Perspectives and Lessons from the Canadian Healthcare System

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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!
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
Adverse selection and switching costs of insurance
- No choice of insurance—these are basically not existent!

Reclassification risk
- Also, really doesn’t exist

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

Bargaining and market power
- It definitely still is important!
- But, now single payer negotiating with physicians, pharma, hospitals, etc.

Design of patient/provider incentives to add quality
- With single payer, very little scope for innovation, unlike U.S.

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 payer 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
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

<table>
<thead>
<tr>
<th>United States</th>
<th>Canada</th>
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<tbody>
<tr>
<td>Relatively poor public health but lots of high-technology services</td>
<td>Public health is better but low adoption of high-technology frontier services</td>
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<tr>
<td>Huge expenditures and no shortages for people with private insurance or Medicare in urban areas</td>
<td>Moderate expenditures but lack of EDs, specialists, and even primary care doctors</td>
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<td>Lack of care in rural areas</td>
<td>Allocation of doctors to rural areas creates shortages elsewhere</td>
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<td>High cost sharing and narrow networks</td>
<td>No explicit cost sharing but allocation is opaque and there are long waits</td>
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<td>Providers may exploit incentives, e.g., with upcoding</td>
<td>More difficult to exploit incentives, e.g., because of salary caps</td>
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<td>More pharma bargaining power and ability of pharma to advocate, e.g., with direct-to-consumer advertising</td>
<td>Lower pharma prices but much less pharma R&amp;D per capita</td>
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<td>Lots of choices for potentially uninformed consumers may create choice overload</td>
<td>Physicians have much greater power over decision-making</td>
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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
- The poorest Americans live less long than the poorest Canadians
- But, richer Americans live longer than richer Canadians!
- 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
National Health Spending and Life Expectancy Trends

- **Health Spending (Canada)**
- **Health Spending (U.S.)**
- **Life Expectancy (Canada)**
- **Life Expectancy (U.S.)**

Sources:
- Life Expectancy: UN World Population Prospects www.macrotrands.net
Bienvenue à l'hôpital général juif

DOCTEURS

SERVICES

CLINIQUES ET PRÉLÈVEMENTS

CARRIÈRES
Physicians and their Earnings

Table: Net Physician Wages: 2018

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<th></th>
<th>United States</th>
<th>Canada</th>
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<tr>
<td>Family Doctors</td>
<td>$237,000</td>
<td>$225,000</td>
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<tr>
<td>Specialists</td>
<td>$341,000</td>
<td>$288,000</td>
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Source: “Crossing the Border: Doctor Salary US vs Canada” by Kristen Campbell (2020) [https://www.dr-bill.ca/blog/](https://www.dr-bill.ca/blog/)

Number of Physicians: by Country

Income & Life Expectancy

Life Expectancy by Household Income

- USA
- CAN

Sources: Chetty et. al. 2016 (JAMA)- Life Expectancy at 40 years old
Greenberg and Normandin (Statistics Canada) - Life Expectancy at birth

Sources: Chetty et. al. 2016 (JAMA)- Life Expectancy at 40 years old
Milligan and Schirle (NBER Wp24929) - Life Expectancy at 50 years old