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POSITION STATEMENT

"BUILDING BRIDGES: THE LINK BETWEEN HEALTH POLICY AND ECONOMIC POLICY IN CANADA"

A Document
Prepared by the
Canadian Medical Association (CMA)

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CANADIAN MEDICAL ASSOCIATION

The Canadian Medical Association (CMA) is the national voice of organized medicine in Canada. Founded in 1867, CMA's mission is to provide leadership for physicians and to promote the highest standard of health and health care for Canadians.

On behalf of its members and the Canadian public, CMA performs a wide variety of functions, such as advocating health promotion and disease/accident prevention policies and strategies, advocating for access to quality health care, facilitating change within the medical profession, and providing leadership and guidance to physicians to help them influence, manage and adapt to changes in health care delivery.

The CMA is a voluntary professional organization . It has over 45,000 physician members, 12 provincial and territorial divisions and 38 affiliated medical organizations.

BACKGROUND DOCUMENT

I. PURPOSE

The objective of this document is twofold:

(1) to provide the federal government with a better understanding of the current issues that are of concern to physicians across Canada and are material to the preparation of the 1996-97 federal budget; and

(2) to propose some solutions.

As part of the government's pre-budget consultation process, the CMA has formally presented a brief to the House of Commons Standing Committee on Finance on November 23, 1995.

II. POLICY CONTEXT

Canada faces a number of important policy challenges as it moves toward the 21st century. First and foremost is the fiscal challenge to reduce Canada's debt and deficit levels while, at the same time, fostering an environment which provides for future economic growth within a globally-integrated marketplace. As of March 31, 1995 total public debt (federal/provincial/territorial levels of government) was $787.7 billion; the interest paid on the total debt for 1994 was $64.3 billion, and the 1994 total public deficit was $40.8 billion.

At a minimum, government is faced with the challenge of addressing short- and long-term economic policy objectives while meeting defined social policy imperatives. In a time of continued fiscal restraint and scarce public sector economic resources, difficult choices will continue to be made. CMA acknowledges that there is an urgent need, now more than ever, for the federal government to balance a number of competing policy challenges. At a time when profound deficit reduction measures are required, all segments of society are being asked to do more with the same or less. Having already dealt with this reality for quite some time, the health care sector is no stranger to this burden.

In making policy choices, careful and deliberate thought needs to be given to the repercussions such decisions will have on the Canada of tomorrow and the health and well-being of Canadians. Attacking Canada's federal debt/deficit for short-term economic gain must be balanced against any decision(s) that would serve to increase our longer-term "social" deficit.

At a time when Canada is undergoing significant social, political and economic changes, CMA remains dedicated to the delivery of high quality health care and to safeguarding the national integrity of the system. However, given the need for the federal government to gain control over the deficit and national debt, it seems clear that putting Canada's fiscal house in order remains a high priority. That being said, the government must also be clear with Canadians on its intentions and priorities with respect to a long-term commitment to health and social programs, including a cash commitment.

Canadians are deeply concerned that reducing the federal deficit will result in the shifting of costs to other levels of government which they cannot absorb. This may very well lead to reduced access to government programs and services, and at some point in the future, higher social costs. This is highlighted in a recent poll where 58% of Canadians reported that they expect the health care system will be worse in the next ten years.[1] It would appear that Canadians believe that the fiscal agenda will overwhelm the social agenda to the extent that the social values and ideals that sustain them will be forgotten or worse, be lost.

Surveys indicate that 84% of Canadians view Medicare as a defining characteristic of being Canadian. Furthermore, 84% of Canadians feel that the system provides high quality care. However, 65% of Canadians are concerned about continued accessibility to a full range of publicly-financed benefits. According to the same poll, 83% of Canadians see current financing of the system as being "unsustainable" over the longer-term.[2]

While Canadians are expressing strong concerns over the future viability of what we currently have in the area of health care, physicians are also voicing similar worries. In a recent poll, 76% of physicians surveyed agreed with the statement that Canada's health care will be worse in 10 years.[3]

III. MANAGING CHANGE AND MEETING POLICY OBJECTIVES

Recognizing that change is one constant that will characterize Canadian society for the foreseeable future, any further policy changes affecting the health care system must also be considered in the context of Canadian values and economic policy. Good health policy and good economic policy must reinforce one another.

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[1] Posner M., Condition Critical. *Maclean's*. Vol. 108 No. 46, November 13, 1995, p. 46-59.

[2] The Angus Reid Group, *The Reid Report.* Vol. 8, No. 7, July/August, 1993 and Vol. 8. No. 8. September, 1993.

[3] *The Medical Post 1995 National Survey of Doctors, Fall 1995, page 24.*

CMA is concerned that any short-term economic decisions on the part of the government which do not reinforce good health policy may be detrimental to the best interests of Canada. If change is to come within an overall policy framework that is strategic, coordinated and fair and preserves (or augments) the integrity of Canada's health care system, we must be careful to avoid short-term, stop-gap initiatives. As the Government's 1994 Throne Speech stated *"...the agenda of the government is based on an integrated approach to economic, social, environmental and foreign policy"*. Accordingly, in establishing an appropriate fiscal framework for health and health care, change must take place within the context of a longer-term integrated view.

The principle of aligning good health policy with sound economic policy is critical to managing change while serving to lay down a strong foundation for future economic growth and prosperity in Canada. Moreover, by better synchronizing health and economic policy as a national priority, opportunities can be created to meet a number of important "higher order" policy objectives. They are: **(i)** Canada building; **(ii)** economic development; **(iii)** well being of Canadians and the future of health and health care in Canada, and **(iv)** putting Canada's financial house in order. Each is discussed in turn.

i. Canada Building

In many ways, Canada is at a social, political and economic crossroads. The challenge to this government is to balance short-term fiscal pressures against the longer-term need to re-position Canada to take advantage of greater economic opportunities while preserving that which is of fundamental importance to Canadian society as a whole.

In this context, of the range of social programs that the federal government supports, Medicare is strongly viewed as a defining characteristic of being Canadian. Medicare is a high priority for Canadians. Some have argued that the declining federal cash commitment to funding Medicare serves to further fragment our health care system and speeds the process of government decentralization. What better opportunity for the federal government to clarify its funding support and relationship to health care in this country?

In making a clear, significant and stable financial commitment in support of health care, the government will serve notice that it is prepared to play a leadership role in ensuring that Canadians will have a sustainable, high quality "national" health care system, a value they hold deeply as Canadians.

ii. Economic Development

From an international perspective, Canada's Medicare system has been acknowledged as one of our greatest assets. Agencies such as the World Economic Forum tell us that Canada's method of financing health care is one of our comparative economic advantages in an evolving new world economic order. Compared to the United States, this takes the form of lower public and private expenditures on health care while maintaining the same or better health status. In terms of our European trading partners, the fact that health insurance programs are financed primarily through consolidated revenues (rather than employment-based taxes), also confers a unit cost advantage to Canadian exporters. In this sense, good health policy and good economic policy reinforce each other and the bridge between the two should be strengthened.

By producing "healthier" individuals at lower cost, this relative cost advantage can translate into economic benefits that all Canadian can share in terms of expanded employment opportunities, wealth creation and economic growth.

As a 1995 report form the Conference Board of Canada stated *"[Canadian business is] unequivocal in terms of the high value they place on the Canadian health care system. Their support rests on their faith that the system has the capacity to deliver high-quality care while keeping public costs under control. They are also aware that Canada's health insurance system seems to provide employers with a competitive advantage over companies in the United States"*.[4]

While the CMA is in support of a publicly-financed health system, there are serious concerns that the series of recent reforms have not been carried out in a reasonable and rational manner. Prior to implementing any further reforms, there is a pressing need to evaluate the effects of these changes. Cutting alone should not continue to be considered a catalyst for change; as an investment in the future of Canada health care is far too valuable.

If health policy and economic policy are to be better synchronized, governments must not only consider the level of current public sector resources that are allocated to the health care system, but they must also re-examine the current roles of the public and private sectors.

[4] Alvi S.: Health Costs and Private Sector Competitiveness, The Conference Board of Canada, Report 139-95, Ottawa, June, 1995, page 11.

iii. Well-Being of Canadians and the Future of Health and Health Care in Canada

For over twenty-five years, the Medicare system has provided all Canadians with the assurance that "it will always be there when you need it", without fear of an individual or family being forced into bankruptcy due to their health care needs.

However, the security that Canadians have enjoyed in knowing that their health care system was always there when they needed it is being challenged daily. For example, Canadians are experiencing difficulties in access because of hospital closures, lengthening waiting lists and the departure of physicians from their communities. As well, physicians and patients are increasingly experiencing difficulties in accessing new medical technologies.

Canadians are becoming more and more concerned that the universal Medicare system which they have known and supported through their tax dollars may not be available when they need it the most.

In stepping forward and playing a leadership role, the federal government can serve to reassure Canadians that preserving the fundamentals of our health care system remains a high priority by making a significant and predictable financial cash contribution.

iv. Putting Canada's Financial House in Order

CMA recognizes that the federal government must attend to its own fiscal house and is meeting its fiscal targets. CMA believes that we must not pass this massive debt burden - one in which 36 cents of every federal tax dollars goes to debt servicing - onto future generations.

This is not, however, to suggest that a "slash and burn" strategy should be adopted: but rather we should seek a measured approach that gains control over spending while fostering an environment of economic growth. This would bring with it increased employment opportunities and expanding societal wealth. Such an approach should be measured, deliberate and responsible.

Deficit reduction should not be fought disproportionately on the back of health care, which, if viewed in its proper context, should be considered as an investment good not a consumption good. Health care is an asset to all Canadians, not a liability.

IV. CONCLUSION

The CMA has attempted to set out a framework that serves as a basis for defining policy objectives to which the government should give serious consideration. These "four pillars" are:

(1) Canada building;
(2) economic development;
(3) well-being of Canadians and the future of health and health care in Canada; and
(4) putting Canada's fiscal house in order.

In seeking to build stronger bridges between these policy objectives is the unshakeable principle that good health and good economic policy should go hand-in-hand, reinforcing rather than neutralizing one another.

The CMA's four pillars are consistent with government policy objectives as set out in the Red Book, and its 1994 throne speech.

Using the four pillars as a guide, the key issues that are of immediate concern to the medical profession in a pre-budget consultation context are as follows:

- the Canadian Health and Social Transfer (CHST);
- Registered Retirement Savings Plan (RRSP);
- the Goods and Services Tax (GST);
- Non-Taxable Supplementary Health Benefits (NTSHB);
- the National Health Research Program (NHRP); and,
- Tobacco Taxation.

The CMA is prepared to work with the government and others in a collaborative effort, within the above framework to meet sound social, health, economic and fiscal policy objectives.

CANADIAN HEALTH AND SOCIAL TRANSFER (CHST)

ISSUE

The Canadian Medical Association (CMA) is concerned that the decreasing federal cash commitment to health care will eventually result in no federal cash flowing to some provinces in the future. This will seriously undermine the federal government's ability to set and maintain goals and standards in the health care system across the country.

CONTEXT

- The CMA recognizes that federal finances must be brought under better control. However, 60% of Canadians feel that social programs require federal protection while expenditures are being reduced.[5] Reforms to social programs must be phased in over a defined planning horizon.

- Beginning in 1996-97, the Canadian Health and Social Transfer (CHST), a combination of the Established Programs Financing and the Canadian Assistance Plan, will result in a reduction of cash transfers to the provinces and territories of $7 billion.

PHYSICIAN PERSPECTIVE

- **Access to Quality Health Care: Our First Priority**

  Canadian physicians want to maintain and enhance the delivery of high quality health care services. Canadians are experiencing difficulties in access due to hospital closures, lengthening waiting lists and communities losing physicians. Furthermore, physicians and their patients are increasingly experiencing difficulty in accessing new health technologies. Canadians are becoming concerned that the universal Medicare system which they have supported through their tax dollars may not be available when they need it the most.
- **The CHST Threatens The Principles Of National Health Insurance**

[5] Southam News/CTV/Angus Reid, *Public Opinion On Government Cutbacks And The Policy Challenges Facing Canada,* December 27, 1995.

Continued reductions in the CHST will make it increasingly difficult for the federal government to maintain national standards in health care. Earmarked funding for health care will enable the federal government to ensure the principles encompassed under the *Canada Health Act* are protected.

- **A Strong Federal Role Must Be Maintained**

  The Medicare system provides all Canadians with the assurances that "it will be there when you need it"; and "you and your family won't be forced into financial ruin". Surveys indicate that 84% of Canadians see Medicare as a defining characteristic of being Canadian. Furthermore, 84% of Canadians feel that the system provides high quality care. Canadians want governments to spend more energy on the protection of Medicare and other social programs.[6]

  From an international perspective, Canada's Medicare system has been acknowledged as one of our greatest assets. Compared to the U.S. this takes the form of lower public and private expenditures on health care while maintaining the same or better health status.

CMA RECOMMENDS...

- Stable, predictable and ear-marked cash transfers with a formula for growth is required to enable all provinces and territories to plan and deliver a defined set of comparable high quality health care services to all Canadians.

- A $250 per capita cash transfer for health care for the next 5 years should be established and guaranteed within the CHST framework. After the 5 year period, the federal government must preserve the real value of the cash transfer by means of an appropriate escalator.

RATIONALE

- Considering all options, a per capita transfer is the fairest, most equitable method of allocating cash for the health care system. It will also operationalize the CHST in such a way so as to reassure Canadians that the federal dollars will continue to be available to sustain the health system.

- The Medicare system is a unifying value and defining characteristic that is recognized

[6] The Angus Reid Group, *The Reid Report.* Vol. 8, No. 7, July/August, 1993 and Vol. 8. No. 8. September, 1993.

as a valuable resource by business and provides Canadians with an important sense of well-being.

- The above recommendations would assist in ensuring a strong federal role in setting and maintaining national health care standards as promised in the *Red Book*. Acting on these recommendations will demonstrate to Canadians that the federal government has listened to their concerns about the CHST and the future of the health care system. A federal cash contribution to health care in Canada is important for economic reasons.

- Business is growing increasingly concerned that the competitive advantage provided by the Canadian health care system is eroding. Furthermore, the universal nature of the coverage provided by our health system means it cannot be viewed as a subsidy under current trade agreements
(e.g., NAFTA).

REGISTERED RETIREMENT SAVINGS PLANS (RRSP)

ISSUE

The Canadian Medical Association (CMA) is concerned about the ability of Canadians to accrue retirement savings that will enable them to retire in dignity.

CONTEXT

- The numbers of those over the age of 65 continue to expand, in 1994 11.9% of the population was over the age of 65, in 2016 this will increase to 16% and by 2041 increase to 23%. The numbers of those under 18 are shrinking, in 1994 they represented 25% of the population and by 2016 they will represent 20%.[7] These demographic trends are of concern to governments and taxpayers. Employment trends indicate that an increasing number of Canadians are self-employed. In 1994, self-employment accounted for an increasingly large share of total employment growth, 25% of the overall employment gain. In 1993, 35% of the total labour force were in employment situations that provide registered pension plans (RPPs).[8]

- It appears that Canadians are becoming increasingly more self-reliant when it comes to providing for their retirement years. We understand the government's concerns with respect to the retirement income system, the CMA eagerly anticipates the release of the government's intentions in relation to seniors and pension reform.

PHYSICIAN PERSPECTIVE

- **Ensuring Dignity in Retirement**

  Canadian physicians treat retired patients on a daily basis and are aware of the challenges many of them face. In this context, Canadian physicians are concerned that all Canadians should have the opportunity to achieve a state of financial well-being to provide for themselves in their retirement years.

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[7] Mitchell, A. Population to hit 30 million in 1996: *Globe and Mail*, January 10, 1996. pp. B1-2.

[8] Frenken, H. Capitalizing on RRSPs: *Canadian Economic Observer*, December 1995. p. 3.1-3.9. Statistics Canada - Cat. No. 11-010.

Recognizing Canada's demographic trends and its current fiscal challenges, governments must ensure that suitable financial incentives are in place to encourage a greater reliance on private savings vehicles.

- **Equal Opportunities to Accumulate Retirement Savings**

  The vast majority of Canadian physicians are self-employed professionals and therefore are not members of an employer/employee sponsored RPP. They, like many other individuals must plan for and fund their own retirement.

  The principle of equity demands that the self-employed and those employed but reliant on registered retirement savings plans (RRSPs) be afforded the same opportunities and incentives to plan for their retirement as those in employment situations that provide RPPs (i.e., pension equity).

- **Fair Treatment Of Retirement Savings**

  For those individuals that may suffer the misfortune of declaring bankruptcy, creditors may seize the annuitant's RRSP assets. This is patently unfair. If an employed individual declares personal bankruptcy their RPP is currently protected from creditors, however, they too run the risk of loosing their RRSP to their creditors.

CMA RECOMMENDS...

- The federal government should strive for equity between RRSPs and RPPs.
- The federal government should refrain from making changes to the retirement income system pending a review of the system.

- The federal government should consider legislation that would deem RRSP assets credit proof.

- The federal government should consider gradually raising the foreign investment limits applicable to RRSPs and/or RPPs. At the end of a defined period of gradual increases, the federal government should consider removing the foreign investment limit completely.

RATIONALE

- All Canadians should have an equal ability to accumulate retirement savings regardless of their employment status. Assuming the current demographic and employment trends persist, it is important to recognize the role that RRSPs will play in assisting Canadians to live healthy and dignified lives well past their retirement from the labour force.

- In keeping with the principles of fairness and equity, retirement income plans should be treated equally under federal legislation (e.g., *Tax Act* , *Bankruptcy Act*). Sound investment decisions and strategies are required that will enable Canadians to accumulate retirement savings and achieve financial security in their retirement.

- Given the complexity of the retirement income system, changes to RRSPs and or RPPs should only be considered in the context of a thorough review of the pension system and include a thoughtful, open and meaningful consultation process.

- For the past ten years the government has supported the laudable objective of attaining equity between RRSPs and RPPs.

- Experts have assured Canadians that: "The two fundamental goals (of retirement savings) are:
  (1) to guarantee a basic level of retirement income for all Canadians, and
  (2) to assist Canadians to avoid serious disruption of their pre-retirement living standards upon retirement".

- As governments' continue to reduce publicly funded benefits and encourage greater self-reliance, there is a need to ensure that Canadians have the ability to invest and save private dollars for their retirement years.

- RRSPs and RPPs are legitimate tax deferral mechanisms and should not be viewed as tax avoidance. Income set aside for retirement should be taxed when it is received as a pension. The tax system should encourage and assist Canadians to arrange for their financial security in retirement.

GOODS AND SERVICES TAX (GST)

ISSUE

The CMA has strong concerns regarding the effect of treating most medical services as GST exempt. Unlike other self-employed professionals, physicians are disadvantaged by the fact that they are not able to claim refunds or collect Input Tax Credits (ITCs) for GST paid. Given that medical services are designated as tax exempt, physicians are forced to absorb the additional tax payable as a result of the GST. Moreover, if the government is to proceed with harmonization, this situation will be compounded.

CONTEXT

- The GST was designed as a tax on "consumers" and not businesses who provide goods and services. Approximately 95% of physicians' services are paid for by the provinces. Provinces do not pay GST based on their constitutional exemption and by agreement with the federal government. In making medical services exempt, GST is payable by the provider of the service and not recoverable as an input tax credit. Therefore physicians are in the position of paying non-recoverable GST on their inputs. Attempts to recover the GST from provincial governments through increased fees have not been possible since the provinces refuse to reimburse for increased costs due to GST since they are constitutionally exempt from GST.

- Unlike other professional medical groups such as dentist, physicians do not have the ability to pass increased GST costs along in the form of higher fees. Unlike other institutional health care providers such as hospitals, physicians do not recover these extra GST costs through a rebate mechanism. Therefore, given that most medical services are exempt, physicians are forced to absorb the additional tax payable as a result of the GST.

- Because most medical services are treated as exempt, an independent study estimated that self-employed physicians have been forced to absorb an additional $57.2 million of incremental sales tax (net of the Federal Sales Tax) on an annual basis. The study was submitted to the Department of Finance. By the end of 1995, it is estimated that the profession will have absorbed in excess of $286 million because of the current situation.

- In the government's Red Book it states: "*A Liberal government will replace the GST with a system that generates equivalent revenues, is fairer to consumers and small businesses, minimizes disruptions to small business, and promotes federal-provincial cooperation and harmonization".* As self-employed professionals delivering quality health care services to Canadians, physicians face the same financial realities as do other small businesses. As such, the status of medical services as tax exempt is patently unfair to these small businesses.

PHYSICIAN PERSPECTIVE

- **Access To Quality Health Care**

  While hospitals have been afforded an 83% rebate, self-employed physicians must absorb the full GST load on equipment and other purchases. As a result of this differential tax arrangement, a number of physicians are leaving their community-based practices and moving back into institutions. Therefore, the GST is having an adverse effect on movement towards community-based care, and is impeding patient access to physicians who re-locate from the community to institutions. In this regard, good health policy is not reinforced by good economic policy.

- **Good Health Policy Should Reinforce Good Economic Policy**

  Most of Canada's premiere medical researchers are employed by hospitals. As part of their research, physicians purchase goods and services that are inputs to their investigative activities. Given that physicians work within a facility, hospitals are eligible to claim the 83% on GST paid on input costs. However, some researchers have grown increasingly concerned that the GST that is recoverable by the hospitals is not returned for medical research and serves to "subsidize" other day-to-day activities. In essence, monies that have been earmarked for specific medical research are being allocated to other areas.

  Increasingly, physicians are organizing themselves within group practices. While this is, in part, a response to providing greater continuity of care to patients, it is also a reaction to the series of economic decisions that have been taken in the area of health care. Currently, it is estimated that the GST "costs" the average physician $1,500 - $2,000 per year. If physicians were able to claim ITCs, this could give them the added flexibility to employ other individuals in the provision of health care.

  While the direct effects of the GST are significant and measurable, the indirect effects are even more significant though less measurable. It is estimated that the 55,000 physicians employ up to 100,000 Canadians. Given the disproportionate effects of the GST on the medical profession as employers, the employment dampening effects could be significant.

- **Fairness**

  For many years, the CMA has supported tax reform - provided such reform improves the overall equity and efficiency of Canada's tax system. In June 1987, for example, CMA wrote to the then-Minister of Finance stating *"...we at the CMA strongly support the goals of tax reform and efforts to simplify the tax system while at the same time making it more equitable"*. We have subsequently reiterated our support for the broad objectives of tax reform on several occasions: it remains as strong today as ever.

  In the area of health care, self-employed physicians (as well as others) have not been accorded the same treatment under the GST as other health groups. For example, hospitals currently receive a rebate of 83% of GST paid on the assumption that the rebate level leaves them no worse off than under the previous tax regime (i.e., whole).

  As well, prescription drugs are zero-rated, with the same rationale: to ensure that they are whole. Recognizing that drug regimens can play an equally important role as some physician interventions, why would the government choose to distinguish between the two and zero-rate drugs and exempt medical services.

CMA RECOMMENDS...

- The CMA believes that there are three ways of proceeding to address physician concerns:

  (1) similar to the formula for Municipalities, Universities, Schools and Hospitals (MUSH), physicians would be accorded a rebate that would leave them no worse off under the GST; an independent study suggests that 69% would leave physicians whole; or

  (2) to zero-rate all medical services; or
  (3) to zero-rate those medical services that are funded by the government.

RATIONALE

The three options above serve to improve overall fairness and simplify the tax system. The CMA has submitted a proposal to the Department of Finance for consideration which recommends that health care services (including medical services) funded by the provinces be zero-rated.

- The proposal to zero-rate health care services funded by the provinces means:

  - services provided by hospitals, charities and other provincially funded

organizations would be zero-rated.
- the system would treat all persons in the industry in the same manner and would thus be fairer and simpler to administer.
- tax cascading would be eliminated.
- in the context of the regionalization of health care in Canada difficult interpretive issues (such as what constitutes a hospital or facility) would be removed.
- not all government services would become zero-rated but only those for which the provincial governments fund. The remainder would continue to be exempt and thus the government would derive revenues from the tax on inputs used in providing those services.
- Some complexities would remain owing to the fact that some health care services would be zero-rated and some would continue to be exempt. Therefore, any person making a mixture of zero-rated and exempt supplies would still be required to allocate inputs between commercial and non-commercial activities.

- Such a proposal would put all publicly-funded health care services on the same tax footing.

- The proposal does not focus on self-employed physicians only, but has been developed in the broader context of those services that are publicly-funded.

- The proposal attempts to be achieve a greater degree of flexibility in the face of regionalization of health care services in Canada.

- It would reinforce the principles of fairness and simplicity in the tax system.

- To summarize, the CMA has reiterated its position on several occasions. Some of the major recommendations are:

  (1) Canadian physicians should not pay more than other professions or occupations under the GST or its replacement;
  (2) all taxes on business expenses be fairly and fully removed under any replacement tax for the GST;
  (3) that the government assign a high priority to integrating provincial and federal sales taxes in a fair and equitable way;
  (4) that the federal government take a leadership role in ensuring that any integrated system not perpetuate existing tax inequities facing Canadian physicians; and
  (5) any provisions of a replacement tax should reinforce good health and economic policy.

NON-TAXABLE SUPPLEMENTARY HEALTH BENEFITS (NTSHB)

ISSUE

The Canadian Medical Association (CMA) is concerned that Canadians' access to health care services will be threatened if the tax status of supplementary health benefits is changed from their current tax treatment.

CONTEXT

- Approximately, 70% or 20 million Canadians rely on full or partial private supplementary health care benefits (e.g., dental, drugs, vision care, private health care, etc.). As governments reduce the level of public funding, the private component of health expenditures is expanding. Canadians are becoming increasingly reliant on the services of private insurance. In the context of funding those health services that remain public benefits, the government cannot strike yet another blow to individual Canadians and to Canadian business by taxing the very benefits for which taxes were raised.

- Changes in health care technology and health care management have resulted in decreased length of stays in hospitals and an increased reliance upon expensive health technologies. Many of these services are covered by private supplementary health plans, especially when individuals are discharged from hospital (e.g., drugs, private home/health care).

PHYSICIAN PERSPECTIVE

- **Access To Quality Health Care Services: First Priority**

  Changing the status of supplementary health benefits from non-taxable to taxable may contribute decreased access to care, and/or possibly, increased costs to these plans coupled with a reduction in service of government funded programs.

- **Good Tax Policy Should Support Good Health Policy**

  Non-taxable supplementary health benefits is a good tax policy that serves to reinforce good health policy. This incentive fosters risk pooling which reduces the overall cost of premiums for supplementary health benefit plans.

- **Fundamental Fairness In The Tax System**

  Incentives that enable access to a broad range of quality health care services (beyond those publicly funded) to include all Canadians should be encouraged and expanded.

CMA RECOMMENDS...

- That the current federal government policy with respect to employment-related supplementary non-taxable health benefits be maintained.

RATIONALE

- If the supplementary health benefits become taxable, it seems likely that young healthy people would opt for cash compensation instead of paying taxes on benefits they do not receive. It follows that employer-paid premiums would increase as a result of this exodus in order to offset the additional cost of maintaining benefit levels due to diminishing ability to achieve risk pooling.

- The federal government is to be congratulated with respect to last years' decision to maintain the non-taxable status of supplementary health benefits. This decision is an example of the federal governments' commitment to maintain a good tax policy that supports good health policy. The federal government should explore opportunities and incentives that would expand access to supplementary health care benefits to all Canadians.

- In terms of fairness, it would seem unfair to penalize 70% of Canadians by taxing supplementary health benefits to put them on an equal basis with the remaining 30%. It would be preferable to develop incentives to allow the remaining 30% of Canadians to achieve similar benefits attributable to the tax status of supplementary health benefits.

NATIONAL HEALTH RESEARCH PROGRAM (NHRP)

ISSUE

The Canadian Medical Association (CMA) believes that the health care system must respect and foster medical education and medical research. The CMA also believes that more emphasis should be placed on health services research focussing on health system reforms and their effect on the health of Canadians. Given the magnitude of change, now is the time for an evaluation of the impact before proceeding with any further reforms.

CONTEXT

- Canada has experienced rapid and significant changes with respect to health care reform which remains a priority at all levels of government. This environment provides a unique opportunity for the federal government to fund a concerted national evaluation strategy of health reform to date.

- On the whole, the CMA would continue to encourage the government to protect earmarked monies dedicated for research activities.

PHYSICIAN PERSPECTIVE

- **Improving The Quality Of The Health Care: Our First Priority**

  For a variety of reasons , in a more forceful way over the last year, the CMA and physicians expressed their concerns with respect to the future of health and the viability of the health care system. The pace of reform has been rapid and change profound. What has been accomplished needs to be evaluated. In this context, the physicians of Canada have reiterated the need to foster health and medical research.

- **Health Research Policy Reinforcing Economic Policy**

  Establishing a medical and health services research program will assist in attracting and retaining world-class researchers in Canada. There are positive effects that may occur in the economy as a result of this type of research with respect to the health technology sector -- creating a demand for highly skilled jobs in addition to increasing exports in high-tech, value-added goods and services.

CMA RECOMMENDS...

- That the federal government continue its commitment to medical education, biomedical and health services research.

- That the federal government provide funding for a national initiative in evaluating health reforms.

RATIONALE

- Changes within the Canadian health care system, a system that is viewed as a model around the world, should not be implemented without a sound evaluation strategy. However, with the limited funding available to health researchers and health policy analysts this aspect of health care reform is often neglected or, at best, given cursory acknowledgement. We should not undertake systemic reforms without analyzing the effects that these will have upon the quality of the health care delivered to Canadians.

- It is in the government's best interest to ensure that change within the health care system does not continue without evaluating the effect this will have on Canadians' access to quality health services. Once a certain course is set it may be impossible to turn the ship around.

TOBACCO TAXATION

ISSUE

The Canadian Medical Association (CMA) is concerned that the 1994 reduction in the federal cigarette tax will have a significant effect in slowing the decline in cigarette smoking in the Canadian population, particularly in the youngest age group (15-19).

CONTEXT

- In an effort to combat the smuggling of cigarettes into in Canada, the federal government announced, in early 1994, a reduction in the federal tax on cigarettes in the amount of $5 per carton. In addition, the federal government offered an additional matching reduction of up to $5 per carton for those provinces making reductions in provincial taxes.

- At about the same time, in an attempt to counter the effects of the reduction in tobacco taxation, the government announced increased efforts to reduce the accessibility of tobacco products, particularly to minors, and also launched the Tobacco Demand Reduction Strategy in February, 1994.

PHYSICIAN PERSPECTIVE

- Smoking is the leading preventable cause of premature mortality in Canada. The most recent estimates suggest that more than 40,000 deaths annually in Canada are directly attributable to tobacco use.

- Physicians are concerned that the reduction in tobacco taxation may reverse more than two decades of progress in reducing smoking rates. Based on an examination of four population-based surveys and data on tobacco consumption, a workshop convened by Health Canada in 1994 concluded that, in all likelihood, the prevalence of smoking in the Canadian population continued to decline from 1991 to 1993, reversed itself in 1993 and increased from 1993 to 1994.[9]

- The effects of smoking on nonsmokers are of major concern to the CMA. More than 20% of Canadians have a health condition such as heart disease or acute respiratory disease, that is aggravated by secondary exposure to

[9] Stephens T. Workshop report: trends in the prevalence of smoking, 1991-1994. Chronic Diseases in Canada 1995; 16(1): 27-32

tobacco smoke.

CMA RECOMMENDS

- It is a matter of longstanding policy that the CMA supports the taxation of tobacco products at a level that will discourage their purchase, the revenue to be earmarked for health care budgets.[10]

- The CMA has also recommended to the federal government (1994) that it institute a federal health protection assessment (a specially designated tax) on all Canadian cigarettes at the point of manufacture, regardless of their ultimate site of sale.

- The CMA is also a co-signatory, along with eight other national medical and health organizations, of the brief *Tobacco Taxation in Canada: New Directions*, which was presented to the Honourable Paul Martin in February, 1995, and which sets out eight recommendations for the restoration of tobacco taxes, support for the Tobacco Demand Reduction Strategy and the taxation of the tobacco industry.

RATIONALE

- the government has made in health promotion campaigns against smoking, and which it has continued through the Tobacco Demand Reduction Strategy.

[10] Canadian Medical Association. Smoking and Health: 1991 Update. Can. Med. Assoc. Journal 1991; 142 (2): 232A-232B.

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