

2023 INTERNATIONAL CONGRESS OF ACTUARIES



BRIDGE TO TOMORROW

28 MAY – 1 JUNE 2023 • SYDNEY



**Actuaries
Institute
Australia**



**International Actuarial Association
Association Actuarielle Internationale**



Healthcare Financing

One potential solution:

A bridge to tomorrow's health expenses ?

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NOTICE

- Solution explored in this presentation is considering the current Canadian landscape (*social security programs, legislation and taxation*) and thus may not be applicable in other countries.





AGENDA

1. Canadian landscape
2. Underlying principles
3. Solution: a Registered Health Spending Account (RHSA)
4. Illustrations of RHSA's balance under various scenarios
5. Tax treatment
6. Comparison with Singapore Healthcare system model
7. Anticipated objections & rebuttals
8. Conclusion

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CANADIAN LANDSCAPE

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CANADIAN LANDSCAPE

PUBLIC HEALTHCARE SYSTEM

- Universal public program;
- Covering necessary physician and hospital services;
- Through provincial healthcare insurance plans;
- Program is funded through federal, and provincial taxation;
- Complementary coverage by individual or group insurance
(with a % of premium paid by employer);



CANADIAN LANDSCAPE (CONTINUED)

PUBLIC HEALTHCARE SYSTEM (continued)

- ✓ Unique Canadian features vs other OECD countries:
 - Only covers medically necessary physician and hospital services;
 - Absence of co-payments or deductibles for universal public healthcare.
- ✓ Recent changes in legislation permits greater involvement from the private sector in the healthcare system.



CANADIAN LANDSCAPE (CONTINUED)

PUBLIC HEALTHCARE SYSTEM (continued)

Uncovered expenses by the public system:

- Prescribed and over-the-counter medication;
- Dental care;
- Outpatient health practitioners other than doctors;
- Medical equipment.



CANADIAN LANDSCAPE (CONTINUED)

OTHER MECHANISMS SUPPORTING HEALTHCARE COSTS

- Group insurance plan;
- Individual insurance plan;
- Private savings.



CANADIAN LANDSCAPE (CONTINUED)

TAXATION ON HEALTH CARE

- Employer paid group insurance premium generally not a taxable income;
- Tax credits for individuals whose medical expenses exceed 3% of their income after deductions;



CANADIAN LANDSCAPE (CONTINUED)

SIMILAR FINANCIAL SAVINGS PRODUCTS :

- Registered Retirement Savings Plan (RRSP) → Savings for retirement:
 - ✓ Contributions : tax deductible
 - ✓ Withdrawals : taxed
- Tax-Free Savings Account (TFSA) → Savings for personal purposes:
 - ✓ Contributions : not tax deductible
 - ✓ Withdrawals and revenues in account : not taxed
- Registered Education Savings Plan (RESP) → Savings for education:
 - ✓ Contributions : not tax deductible
 - ✓ Withdrawals : taxed to student



CANADIAN LANDSCAPE (CONTINUED)

SOLUTION RATIONALE :

- No access to group insurance for many workers;
- Limited coverage of group insurance plans;
- Private individual health insurance not so popular;
- Poor performance of the public system in providing efficient services (shortage of doctors);
- Increases healthcare costs to individuals.



CANADIAN LANDSCAPE (CONTINUED)

IN SUMMARY:

- ❖ Current gaps in our overall healthcare system;
- ❖ Along with the preceding three financial savings products...



led me to explore solution described in next section.

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POTENTIAL SOLUTION: REGISTERED HEALTH SPENDING ACCOUNT (RHSA)



UNDERLYING PRINCIPLES

Proposed solution based on following underlying principles:

- I- Individual accountability for health expenses;
- II- Earlier savings leads to more accumulation;
- III- Preferred tax treatment for personal health savings;
- IV- Solution proposed to complement current public and private Canadian healthcare system;



THE POTENTIAL SOLUTION

Introducing a Registered Health Savings Account (RHSA):

1 - Contributions :

- i- Account set up as a family trust, registered under contributor;
- ii- Opening a RHSA : on a voluntary basis;
- iii- Once opened, minimal yearly contribution required;



THE POTENTIAL SOLUTION (CONTINUED):

Introducing a Registered Health Savings Account (RHSA):

1 - Contributions:

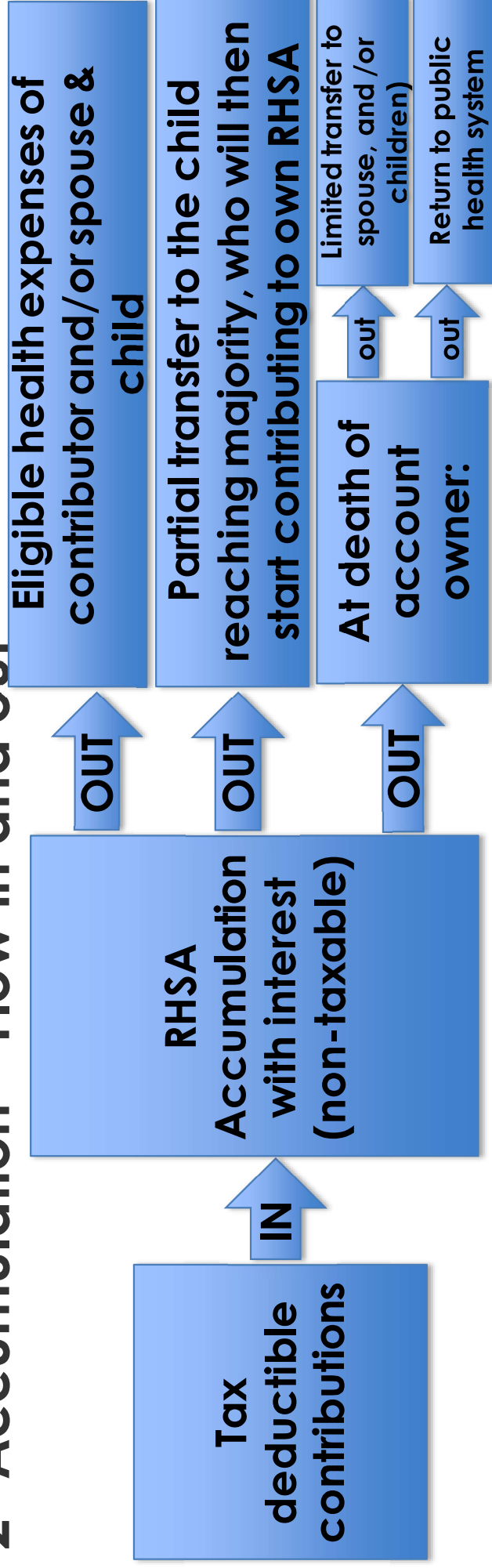
- iv- Part of accumulated amount transferred to child when reaching majority, who will contribute to its own RHSA until age of retirement or even till death;
- v- Flexibility should be allowed in annual contributions;
- vi- Rules to be set for minimum annual contributions or account minimum balance to cover account maintenance costs;



THE POTENTIAL SOLUTION (CONTINUED):

Registered Health Savings Account (RHSA) (continued):

2- Accumulation – Flow in and out





THE POTENTIAL SOLUTION (CONTINUED):

Registered Health Savings Account (RHSA) (continued):

3- Utilization of account for the payment of :

Healthcare expenses not covered by public (or private) system :

- 1- Healthcare insurance premium
(including Long term Care, Home care, Critical Illness)
- 2- Uncovered drugs expenses
- 3- Paramedical services (including dental services);
- 4- Private health services;
- 5- Medical supplies;

Qualifying expenses defined by the law enacting the RHSA;



THE POTENTIAL SOLUTION (CONTINUED):

Registered Health Savings Account (RHSA) (continued):

4- Management by financial institutions to:

- i- ensure monies are used for purpose of plan;
- ii- provide payments facilities;
- iii- coordinate payments with private insurance;
- iv- charge account opening fees;
- v- set minimum balance to maintain in the account;
- vi- charge administration fees;
- vii- be allowed only minimum profit (from RHSA's return)



ILLUSTRATIONS OF RHSA's balance under various scenarios

About the illustrations :

- 1- Projected health expenses deducted yearly at end-of-year (EOY) from RHSA balance were estimated using:
 - a- Estimate of total, per capita, provincial government health expenditures by age-band for Canada, in 2020; from Canadian Institute for Health Information (CIHI)
 - b- then converted to private expenses using the following proportions:
 - Provincial government (=public) health expenditures = 71,8% of total (public + private)
 - => Private health expenditures = 28,2% of total
 - c- forecasted to 2022 (using a factor of 1,082) and projected with 4% annual trend
- 2 – CIHI data used were not differentiated by gender;



Illustration 1 - Good health scenario

RHSA's balance at EOY
 including 50% withdrawal of balance's account when child reach 18 year old

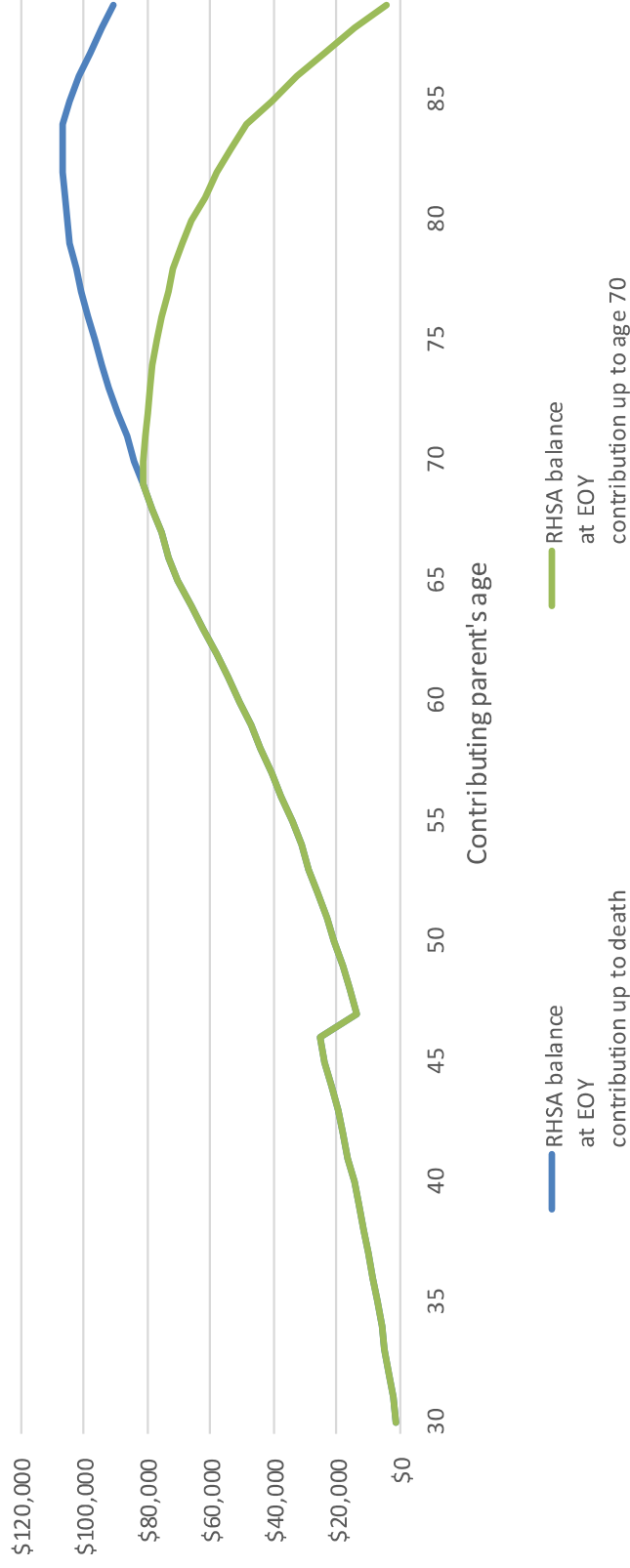




Illustration 2- Bad health scenario

RHSA's balance at EOY
 including 25% withdrawal of balance's account when child reach 18 year old

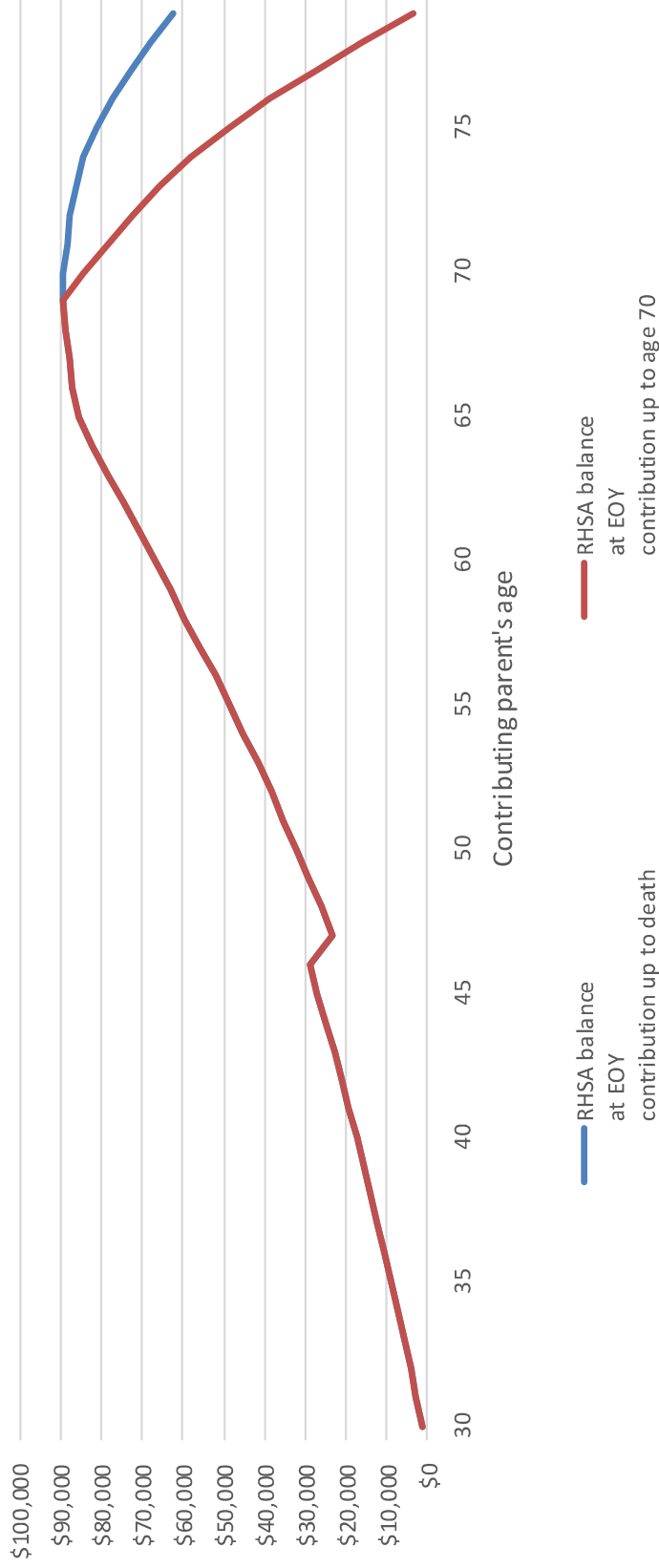
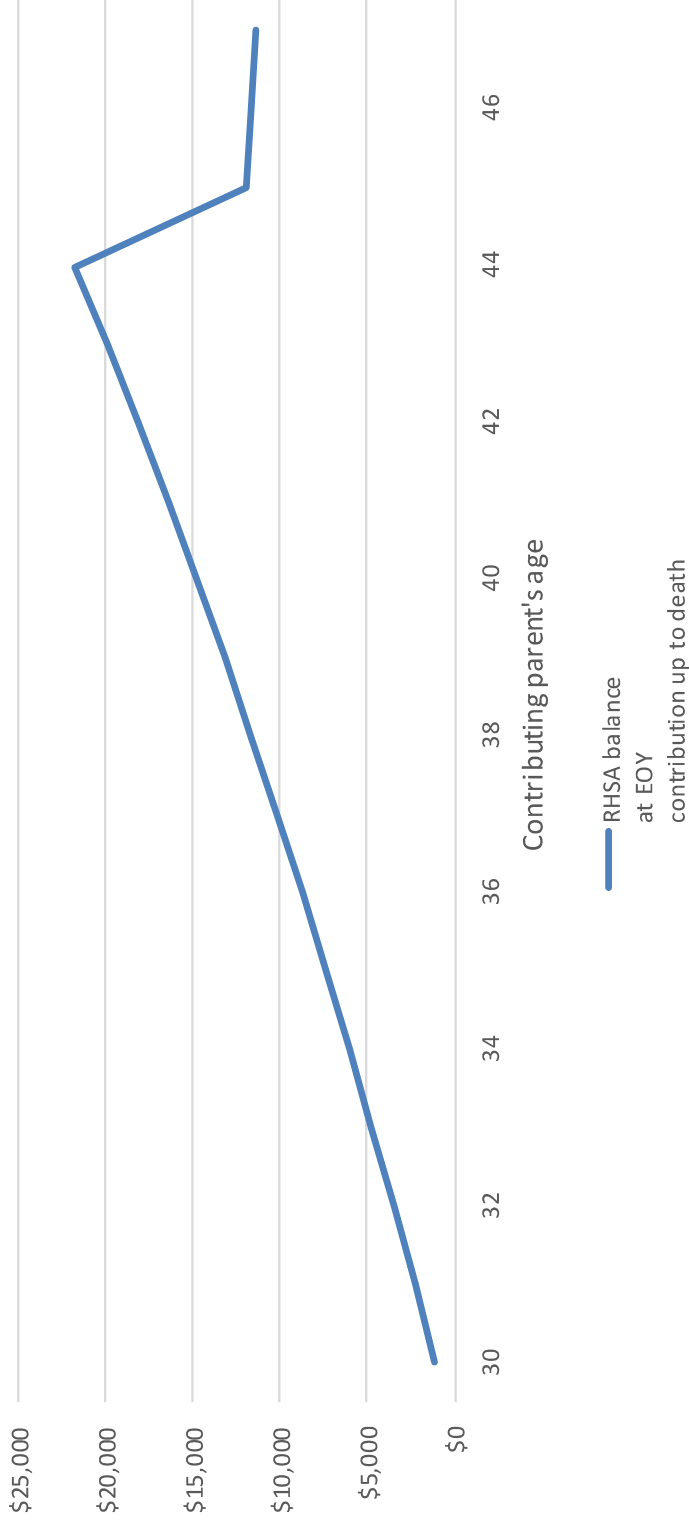




Illustration 3 – Death at 45

RHSA's balance at EOY
Good health scenario with death of contributing parent at 45 year old





TAX TREATMENT:

- 1- Contributions and interest income from account to be exempt from tax;
- 2- Incentive for savings and for viability of program;
- 3- Maximum annual contribution should be fixed (for example, \$10,000) as these would be exempt from tax, meaning less income tax for government.

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COMPARISON WITH SINGAPORE HEALTHCARE SYSTEM MODEL

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Comparison with Singapore Medisave program

Similarity: Greater level of responsibility for patient;

Differences: 1- Contributions

Singapore Medisave program

- By the working beneficiary;
- Compulsory, annual, depending on age and net trade income up to a maximum (between 4% and 10.5% of a working person's wages);
- Voluntary contributions also possible, with tax relief

Proposed RHSA

- By an adult, that could start at birth of child or before;
- Voluntary basis, but if elected, minimum yearly contribution suggested (example 3% of salary);
- Tax-deductible



Comparison with Singapore Medisave program

Differences (continued): 2-Use

Singapore Medisave program

- Personal or approved dependent's hospitalization;
- Day surgery;
- Certain outpatient expenses;
- Healthcare needs in old age;

Proposed RHSA

- Excess over what is paid by public program for contributor or child;
- Private health services (like fees for public program's opted-out doctors);
- Facilities (e.g. hospital, convalescent home, etc.)



Comparison with Singapore Medisave program

Differences (continued): 3-Catastrophic coverage

Singapore Medisave program

- Resident can opt for Medishield program (kicks in when Medisave account is used up) by paying an age-based premium;
- Medishield = a nationwide catastrophic insurance program;

Proposed RHSA

- Reimbursement of health care costs limited by the RHSA's accumulated amount;
- Partial "catastrophic" coverage possible with purchase of Critical Illness insurance being paid with RHSA (at least partially);

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ANTICIPATED OBJECTIONS & REBUTTALS

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ANTICIPATED OBJECTIONS & REBUTTALS

Objection #1:

Saving already difficult for most people.

Rebuttal:

If private services used by the wealthier, this frees up resources for public programs that continue to be used by the less wealthy.



ANTICIPATED OBJECTIONS & REBUTTALS

Objection #2:

Loss of income tax revenues for government

Rebuttal:

Yes, but the government's health care spending should be reduced as well



ANTICIPATED OBJECTIONS & REBUTTALS

Objection #3:

Violation of universality principle of public programs

Rebuttal:

Not to the extent that public program would still exist and be available



ANTICIPATED OBJECTIONS & REBUTTALS

Objection #4:

Coordination with other health insurance coverage (Group, Critical Illness, Private individual)

Rebuttal:

Yes, compulsory coordination to avoid fraud and overpayment. (Reporting needed)



ANTICIPATED OBJECTIONS & REBUTTALS

Objection #5:

Could use Tax-Free Savings Account (in Canada)

Rebuttal:

Yes, but separate account is desirable because:

- 1- Contributions to RHSA tax-deductible (TFSA's are not);
- 2- More difficult to coordinate payment with other health program;



ANTICIPATED OBJECTIONS & REBUTTALS

Objection #6:

Could put group insurance at risk

Rebuttal:

- 1- Employer participation in premium still valued by employees;
- 2- Still a % of person not covered by group insurance;
- 3- Reimbursement of out-of-pocket expenses in group insurance;
- 4- Intent of RHSA: not to replace but to complement other health plans (with coordination with public, individual or group insurance);



ANTICIPATED OBJECTIONS & REBUTTALS

Objection #7:

Government could be tempted to disengage further

Rebuttal:

- Most « routine care » to be paid by RHSA;
- Then government healthcare budget could be allocated to catastrophic coverage like high-cost drugs, technological innovation or costs associated with a pandemic;



CONCLUSION

Distinctive elements of explored solution :

- Contribution can start at birth of child;
- Advantage of more accumulation due to early savings which are tax-sheltered;
- Interesting parallel with monies accruing with age in a RHTA, just as health care costs increases with age; (with some exceptions);



CONCLUSION

- Solution presented targets specifically health care financing;
- However, Canada's healthcare system still has challenges to overcome:
 - ❖ accessibility problems due to the labour-shortage (doctors, nurses);
 - ❖ Increase efficiency in health care delivery;
 - ❖ reduce cumbersome management structures;



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