵ Finance Canada estimate based on *Federal Direct Health Expenditure in 2003* (Canadian Institute for Health Information, December 2003)

⁶ Finance Canada estimates: \$88 billion includes total provincial/territorial health spending (\$83 billion) and federal direct spending for health care (\$5 billion). Totals may not add due to rounding.