This report:


2. Estimates the budget impact of the new physician services agreement, reached through binding arbitration between the Province and Ontario’s doctors.

3. Presents the FAO’s medium-term health spending projection to 2022-23.

4. Explores the implications for health spending of balancing budget without raising new revenue.
1. Health Spending in 2017-18 and 2018-19
Health spending is 41 per cent of total program spending

**Health sector expense by program area, 2018-19 ($ billions)**

- Hospitals, 22.2, (36%)
- OHIP (Physicians and Practitioners), 14.2, (23%)
- Ontario Drug Programs, 4.7, (8%)
- Long-Term Care Homes, 4.3, (7%)
- Community Programs, 6.1, (10%)
- Other Programs, 8.0, (13%)
- Capital, 1.9, (3%)

Source: FAO analysis of data from MOHLTC, TBS, the 2018 Fall Economic Statement and the February 19, 2019 Kaplan Board of Arbitration decision on physician compensation.

- Hospitals and the Ontario Health Insurance Plan (OHIP) account for almost 60 per cent of total health sector spending in 2018-19
Ontario’s health spending grew significantly over the past two years

Average annual growth in Ontario’s health spending doubled over the past two years

<table>
<thead>
<tr>
<th>Average Annual Growth (Per Cent)</th>
<th>2011-12 to 2016-17</th>
<th>2016-17 to 2018-19</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2.2</td>
<td>4.4</td>
</tr>
</tbody>
</table>

Source: FAO analysis of data from MOHLTC, TBS, the 2018 Fall Economic Statement and the February 19, 2019 Kaplan Board of Arbitration decision on physician compensation.

- After five years of restraint, health spending grew significantly in 2017-18 and 2018-19.
Health spending growth has increased in most program areas

- The most significant increases in funding growth rates were for Ontario drug programs, hospitals, long-term care homes and community programs.

Note: Health capital spending grew by 4.6 per cent from 2011-12 to 2016-17 and by 4.7 per cent from 2016-17 to 2018-19.
Source: FAO analysis of data from MOHLTC, TBS, the 2018 Fall Economic Statement and the February 19, 2019 arbitration decision on physician compensation.
2. The New Physician Services Agreement
A new four-year physician services agreement was set through binding arbitration.

The agreement includes:

- physician fee rate increases (averaging one per cent each year),
- the reversal of physician fee reductions made in 2013 and 2015,
- a mandate that $480 million in annual savings be identified, and
- no cap in the physician services budget.
The new agreement will increase OHIP expense by $1.5 billion over the four-year agreement.

<table>
<thead>
<tr>
<th>4-1 Arbitration decision will increase physician compensation by $1.5 billion</th>
</tr>
</thead>
<tbody>
<tr>
<td>($ millions)</td>
</tr>
<tr>
<td>Impact on physician compensation</td>
</tr>
<tr>
<td>Impact on Provincial OHIP expense</td>
</tr>
</tbody>
</table>

Source: FAO.

- The Province pre-booked $713 million in fiscal year 2017-18 in anticipation of the arbitration decision.
- The FAO expects that $400 million of this pre-booked expense will need to be reversed in 2018-19.
3. FAO’s medium-term health spending projection
Health spending levels projected to increase by $12.0 billion by 2022, an average annual growth rate of 4.6%.

Source: 2018 Fall Economic Statement and FAO.
Health spending pressure will increase

Core health care cost drivers are accelerating

- The FAO projection also incorporates
  - Province’s spending commitments for long-term care and mental health
  - The budget impact of the new physician services agreement

Source: 2018 Fall Economic Statement and FAO.
4. The implications for health spending of balancing budget without raising new revenue
The Province’s Commitments

- The Province has committed to transform the province’s health care system, and address hospital capacity issues, wait times for long-term care and access to mental health and addictions services.

- The Province has also committed to “balance the budget on a modest, reasonable and pragmatic timetable” without raising taxes.¹

¹. See pages 18 and 117 of the 2018 Fall Economic Statement.
Balancing the budget without raising taxes would require spending $8.6 billion less on health care by 2022-23.

Restraining health sector spending to this extent without compromising health care access or quality would be a significant challenge.

Source: 2018 Fall Economic Statement and FAO.
Thank you