

IAPR POLICY BRIEF

**THE ROLE OF PRIVATE FINANCING IN ALBERTA'S HEALTH CARE  
SYSTEM**

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## **The role of private financing in Alberta's health care system**

The recently-leaked documents that indicate the Klein government is considering the option of private health insurance shine the spotlight once again on the long-simmering debate about the role of the private sector in the funding and delivery of health care services in Alberta. The government asserts that selective use of private insurance and private service delivery can improve access and choice for Albertans. Health Minister Iris Evans suggested that such a development could generate enough financial relief to the public system that the Alberta government could eliminate public health insurance premiums. The opposition contends that use of private funding contravenes the Canada Health Act and will result in more money spent for lesser-quality care.

Underneath the rhetoric and posturing lies a basic question: Would introducing a private health insurance system to operate alongside the existing public system deliver a meaningful increase in health care resources? Intuitively, a large portion of Albertans would have to choose to pay for private health care, and reduce their use of the public health care system. The number of purchasers would depend on the cost of the insurance and what that out-of-pocket expense gives them in terms of health care services over and above what they have already from the public system. The cost of insurance and the number of purchasers will determine how much fiscal relief private insurance can provide for the public system.

One can look to Australia to gain some insight into the answer to this question, because it currently has a public-private mix of finance and delivery of services similar to what seems to be being considered in Alberta. Private health care in Australia reduces financial and political pressures on the public health care system by covering the gap between publicly paid costs and most (if not all) costs associated with treatment, and by providing an opportunity for Australians to access higher quantity and quality of care if they are willing to pay for it.

Based on the Australian experience with a mixed public-private health care system, at an annual premium cost of \$900 for an individual, I estimate that 30 percent of Albertans would purchase private health insurance coverage. The increased revenues from private health care premiums would amount to roughly 10 percent of current health care expenditures in Alberta, which is equivalent to total public health care premium revenues. This provides prima facie support for Minister Evans' contention that private insurance could obviate the need for Alberta's public health premium.

But this simple math assumes that there would be a dollar-for-dollar substitution between privately- and publicly-funded health care so that the private health insurance premium revenue represents an increase in resources available for the public health care system to provide health services. It is unlikely that the gain to the public health care system would be as high as 10 percent if consumers view private insurance as a complement to, rather than a substitute for, publicly-funded services. For example, some

portion of private health insurance premiums would undoubtedly cover costs of “frills” that increase the quality and the average cost of providing the same quantity of services.

Furthermore, start-up costs of private insurance and private facilities, associated regulatory costs, and any inflationary effects of private providers competing for scarce health care inputs would erode the fiscal gains to provincial health care coffers.

Even though the fiscal relief may be relatively small, it is important to understand that private financing and delivery of health care allows providers to better match health services with individuals’ preferences. Thus, individuals that do opt for the private system will be better off. It is also possible that the private option will result in more responsive health service delivery.

Opinion surveys consistently show that Albertans are more open than most other Canadians to private health care funding. The movement of individuals who are dissatisfied with the public system to the private health care system would reduce political pressures to improve public health care services to levels that cannot be met without the provincial government raising taxes. By the selective use of private financing, the Alberta government could maintain the status quo of per capita health care spending and taxation by defining its responsibility as that of funding health care necessities to be provided in reasonable amount of time, but leaving the “luxuries” to the private purse.

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