Why is healthcare in Canada, and Alberta in particular, so Costly?

Stephen Duckett

Presentation to Breakfast with the Chiefs
September 2014
Cost per Head

Worst quadrant

International average

Life Expectancy

Best quadrant

above international average

Canada is here

above international average
So is Canada that more expensive?

Answer: Probably not outrageously so, but still above OECD average and what about the potential?
What if we did international benchmarking?

Average ratio of country pharmaceutical (patented) prices to Canadian prices

OECD estimates of potential savings by adopting world’s best practice
(while protecting life expectancy)

Possible explanations

- **Prices**
  - Commonwealth Fund data suggest this is so
- **Excess demand**
7.4 Variation in procedures across Local Health Integration Networks in Ontario, 2004/05

Enhancing the effectiveness of health care for Ontarians through research
Having an adverse event occur doubles length of stay: between 3.6 and 7.7 days is directly attributable to the adverse event.

What if we did some provincial benchmarking?

And this is where the ‘Alberta problem’ comes in.
Summary

- Alberta is more expensive, with worse outcomes
- Driven by higher factor prices and higher utilization
- Driven by provincial wealth and politics
Alberta’s economy is narrowly based, and has declined in size following the (Global) Financial
Alberta is characterized by long-serving (conservative) governments

• Becomes province in 1905, Alberta Liberal Party government (16 years in office)
• Change of government to United Farmers of Alberta in 1921 (14 years),
• to Social Credit in 1935 (36 years),
• to Progressive Conservative in 1971 (41 years so far)
Alberta used to be below Canadian average on costs, now above, age-sex adjustment widens the gap
Alberta loves hospitals, but underinvests in seniors’ accommodation
Alberta loves building things
The budget game: spending outcome was (prior to AHS) generally above initial budget (even after ‘approved’ adjustments)
Higher input costs, higher service costs
Nurses are paid more in Alberta

And this creates a precedent problem for poorer jurisdictions
Average fee for physician visits/procedures are higher in Alberta
(provinces east to west, Canada average separate)

Precedent problem here too
Average physician incomes are higher in Alberta too
Alberta provides more nursing hours per (weighted) inpatient
Patients cost more in Alberta

![Bar chart showing cost per weighted case (C$) for Alberta and Canada Average from 2007 to 2009. The chart indicates that Alberta's costs are consistently higher than the Canada Average.](image-url)
Bending the curve strategies

- Structural change
- Privatization
- Primary care
Historical eras in Alberta’s health system

Pre-1988
- Hospitals and Medical Care Ministry
  - Hospital Board 1
  - Hospital Board 2
  - Hospital Board 3
  - Hospital Board 128
- Community Health Ministry
  - LTC Board 1
  - LTC Board 2
  - LTC Board 3
  - LTC Board 40

1988-1994
- Alberta Health Ministry
  - Hospital Board 1
  - Hospital Board 2
  - Hospital Board 3
  - Hospital Board 128
  - LTC Board 1
  - LTC Board 2
  - LTC Board 3
  - LTC Board 40
  - Public health board 1
  - Public health board 2
  - Public health board 3
  - Public health board 25
- Cancer Board
- Mental Health Board

1994-2003
- Alberta Health and Wellness Ministry
  - Region 1
  - Region 2
  - Region 3
  - Region 4
  - Region 5
  - Region 6
  - Region 7
  - Region 8
  - Region 9
  - Region 10
  - Region 11
  - Region 12
  - Region 13
  - Region 14
  - Region 15
  - Region 16
  - Region 17
- Cancer Board
- Mental Health Board
- Alcohol and Drug Abuse Commission

2003-2008
- Alberta Health and Wellness Ministry
  - Health regions
    - Capital
    - Calgary
    - Palliser
    - Chinook
    - David Thompson
    - Aspen
    - East Central
    - Peace Country
    - Northern Lights
  - Cancer Board
  - Mental Health Board
  - Alcohol and Drug Abuse Commission

May 15, 2008
- Health Minister
  - Alberta Health and Wellness Ministry
  - Alberta Health Services

# Number of reports to service delivery integration point
Example of intra-provincial inequity
Alberta was characterized by generous remuneration and management staffing

<table>
<thead>
<tr>
<th></th>
<th>Calgary</th>
<th>Capital</th>
<th>Cancer Board</th>
<th>All others</th>
<th>Subtotal</th>
<th>AHS</th>
</tr>
</thead>
<tbody>
<tr>
<td>President &amp; CEO</td>
<td>1,335</td>
<td>915</td>
<td>712</td>
<td>3,227</td>
<td>6,189</td>
<td>744</td>
</tr>
<tr>
<td>Other Board and CEO Direct Reports</td>
<td>4,332</td>
<td>3,095</td>
<td>2,343</td>
<td>11,174</td>
<td>20,944</td>
<td>5,063</td>
</tr>
</tbody>
</table>
Administrative expenses are generally higher in Alberta
Province characterized by Noah’s Ark principle for planning
Privatization

- **Cataracts**

  - "Facilities submit bids to AHS at regular intervals, and an evaluation committee takes all bids and averages or blends them to determine the price. … this process does nothing to encourage either truthful bidding or low bidding. There is an implied risk that AHS might allocate more procedures to the lowest bidder(s), but in fact this has never occurred. The process might even encourage providers to inflate their bids to boost the average price”

  Dranove, D., et al. (2009). A competitive process for procuring health services a review of principles with an application to cataract services. SPP Research papers. 2(5) School of Public Policy, University of Calgary..

- 2009-10: institute normal tender process

- Tender outcome: reduction in price (returned as 20% increase in volume)

- Non-selected tenderers object

- Ministerial intervention, $ reallocated to accommodate them
Privatization -2

• Orthopaedics
  • HRC in Calgary

<table>
<thead>
<tr>
<th>SURGERY (Contracted)</th>
<th>AHS CALGARY CASE COST</th>
<th>HRC CASE COST</th>
<th>COST DIFFERENCE (Relative to AHS Calgary Cost)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Joint Replacements</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Hip Arthroplasty</td>
<td>$7,238</td>
<td>$7,724</td>
<td>More expensive by $486</td>
</tr>
<tr>
<td>Total Knee Arthroplasty</td>
<td>$7,238</td>
<td>$7,724</td>
<td>More expensive by $486</td>
</tr>
<tr>
<td>Total Shoulder Arthroplasty</td>
<td>$7,851</td>
<td>$8,369</td>
<td>More expensive by $515</td>
</tr>
<tr>
<td>Other Procedures</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Foot and Ankle Procedure</td>
<td>$5,677</td>
<td>$7,491</td>
<td>More expensive by $1,814</td>
</tr>
</tbody>
</table>

• Linen
  • K-Bro awarded renewed Edmonton contract
  • Made “certain price concessions as compared to the existing services agreement”
Health workers file lawsuit over Telus payroll system

Health care workers in Calgary have filed a class action lawsuit against a Telus subsidiary that handles their payroll and benefits.

Lawyer Clint Docken said Thursday the lawsuit, worth $50 million, has been filed against Telus Sourcing Solutions Inc. on behalf of two employees of the former Calgary Health Region.

Docken claimed the workers have endured years of mistakes or pay stubs, problems with their family benefits and issues tracking vacation and pension calculations. There are potentially 4,000 people who could sign on to the lawsuit.

Telus Sourcing Solutions Inc., a department within Telus, began managing the payroll and benefits system in 2004 and still has 10 years left on its contract. The Calgary Health Region no longer exists, but Alberta Health Services still uses Telus Sourcing Solutions for Calgary-area employees.

Docken, who specializes in class action suits, said he has never represented such a large group that has suffered so many problems so often.

"What's unusual here are the number of people that are experiencing the same problem," he said.

He hopes a judge with the Court of Queens Bench will certify the group as having a common legal interest later this year so the matter can proceed.

Errors in salary, benefits, vacation time alleged

Laurel Jackson claimed she and other employees have been underpaid, found mistakes on their T-4 forms, have been told members of their banks aren't covered by their dental plan, and found problems calculating vacation time.

"It's ridiculous. This should have been settled a long time ago," Jackson said. "They say, 'oh we're getting better. But they're not getting better. It's just a lie.'"
Barriers to bending the cost curve

- **Provincial wealth**
  - Difficulty of saying No
  - Intra-provincial rivalry
    - Noah’s ark again
  - Physician power
    - Until AHS, no orderly engagement process

- **Provincial politics**
  - One party state → clientelism
Clientelism

- Politics is about symbiotic exchange relationships develop which thwart meritocratic resource allocation processes.

- A Tory loss would trigger Conservatives of convenience to head for the nearest lifeboat, since the PCs have about as much conviction as an empty bag of potato chips and are nothing without power. Not to break any hearts, but many Tory supporters do the supporting because they have an acute sense of smell — for the gravy at the trough. (Rick Bell, Calgary Herald)
Privatization

- Cataracts
- Orthopaedics
- Linen
- *Laboratory services*

- Payroll processing
Barriers to bending the cost curve

- **Provincial politics**
  - One party state
  - Clientelism
  - No need for innovation, competition in policies
  - Local management role becomes (quiet) advocacy for more resources
  - Stifling public advocacy

These situations were seen to have sent a clear message that “if you speak up, this is what can happen to you,” and were seen as having a “chilling effect” on others. Other individuals used strong language when describing their experience; one said “it was like I had rabies.” (Health Quality Council of Alberta 2012, 31)

- Rural gerrymander
- Sharing the oil wealth
There are significant differences in utilization rates across the province.
Conclusion

In Alberta, political dynamics trump the economic drivers, including cost containment

Further details:


stephen.duckett@grattan.edu.au