COMMENTARY

George C. Halvorson

understanding the trade-offs of the Canadian health system

Canada spends less money on health care than the United States does. But should the United States embrace a single-payer system?

Americans are increasingly asking why the United States is the only western industrialized country that has not managed to achieve universal healthcare coverage for all of its citizens. They also are wondering why we don't learn from our neighbors to the north and move the current Canadian universal coverage approach south. That's an interesting and important question.

Canada provides universal coverage to all of its citizens while spending less money on health care than the United States does by a significant margin. The question we need to ask ourselves as data-oriented healthcare financial people is, how does the Canadian system achieve these goals? The answer might surprise you.

Most people who know that Canada spends less money on health care believe that the cost difference is almost entirely due to the lower administrative costs that result from Canada using a "single-payer" insurance model. Is that true? No.

The truth is that Canada now spends about $2,600 per resident per year less than we spend on healthcare costs in the United States because—very simply—Canadians spend less money on the actual purchase of care.

How do they do that? First, by setting fees. Fees are much lower in Canada. A physician office visit that costs $80 to $100 in the United States costs only $28.60 in Nova Scotia. The government of each Canadian province determines the exact fee schedule and price list for every physician in the province—and those Canadian fee schedules for physicians are set far below U.S. fee schedules.

Canada's Pricing Model

Those of us who work in healthcare finance in this country should be at least slightly familiar with the Canadian pricing model, because in those cases where our government is now the actual direct payer for care, we already use a very similar approach. Our government pays roughly $60 for an office visit for each Medicare patient and pays well under $50 per visit if the patient is on Medicaid

AT A GLANCE

Canada spends less per citizen on health care than the United States does by maintaining tight control over prices. The Canadian government sets fee schedules for physicians, annual budgets for hospitals, and prices for prescription drugs. Caregivers also have lower incomes in Canada than in the United States. The United States needs to decide whether this combination of cost control tools would best meet the needs of U.S. citizens for universal healthcare coverage.

George C. Halvorson was named chairman and CEO of Kaiser Foundation Health Plan, Inc. and Kaiser Foundation Hospitals, headquartered in Oakland, Calif., in March 2002. He has more than 30 years of healthcare management experience. He was formerly president and CEO of HealthPartners, headquartered in Minneapolis.

Halvorson is the author of widely acclaimed books on the U.S. healthcare system, including the recently released *Health Care Reform Now!* He also wrote *Strong Medicine* and *Epidemic of Care*, which Warren Buffet said was "by far the clearest explanation of how we have gotten to where we are in health care, and what is likely to happen."

Halvorson serves on a number of boards, including those of America's Health Insurance Plans, where he is the 2007-08 chairman, and the Alliance of Community Health Plans. He is the current president of the board of directors for the International Federation of Health Plans and a member of the Harvard Kennedy School Health Care Delivery Policy Group. He also serves on the Institute of Medicine Task Force on Evidence Based Medicine and on the Commonwealth Fund Commission on a High Performance Health System.

So physicians in Canada make less money on each patient than physicians in the United States do, and the total impact of those payment differences makes up a major portion of the difference in care costs between the two countries.

For hospital care, the Canadian government doesn't set fees to control costs; instead, it directly controls each hospital's budget. The government of each province sets a specific annual budget for each local hospital, and the government expects each hospital in the province to operate within its assigned budget. Canadian provinces don't like to raise taxes to increase hospital budgets, so the local budgets are far lower than U.S. hospital revenue streams. Those hospital payment levels are likely to stay far lower until Canadian voters offer to pay more in taxes. "No new taxes" has the same political charm in Canada that it has in the United States, so the people who run Canadian hospitals are not expecting big budget increases soon.

Tight individual budgets mean that Canadian hospitals can't invest in medical equipment or new technology as easily as U.S. hospitals can. You can see the results in many spending areas. For instance, there are more magnetic resonance imaging scanners in Minneapolis/St. Paul than there are in all of Canada.

Relatively long waiting times for some kinds of surgery in Canada tend to be a direct and logical consequence of tight local hospital budgets. When money is tight or runs out, care slows. One of the beauties and virtues of the Canadian system is the absolute equality of access for all citizens. So when care slows for anyone in an area, it slows for everyone in that area—unless you are a well-to-do Canadian who can afford to cross the border to buy your care more quickly in the United States. Canada does not pay for that "external" care.

It would obviously be a challenging process to convert all U.S. hospitals to the Canadian fixed-budget model.

Prescription Drug Coverage

So how do Canadian provinces deal with drug costs? Again, very simply. Seven of eight provinces do not cover prescription drugs at all. People in those provinces buy their own "non-hospital" drugs. Every province carefully

negotiates the price of all drugs with the drug companies, and then most people in Canada reach into their own pockets to buy their medications.

That direct-payment approach is not likely to be welcomed by the roughly 250 million U.S. citizens who have some form of prescription drug coverage, but it probably would reduce drug costs in the United States if we used it here.

Canada does allow its citizens to buy separate drug coverage from private insurers. Many do.

Administrative Costs

I mentioned earlier that most people believe, inaccurately, that the primary area where Canada saves the most money is in administrative costs. What are the real numbers there? Healthcare administrative costs in the United States run between 10 percent and 15 percent of total healthcare costs. Canadian administrative costs run closer to 5 percent. (The Commonwealth Fund estimates total U.S. administrative costs at roughly 8 percent, while the Government Accountability Office estimate of U.S. administrative costs comes closer to 12 percent.) Estimates of current American and Canadian cost levels differ a bit from source to source. But we know enough to answer a very basic question: Using relatively conservative estimates, how much of the total cost difference between the two countries actually comes from the administrative cost factor?

Do the math. It's relatively easy to calculate. If total healthcare costs per person are about $5,600 in the United States and about $3,000 in Canada, the total per-person care cost difference is $2,600.

How much of that difference is due to administrative costs? Let's assume that the actual administrative cost difference between the two countries is a full 10 percent (5 percent costs for Canada, 15 percent costs for the United States). Ten percent of the total $5,600 U.S. cost is $560. In other words, U.S. administrative costs would be $560 lower per person if the Canadian administrative cost levels were achieved here. Cutting that entire 10 percent completely out of total U.S. healthcare costs would still leave a pure care-based cost difference of slightly over $2,000 per person per year. In other words, the vast majority of the actual cost difference between the two countries is not due to administrative cost differences. Lower total costs in Canada result overwhelmingly from major differences in the actual cost of care, not administration.

The single-payer approach to healthcare cost controls creates a very different economic reality for Canadian and U.S. caregivers. Tenured registered nurses in California and New York make more money than primary care physicians in Canada—up to 25 percent more money for a 10-year nurse in California compared with a hospital-based primary care physician north of the border. The Canadian single-payer system has a very high level of control over caregiver pay levels and paychecks. As a result, in Canada, caregivers make significantly less money.

Achieving Universal Coverage

We definitely need universal coverage in the United States. But we do not need to go to a single-payer system to achieve that goal. Most European countries have achieved universal coverage by using a combination of private health plans, government programs, individual consumer mandates, subsidized or free coverage for low-income people, and a private marketplace for hospitals, physicians, and other caregivers. We Americans need to figure out what combination of those factors would best meet the needs of our citizens and let us achieve universal coverage here.

Some aspects of the Canadian approach—the ones that actually save all the money (tight medical fees, absolute and rigid hospital budgets, lower caregiver income levels, no drug coverage, and having all medical claims paid by the provinces rather than by private insurers)—might be a bit more difficult to implement here than a more typical European model of universal coverage that offers more choices, adequate drug coverage, shorter waiting times for care, and fewer direct provider controls. We have some choices to make. Let's make them wisely, knowing what options we actually have. ●