

Registered Health Savings Plans

The issues of pension reform/retirement savings and health care spending have become increasingly critical for governments across Canada.

The Canadian Institute for Health Information (CIHI) indicated last October that total national spending on health care was expected to reach \$192 billion in 2010, growing an estimated \$9.5 billion or 5.2 percent since 2009. Government spending on health care was expected to reach \$135.1 billion, while private sector spending encompassing private insurance and out-of-pocket expenses was estimated at \$56.6 billion.

In May of 2011, the Canadian Alliance for Sustainable Health Care was launched. This new initiative, with support from government and business, will assess the fiscal sustainability of the publicly-funded health care system nationally and provincially. Subsequent research will include detailed analysis of financial pressures and reform options in the system by identifying implications and enabling discussion of policy options.

Glen Hodgson of The Conference Board of Canada, the organization which initiated the CASHC, noted that Canadian governments are carrying a collective deficit of \$100 billion. Health care spending is the dominant budget line for all provinces and territories, and cash-strapped finance ministers that are already raising taxes may have to consider federal financial intervention into health care from a new and different perspective.

An important financial risk that private and public sectors have to plan for is health care expenses in retirement. While the issue ranks as a concern, a small percentage of Canadians are taking steps to address it.

An Ipsos Reid study for the Canadian Medical Association¹ indicated that among 3500 Canadians polled in June of 2010, 72 percent believe they will not have enough money to maintain their health as they get older. Four in five respondents asserted that all Canadians or the wealthiest baby boomers will need to pay more rather than accepting a reduced level of service.

A quarter of those surveyed also expect to funnel some retirement funds into health care costs, while 25 to 36 percent believe they are unlikely to consider additional savings to mitigate those expenses.

Only one in ten Canadians aged 65 years and older indicated they have assumed a proactive approach to preparing for retirement health care costs by obtaining supplemental public health care coverage. Fewer still – 6 percent – have purchased long-term insurance and only 5 percent have saved specifically for health care costs during retirement.

An earlier poll conducted for the Canadian Medical Association in February of 2010 indicated that two of three Canadians believe it is a “good idea” to develop a Registered Health Savings Plan (RHSP) to allow individuals to save money on a tax-free basis so they can pay for health services or prescription drugs that are not included in public health plan coverage.

Sun Life Financial Canada President Kevin Dougherty, in speeches to the Vancouver Board of Trade on June 11, 2010, and the Greater Kitchener Waterloo Chamber of Commerce on November 16, 2010, stated that with baby boomers approaching retirement in large numbers, their impact on the insurance industry and financial planning sector is evident in the products that have been developed and the questions that need to be answered.

Noting a number of circumstances that have created a perfect storm around financial security – economic shocks, health care concerns, pension reform issues and increasing life expectancies – a number of solutions have been advanced by the industry.

¹ 10th Annual National Report Card on Health Care, August 2010. Canadian Medical Association.

Prominent among the solutions is the creation of a Registered Health Savings Plan, a federal initiative to complement current provincial plans that would allow Canadians to create a health spending account using pre-tax dollars that could be withdrawn for approved health care costs on a tax-free basis in retirement.

Dougherty indicated that such an initiative could be easily made through regulatory changes, and it would serve to improve the financial security of Canadians immediately without hindering the ability to improve existing government programs.

In late December of 2010, Federal Finance Minister Jim Flaherty and his provincial counterparts reached an agreement for a Pooled Registered Pension Plan. Minister Flaherty stated this new private sector initiative will provide a low-cost retirement savings option for the self-employed and those who work for small and medium-sized businesses regardless of employer participation.

Minister Flaherty also stated that he and his counterparts are reviewing options for changes to the Canada Pension Plan (CPP). An RHSP could potentially act as a supplement to the CPP or other pensions since a significant component of a retiree's savings is generally required for health care costs.

Also, RHSPs have the potential to create significant pools of investment capital across the financial services industry where the plan would be administered.

Recommendation

That the federal government investigate a Registered Health Savings Plan to determine whether or not it would be a suitable measure to relieve the pressures of health care costs on provincial and territorial governments as well as to better prepare employers and employees for post-retirement health care costs.