POLICY BRIEF:
WHAT AGING POPULATION?

By Colin Craig

EXECUTIVE SUMMARY

The percentage of Canadians who are 65 and over is projected to increase for decades to come. This demographic shift will continue to put tremendous pressure on government finances – not just in terms of health care expenditures, but also in terms of government revenues as the proportion of workers to retirees in Canada continues to shrink.

Since 2010, the federal government has released annual reports analyzing how Canada's aging population will impact the sustainability of federal finances over the long-term.

This policy brief shows, however, a lack of analysis at the provincial level as to how an aging population will impact each province's finances. For the most part, provincial governments are operating like a 63-year-old who has yet to ponder any sort of retirement planning.

In June 2017, the Canadian Taxpayers Federation filed Freedom of Information (FOI) requests with each provincial government, requesting analysis they have conducted on the long-term sustainability of their finances. The findings showed:

- Nova Scotia indicated they have conducted analysis within the past two years, but their analysis has yet to be summarized in a report. We were told it would cost $750 to purchase the data.

- The Quebec government also responded that they have some analysis but indicated it "cannot be disclosed." Public reports included some analysis on health care costs going forward, but the province does not appear to have released holistic analysis – looking at overall total revenues and expenditures.

- Manitoba has conducted some internal and third-party research, but would benefit from conducting further analysis; similar to the federal government.

- The remaining provinces indicated, "no records were located" or provided similar responses. Some provinces provided data on changes to their respective populations, but they did not provide a comprehensive look at how these changes will impact their long-term revenues and expenses.

Left unchecked, this lack of planning at the provincial level could lead to tax increases, cutbacks to services people rely on, increased debt levels or a combination of the three. As a result, the CTF recommends the following:

- Each provincial government should immediately begin conducting regular analysis as to the sustainability of their finances over the long-term. Such analysis could be conducted independently, in conjunction with other provinces or with the Office of the Parliamentary Budget Officer (PBO).

- Provincial governments should place more emphasis on sharing cost-saving service delivery strategies with each other.

- Provincial governments should rein in spending and balance their budgets so that fiscal gaps are addressed and future generations are not saddled with even more debt and taxes.

BACKGROUND

After World War II, Canada, like most western nations, experienced a significant increase in its birth rate; a period known as the "baby boom." However, as this generation was followed by a significant decrease in the birth rate, and improved life expectancy, our nation was left with a lopsided population pyramid.

This means that the percentage of senior citizens in Canada will increase over time, while those who are working age (15-64) will decrease.

While an aging population will impact all provinces in Canada, some provinces will be impacted to a greater degree than others:

Table 1: Seniors as a percentage of the population in 2013 and 2038

Jurisdiction	65 and Over (2013)	65 and Older (2038)
CDA	15.3%	24.0%
NL	17.1%	35.0%
PE	17.3%	30.2%
NS	17.7%	32.2%
NB	17.6%	32.6%
QC	16.6%	25.4%
ON	15.2%	25.1%
MB	14.4%	21.1%
SK	14.4%	21.5%
AB	11.2%	16.9%
BC	16.4%	25.3%
YK	9.9%	19.7%
NT	6.1%	16.2%
NV	3.5%	8.8%

Source: *Statistics Canada*[i]

Ultimately, this demographic shift presents two significant challenges for governments.

On the expenditure side of the ledger, governments will face tremendous pressure in health care delivery as older citizens tend to use the health care system more frequently and require more costly procedures.

For instance, the Canadian Institute for Health Information concluded that the average annual cost of health services for those aged 1-64 ranged from $1,566-$4,617 in 2013 while those aged 65-89 averaged $6,360-$24,645. Canadians aged 90 or over cost the system an average of $29,088[ii].

Table 2: Per capita health spending (2013)

Age	Average Cost
<1	$10,915.54
1-4	$1,566.59
5-9	$1,308.87
10-14	$1,367.84
15-19	$1,618.83
20-24	$1,738.37
25-29	$2,147.93
30-34	$2,369.58
35-39	$2,278.64
40-44	$2,286.00
45-49	$2,590.94
50-54	$3,051.19
55-59	$3,695.44
60-64	$4,617.13
65-69	$6,360.51
70-74	$8,361.98
75-79	$11,511.18
80-84	$16,008.46
85-89	$24,645.97
90+	$29,088.68

Source: *Canadian Institute for Health Information*

It's difficult to make long-term predictions as to how severe the impact of an aging population will be on health care expenditures, but a 2013 study by the Canadian Institute of Actuaries suggests the impact could be immense:

"Assuming no governmental steps to curb health care expenditures provincial/territorial spending on health care is estimated to increase at 5.1% real growth per year, increasing from 44% today to 103% of total provincial/territorial revenues by 2037."[iii]

On the revenue side of the ledger, governments will feel pressure as an aging population means a large number of people will leave the workforce. Not only do retirees tend to have lower annual incomes, and pay less in income taxes as a result, their output will be missed in the economy – leading to slower growth in GDP and business taxes.

The Office of the Parliamentary Budget Officer has noted that while Canada's economy grew by an average of 2.4% between 1982-2015, growth is expected to slow to an average of 1.8% between 2016-2021 and 1.6% between 2022-2090.[iv]

FEDERAL ANALYSIS

Since 2010, the federal government's Office of the Parliamentary Budget Officer (PBO) has released annual "Fiscal Sustainability Reports." These reports examine the sustainability of the federal government's long-term financial situation as Canada's population ages.

Notably, by projecting long-term revenues, expenditures and debt levels, the analysis calculates a "fiscal gap" – a figure which represents the *"immediate and permanent change in revenues, program spending, or combination of both (expressed as a share of GDP) that is required to stabilize the net debt-to-GDP ratio at its current level over the long term."*[v]

Simply put, the analysis helps indicate if the federal government needs to reduce spending or increase taxes to ensure its finances are sustainable over the long-term.

In addition to examining federal finances, the reports also calculate a "fiscal gap" based on a consolidated look at the finances of provincial, territorial, aboriginal and local governments.

While the reports are a valuable tool for looking at the federal government's finances, the consolidated nature of provincial, territorial and local government analysis does not allow for examining each province's individual financial situation.

Table 3: Fiscal gaps identified by PBO

	Federal	Provincial/ Territorial/Local
2011	+$20.4 Billion	+$25.6 Billion
2012	-$25.0 Billion	+$36.0 Billion
2013	-$24.8 Billion	+$36.2 Billion
2014	-$28.2 Billion	+$34.1 Billion
2015	-$28.0 Billion	+$28.0 Billion
2016	-$19.2 Billion	+$30.2 Billion

Source: *2010-2016 Fiscal Sustainability Reports*[vi]

Note: *A positive figure indicates a gap, meaning a reduction in spending or more tax revenues are needed*

As Table 3 notes, up until 2012, the PBO calculated that the federal government needed to reduce spending or increase taxes in order to maintain its debt-to-GDP ratio over the long-term. However, due to reductions in federal spending, including a decrease in federal health transfers and pushing back the eligibility age for Old Age Security benefits, federal finances transitioned from a situation where the federal government needed to consider spending reductions or tax increases to a more sustainable path.

At the same time, these changes increased the "fiscal gap" for provincial, territorial and local governments by approximately $10 billion. While the PBO's *2016 Fiscal Sustainability Report* estimates a consolidated $30 billion "fiscal gap" for provincial/territorial/local/first nation governments, the outlook for each individual province is not clear.[vii]

PROVINCIAL ANALYSIS

In June 2017, the Canadian Taxpayers Federation filed Freedom of Information (FOI) requests with each provincial government, seeking their analysis on the long-term sustainability of their finances as Canada's population ages. This research built on a previous report by the author of this report, issued by the Manning Centre in 2015.[viii]

Just as the 2015 report concluded, recent Freedom of Information responses showed that provincial governments are still largely unprepared for an aging population – most have yet to examine how such a change will impact their finances.

Specifically, we asked each province for:

"Please provide documentation on any reports or analysis on demographic shifts (aging population) in [province's name] occurring in the future and how that relates to future revenues, expenditures and debt levels. I'm looking for analysis that is similar to the federal government's Fiscal Sustainability Reports that forecast long-term revenues, expenses and any fiscal gap. The time frame for this request is June 1, 2015 - June 15, 2017"

Table 4: Summary of FOI Responses

Jurisdiction	Summary of Response
BC	*"...No records were located in response to your request."*
AB	*"A thorough search conducted by TBF [Treasury Board and Finance] staff failed to retrieve any records responsive to your request."*
SK	*"...The record(s) you wish to access to do not exist in the Ministry of Finance."*
MB	*"...Manitoba Finance has searched its records and can report that no such records exist."* Note: The department did include some information from the Centre for the Study of Living Standards. This did not break out revenue and expenditure estimates, but did identify growth needs from (2014-2038) in order to avoid changes to debt and taxation.
ON	*"Records responsive to your request were not located."*
QC	The government indicated they have documents related to our request, but they "cannot be disclosed" as the documents are "working documents or documents of the same nature, or opinions or recommendations presented less than ten years earlier..." The department also has some analysis related to an aging population and health expenses, but does not appear to have released comprehensive projections for total revenues and expenses.
NL	*"Please be advised that we have reviewed our records and determined that the Department of Finance has no records responsive to your request."*
NB	Analysis does not appear to project the balance of long-term revenues and expenditures. The department has some analysis related to demographic forecasts, but no comprehensive financial analysis.
NS	The government indicated it has begun to analyze the situation but the data has not yet been summarized in report format. In order to gain access to the data, the government indicated there's a $750 freedom of information fee.
PEI	*"...We have reviewed our records and determined that the Department of Finance has no records responsive to your request."*

The bright spot in the research came from Nova Scotia, where the province appears to be working on some analysis, but has yet to summarize the research in a report format. To gain access to the data, the CTF would have to pay an FOI fee of $750 (we declined).

Quebec responded that it has documents that are relevant to our request, but the material can't be disclosed as the files are confidential. There are some publicly released documents that examine health care costs going forward, but the material does not summarize the big picture; long-term revenues and expenses. Thus, the government's research could be encouraging but it's difficult to know for certain.

Finally, the Manitoba government shared some interesting data from the Centre for the Study of Living Standards on growth needs going forward, and analysis by the Manitoba Bureau of Statistics, but there does not appear to be government analysis that looks at total spending and revenues over the long-term.

The remaining provinces responded that "no records" were located or provided similar responses.

The longer they continue to ignore examining the financial impact of demographic changes, planning and preparing for the situation will become more difficult with each passing year. These provinces are essentially operating like a 63-year-old who has yet to ponder any sort of retirement planning.

Overall, this lack of planning at the provincial level could lead to tax increases, cutbacks to core services, increased debt levels or a combination of the three.

RECOMMENDATIONS

To address the lack of planning at the provincial level, the CTF has put forward three recommendations:

First, each provincial government should immediately begin conducting annual analysis as to the sustainability of their finances over the long-term. Such analysis could be conducted independently, in conjunction with other provinces or with the PBO. Understanding the problem is the first step.

Second, provincial governments should place more emphasis on sharing cost-saving strategies with each other. Too often, interprovincial meetings appear to be focused on developing strategies for shaking down the federal government for more funding. Success stories for efficient service delivery should be shared and replicated across Canada.

Third, provincial governments should rein in spending and balance their budgets so that fiscal gaps are addressed and future generations are not saddled with even more debt and taxes.

CONCLUSION

Canada's aging population will, according to most experts, present a significant financial challenge for governments.

Unfortunately for taxpayers, provincial governments appear to be wandering around in the dark when it comes to this issue.

The first step is to take action to research and analyze the problem. If provincial governments fail to do so, they will likely be forced to raise taxes, increase debt levels or cut back on services the public relies on.

REFERENCES

i Statistics Canada Catalogue no. 91-520-X, Medium-growth scenario (M3) used for 2038 projections (P. 22)
http://www.statcan.gc.ca/pub/91-520-x/91-520-x2014001-eng.pdf

ii Canadian Institute for Health Information, Data Table nhex-Series-E-2016, Table E.1.16.2

iii "Sustainability of the Canadian Health Care System and Impact of the 2014 Revision to the Canada Health Transfer." Canadian Institute of Actuaries, September 2013 report, Page 1.
http://www.cia-ica.ca/docs/default-source/2013/213075e.pdf?sfvrsn=4

iv 2016 Fiscal Sustainability Report, Officer of the Parliamentary Budget Officer, June 2016, Page 6
http://www.pbo-dpb.gc.ca/web/default/files/Documents/Reports/2016/FSR_2016/FSR_2016_EN.pdf

v Ibid. Page 1

vi 2011-2016 Fiscal Sustainability Reports available through the PBO's website
http://www.pbo-dpb.gc.ca/en/our-publications

vii Ibid. Page 2

viii "Policy Brief: Provinces Lack Financial Analysis on Aging Population", Craig, Colin, Manning Centre, December 2015
https://www.manningcentre.ca/sites/default/files/policy_brief-_provinces_lack_financial_analysis_on_aging_population-2.pdf

ABOUT THE AUTHOR

Colin Craig is the Interim Alberta Director for the Canadian Taxpayers Federation. He has an MBA and a BA (economics) from the University of Manitoba and is the author of *The Government Wears Prada*, a book that examines how Canada can prepare for our nation's aging population.

Colin's work has been published in newspapers across Canada; notably, the National Post, Calgary Herald, Edmonton Journal, the Leader Post, Star Phoenix, Winnipeg Free Press and Sun newspapers.

His advocacy efforts with the CTF have led to positive government policy changes at the municipal, provincial and federal levels.

ABOUT THE CANADIAN TAXPAYERS FEDERATION

The Canadian Taxpayers Federation (CTF) is a federally incorporated, not-for-profit citizen's group dedicated to lower taxes, less waste and accountable government. The CTF was founded in Saskatchewan in 1990 when the Association of Saskatchewan Taxpayers and the Resolution One Association of Alberta joined forces to create a national organization. Today, the CTF has 117,000 supporters nation-wide.

The CTF maintains a federal office in Ottawa and regional offices in British Columbia, Alberta, Prairie (SK and MB), Ontario, Quebec and Atlantic. Regional offices conduct research and advocacy activities specific to their provinces in addition to acting as regional organizers of Canada-wide initiatives.

CTF offices field hundreds of media interviews each month, hold press conferences and issue regular news releases, commentaries, online postings and publications to advocate on behalf of CTF supporters. CTF representatives speak at functions, make presentations to government, meet with politicians, and organize petition drives, events and campaigns to mobilize citizens to affect public policy change. Each week CTF offices send out Let's Talk Taxes commentaries to more than 800 media outlets and personalities across Canada.

Any Canadian taxpayer committed to the CTF's mission is welcome to *join at no cost* and receive issue and *Action Updates*. Financial supporters can additionally receive the CTF's flagship publication *The Taxpayer* magazine published four times a year.

The CTF is independent of any institutional or partisan affiliations. All CTF staff, board and representatives are prohibited from holding a membership in any political party. In 2015-16 the CTF raised *$4.7-million* on the strength of *29,102 donations*. Donations to the CTF are not deductible as a charitable contribution.