Perspectives and Lessons from the Canadian Healthcare System

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Why should we care about the Canadian healthcare system?

- Canada is the closest country to the U.S. in many ways
- But, our history of health insurance has diverged
  - In 1966, the minority Liberal Pearson government passed the Medical Care Act, with support from the New Democratic (Labor) Party
  - This led to the creation of a series of provincial / territorial health authorities
  - Since that time, the Canadian healthcare system has been largely single payer
- Canadian market cannot be thought of in isolation
  - Many spillovers to larger U.S. market, such as with physician labor supply, drug prices, etc.
- During the years since this time, U.S. health spending has exploded
  - And, Canadian life expectancy has increased! Health Spending Trends

How does Canadian system work?

- Each of the 13 provinces / territories has its own system
  - Biggest are Ontario Health Insurance Plan and Régie de l'assurance maladie du Québec
  - Canada Health Act of 1984 codifies requirements such as no balance billing
  - But, services such as dental care, eye care, drugs, out-of-country care are not covered
  - Employer-based private insurance market supplements Medicare and insures some of this
- Physicians in Canada have private practices
  - They bill the government, typically on a FFS basis
  - But, lots of non-market mechanisms to reduce costs, such as salary caps
- Hospitals are private, but they receive their base funding from the government, so are quasi-public
  - An example of a big urban teaching hospital in Canada Jewish General Hospital
- There are also publicly funded clinics, that may be locally run
  - In Quebec, called "Centre Local de Services Communautaires (CLSC)"
- What has happened recently with the system?
  - More private markets for select services, such as MRIs
  - Physician salaries have increased a lot

Canadian system through the lens of current healthcare research

1. Adverse selection and switching costs of insurance
   - No choice of insurance—these are basically not existent!
2. Reclassification risk
   - Also, really doesn't exist
3. Value of choice on utility and equilibrium outcomes
   - Choice in the Canadian healthcare system is hugely limited by non-market mechanisms
   - Shortages of primary care physicians, waits at EDs, shortages of specialists are common
   - Very few formal studies of this, because few formal metrics
4. Bargaining and market power
   - It definitely still is important!
   - But, now single payer negotiating with physicians, pharma, hospitals, etc.
5. Design of patient/provider incentives to add quality
   - With single payer, very little scope for innovation, unlike U.S.
6. Physician production function and learning
   - Production functions and learning processes are similar

What does the Canadian system get right?

- Essentially no adverse selection and reclassification risk
  - People don't worry about financial ruin from getting sick as much
- Compliance costs for providers are much lower
  - Only one provider to deal with and almost no cost sharing!
  - Physicians spend 1/4 as much time interacting with payers (Morra et al., 2011)
- People with low and moderate income can better access non-urgent healthcare
- Public health and integrative care is better than the U.S.
  - COVID-19 death rate per capita is currently 38% of U.S. rate!
- More physicians per capita than the U.S. and relatively similarly salaries Physicians & Salary

Where can the Canadian system improve?

- Canada lags in the adoption of high technology frontier services
  - Much less availability of PET scans, MRIs, etc.
  - Also, less human capital, e.g., very few specialists doing minimally invasive back surgery
- Lots of inefficiencies in allocation
  - Social capital—not money directly—affects who gets the best care
- Physicians have a lot of bargaining power
  - Single payer does not imply no regulatory capture!

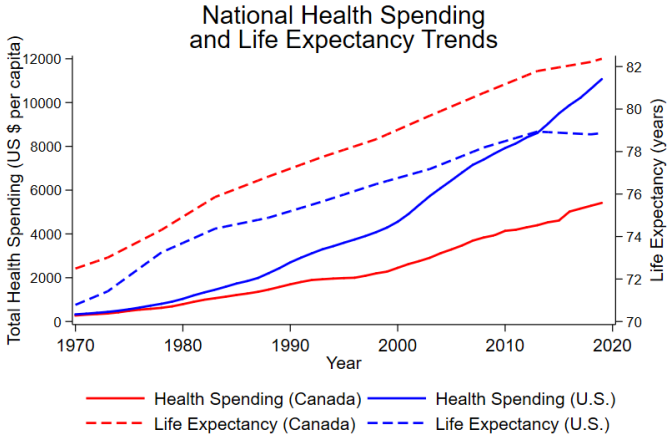
Comparison of healthcare issues in the U.S. and Canada

United States	Canada
Relatively poor public health but lots of high-technology services	Public health is better but low adoption of high-technology frontier services
Huge expenditures and no shortages for people with private insurance or Medicare in urban areas	Moderate expenditures but lack of EDs, specialists, and even primary care doctors
Lack of care in rural areas	Allocation of doctors to rural areas creates shortages elsewhere
High cost sharing and narrow networks	No explicit cost sharing but allocation is opaque and there are long waits
Providers may exploit incentives, e.g., with upcoding	More difficult to exploit incentives, e.g., because of salary caps
More pharma bargaining power and ability of pharma to advocate, e.g., with direct-to-consumer advertising	Lower pharma prieces but much less pharma R&D per capita
Lots of choices for potentially uninformed consumers may create choice overload	Physicians have much greater power over decision-making

Conclusion: some overall lessons for the U.S.

- The Canadian system is much cheaper than the U.S. system!
  - Despite relatively similar physician wage bill
  - Caution: it's very hard to allocate efficiently with single payer systems
- Less inequality in access to healthcare
  - Poorer Canadians live longer than poorer Americans
  - But, richer Americans probably live longer than richer Canadians! Income & Life Expectancy
  - High-technology, frontier medical services are more scarce in Canada
- The U.S. may have too many markets and too much choice
  - ACA, small group, large employers, Medicaid, Medicare Advantage, Veterans, traditional Medicare
  - This fragmentation is not necessarily good for making optimal choices, selection, and compliance costs

U.S. and Canada Healthcare Spending



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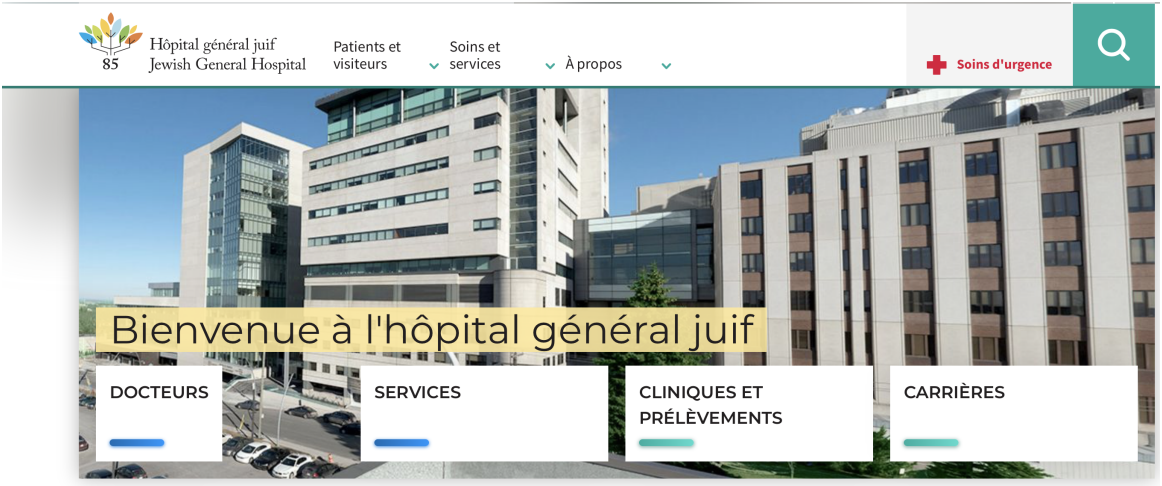
Jewish General Hospital



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Physicians and their Earnings

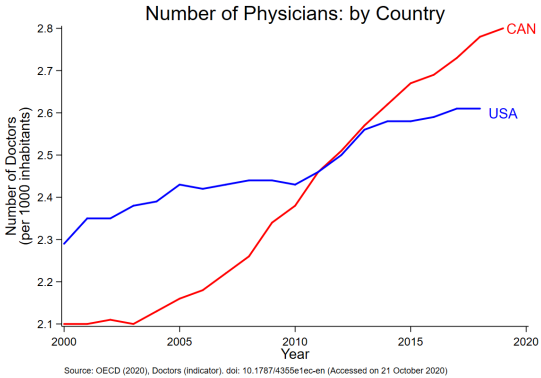

Table: Net Physician Wages: 2018

	United States	Canada
Family Doctors	$237,000	$225,000
Specialists	$341,000	$288,000

Source: "Crossing the Border: Doctor Salary US vs Canada" by Kristen Campbell (2020) https://www.dr-bill.ca/blog/

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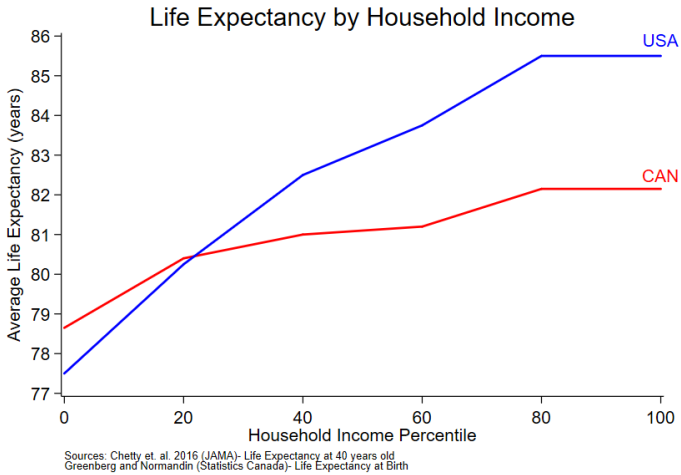
Income & Life Expectancy



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