Intelligence MEMOS

From: Parisa Mahboubi and William B.P. Robson

To: Canadians, Young and Old

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Re: **Demography is Destiny, and Canada's Picture Isn't Pretty**

Canada is facing a demographic shift that will put immense strain on our healthcare system and public finances.

We currently have about three working-age (18-64) adults for every senior (65+). By 2067, we will have only two working-age adults per senior. This shift will slow growth in the economy and government revenues while pushing healthcare expenses up.

The resulting fiscal pressure will be felt across the country but will be much more intense in some provinces and territories than in others. For example, Newfoundland and Labrador, where the population is aging rapidly, and the working-age population is falling, will face especially daunting challenges. Our projections show that it would need to raise the taxes the provincial government collects itself by an astounding two-thirds just to meet rising healthcare costs.

When we express the required increase in provincial tax rates across the country as a liability comparable to more familiar measures of government debt, we get similarly staggering numbers. In Ontario alone, the projected cost increase over the next 45 years has a present value of $723 billion, equivalent to 70 percent of the province's gross domestic product (GDP). The equivalent national figure is more than $2 trillion.

This pressure will lead to more and louder calls for increased federal transfers to struggling provinces. But experience has taught some important lessons about the limits, and even the perils, of federal money. When the federal government itself gets into fiscal trouble, previously promised money can dry up. Federal transfers blur accountability for actually delivering good healthcare services. And bailing out one or two provinces could precipitate a political, and even a fiscal, crisis. Far better would be to address the revenue and healthcare costs issues in more systematic ways.

On the revenue side, the focus must be on raising productivity and the tax base. Each worker will need to produce more to sustain her or his own wages and support public services. More investments in human and physical capital can equip Canadian workers better to adapt, compete and earn high wages. Expanding the tax base by increasing work force participation, particularly among parts of the population that currently participate less, will also mitigate the effects of demographic aging.

Shifting toward consumption taxes such as the GST/HST (the federal goods and services tax and the federal/provincial harmonized sales tax), which are less sensitive to demographic shifts, could provide a more stable revenue stream. Consumption taxes capture revenue from spending, which remains more constant even as the population ages, making them a crucial component of a sustainable fiscal strategy.

On the expense side, seniors inevitably require more medical attention than younger people, so containing healthcare costs will be largely a matter of shifting the focus of senior care from expensive hospital and long-term care settings to more cost-effective home and community-based care. That would not only produce better care per dollar spent; it would also align with the preference of many seniors to receive care in or closer to home. Expanding the roles of nurse practitioners and pharmacists in providing care can also help manage healthcare costs without sacrificing quality. These professionals can perform many tasks currently handled by doctors, freeing physicians to focus on more complex cases.

We also need to address a widespread misconception about long-term care. Many Canadians mistakenly believe that governments will cover most of their future care needs, leading to inadequate private savings and investment in appropriate services. A clearer delineation of public and private responsibilities, alongside policies that encourage personal savings, is essential.

Ideally, we would prefund more of the services seniors need in their later years, akin to the reform of the Canada Pension Plan in the 1990s. Requiring today's workers to contribute more toward their future long-term care needs would distribute costs more equitably across generations and reduce the burden on future taxpayers. A similar approach would make sense for the prescriptions we know more of us will need over time.

The demographic challenges we face are significant. The slow pace of change should not lull us into complacency. Every year of inaction reduces our options and increases the cost of eventual solutions.

This is about ensuring intergenerational fairness and maintaining the quality of life that Canadians expect and deserve. We need political leaders to move beyond short-term thinking and focus on long-term reforms. As citizens, we must be ready to adapt – working longer, saving more and adjusting expectations about the public services we should expect in our later years.

Aging is already squeezing the budgets of Canadian governments. We should act before it gets worse.

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