

Summary

This *IRPP Study* discusses the potential prefunding of prescription drugs for Canadian seniors as a means to help ensure the financial sustainability of public health care. Mark Stabile and Jacqueline Greenblatt support this proposal, while Michel Grignon does not.

Drawing on Canadian and OECD data, Stabile and Greenblatt first review the extent of the challenge we face in financing health care. They show that public health care costs have increased at a pace that has not been matched by increases in revenues. For instance, from 1982 to the present, Canadian health care costs grew on average by 6.9 percent a year, while the GDP grew on average by 5.7 percent. They also present evidence that tax rates on average have been on the decline. As a result of these trends, health care is now taking up the lion's share of provincial program spending and, coupled with population aging, risks crowding out other government spending areas. Accordingly, say the authors, Canada needs to consider options to continue to finance health care in an equitable and sustainable fashion.

To that end, they argue that shifting the financing of drugs for older Canadians from the current "pay-as-you-go" model to a partially prefunded model should be seriously considered. The rapid increase in spending on pharmaceuticals, they argue, together with the pattern of prescription drug use among the elderly, make this type of expenditure a strong candidate for pre-funding. To illustrate the costs of such a shift, they provide simulations, based on the Ontario Drug Benefit, that model the share of GDP required to fund the program over a 50-year time horizon, according to various scenarios. While acknowledging potential drawbacks, they argue that the benefits of prefunding outweigh the disadvantages.

In his commentary, Michel Grignon agrees that spending on drugs is bound to grow, but he argues that prefunding drug expenditures for seniors is not a solution. He examines the three rationales underlying Stabile and Greenblatt's proposal and concludes that 1) prefunding is not an efficient and sensible way of financing the systemic increase in drug expenditures, 2) the financial impact of aging on pharmacare will not be as large as they suggest and 3) the current funding mechanism does not raise problems of intergenerational equity if we factor in the gains in health resulting from pharmaceutical R&D. The main question raised by increased spending on prescription drugs is not so much whether we are willing to pay for it or when we want to pay for it, he says, but rather whether it is politically feasible to continue to fund these programs through income-based taxation.