

Commentary

**Canada
Life Insurance**

Private Health Insurance in Canada

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The Supreme Court of Canada has ruled against a prohibition on private health insurance in the province of Quebec. This ruling makes it likely that prohibitions in other provinces on private health insurance will similarly fall if challenged. Some people view these events as the beginning of the end of public health care in Canada.

In Canada, health care has never been 100% public. Canadians make the decisions to pay, by cash or through private insurance, for health services that are not covered by provincial health plans (e.g. prescription drugs, ambulatory, vision care, dental care, chiropractic, hospital boarding) and for the cost of health services out of province or out of country that are in excess of provincial funding. The court decision impacts just health services covered by provincial plans for delivery in province.

Keep some perspective: allowing private health insurance does not mean that there will be only private health care. The reality is that this combination of public/private health care exists and thrives in many foreign jurisdictions. For an individual, choices mean decisions will have to be made. Why would an individual pay cash for publicly covered health services or purchase insurance for such publicly covered health services? An individual would need to perceive the benefits as being greater than the cost. Benefits could be superior service or more timely service.

If a particular diagnostic test were unavailable under the provincial health plan that you thought useful, would you be willing to pay for that test?

If knee surgery takes 10 months of waiting in the queue, would you be willing to pay to have it performed within 10 days?

Canadians already face these types of decisions today; there did exist the option of finding private

health care, inside or outside of Canada, and paying cash for service. The court decision does not change this reality. It is an interesting decision for the individual to make. The individual has already been taxed to pay for health services: to pay for it privately (cash or by insurance premiums) is to pay for it twice. If the public version is markedly inferior then the person with means may decide to pay yet again to preserve health or ease pain and suffering.

British Columbia, Alberta and Ontario have specific health taxes. Alberta allows opting out and thus is most like a health "premium" and not purely a tax. The Albertan that wishes to pay privately will get some modest offset by opting out of the provincial health care plan (currently single person tax rate is \$528 per year and family tax rate is \$1,056 per year). Other than this Albertan exception, an individual should view the taxes paid for health services as a sunk cost; it is gone and you aren't getting it back. After accepting this reality the individual can get back to making the decision whether to pay or not for superior service or more timely service. The more inferior the public version, the more likely the person with means will decide to pay. If the individual wishes to pay, they then need to decide whether they should go the cash route or the insurance route. The decision for the cash route is made at the time the service is needed whereas the insurance route requires a decision well in advance of the service being needed.

Insurance is best suited for events that are rare but economically catastrophic when they occur. Plans like dental coverage are cash-in, cash-out programs and in many ways are more of a payment plan than an insurance plan. With the doctor shortage, there may develop a sufficient clientele in large communities for private routine medical services and this clientele might find having their payments preset to be appealing and thus migrate to a cash-in, cash-out

insurance plan. In smaller communities the existing doctor payoff program (house, golf membership, etc.) is the more efficient means of topping up a doctor's pay to get service. Major medical expenses that involve surgery or complex treatments are in their nature well suited to insurance, however, one needs to consider the interaction with the provincial health care plan. If the provincial health care plan has good quality of service with short wait times then private service is redundant and paying insurance premiums for a service that is unneeded is illogical. The problem for the individual is that the quality of the provincial health care plan varies with time and hence one does not know whether one will need to look after oneself. It is like a man whose neighbour says that he will help him harvest his crop but when the critical day of reaping comes the neighbour has other priorities and does not help, that man might be inclined to think, fool me once shame on you, fool me twice shame on me. Since provincial health plans have failed people, those people with the means might be willing to pay insurance premiums to have the comfort that when they need that surgery or complex treatment, it will be there. However, given the high tax burden in Canada (which is supposed to pay for our health care), the vast middle class of Canadians do not have the means to pay premiums for private health insurance month in, month out without making sacrifices and they will not make the necessary sacrifices unless the provincial health care plan markedly fails in meeting expectations. Though once faced with a health crisis, people might scramble the cash together to avert the crisis.

In this environment critical illness insurance is perhaps a more attractive insurance product than straight health insurance. It pays out in the event of a specified illness (e.g. cancer, heart attack, stroke). The holder of the policy has the option of either using the provincial health care plan and keeping the cash for other uses or using the cash to get private health care. It leaves the individual with a wait-and-see option. Critical illness insurance has existed in Canada for several years. If more private health care becomes accessible in Canada then this product might gain popularity since people prefer to take their treatment close to their home and their loved ones.

A significant portion of the debate about the failures of provincial health care plans centres around waiting times for procedures such as cancer treatment and hip and knee replacements that are preponderantly

associated with old people. Private insurance is not an answer for old people. Old people are the least likely to be eligible for insurance and unlikely to be approved if they are eligible. For old people, the private option will largely remain, as it has been, payment by cash. Personal savings plans are the best defence against relying on a government that may fail you when you need it.

A provincial government that wishes to promote greater private participation in health care services could go the Albertan route with "premiums" and a right to opt out. The level of "premiums" would impact the public/private mix (for a given level of service, a premium of \$0 would result in the greatest public portion whereas a premium of \$100,000 would result in the greatest private portion). Similarly, a provincial government could also provide set reimbursements for covered services; get it wherever you want, the province will pay up to \$X for that service. Moves in these directions by provinces would certainly open up the economic room for the private sector and insurance to play a greater role.

Real politics needs to be considered in this discussion. If a provincial government wants to discourage private health care or private health insurance then it is well armed to do so. Whether it is chasing out mobile MRI clinics or cutting positions in medical schools there are many weapons that provinces wield (licensing medical practitioners, licensing medical facilities, subsidizing medical schools, approving procedures and medications, approving health insurance policies, licensing insurance companies, setting tax rates on insurance premiums). Of course, provincial governments should remember that neither labour nor capital is hostage to any one province or even to Canada. On the insurance side, large insurance companies in Canada have a history of being compliant to the will of governments in whose jurisdiction they wish to operate their business; I would not expect the insurance industry to push much beyond where governments want them to go.

Foreign countries that have a history of public/private health care likely have many lessons to teach us. Researching consumer habits in those countries and what insurance products have been successful in those countries would likely be a good lesson on what we can expect in our future. □