



The Nassau Institute

PO Box N-1688, Nassau, NP, Bahamas • Tel: 242 322 6300 • Fax 242 322-1361
email: info@nassauinstitute.org • website: www.nassauinstitute.org

Healthcare Entitlement Is Unsustainable

by Ralph J Massey*

The National Health Insurance program in its present form is financially unsustainable; and one can conclude that the Government must be reckless and irresponsible in its haste to implement it. Some will charge that this conclusion is no more than a partisan political overstatement.

However, the Government refuses to provide any data relating to program costs beyond the very first years of operation despite the vast body of evidence showing that the cost of such a program will increase significantly. Furthermore, in several instances it has resorted to "half-truths, erroneous statements and outright falsehoods" in stating its case to the public.

This paper will attempt to take the politics out of the discussion.

The Entitlement.

The Prime Minister defined the healthcare entitlement in his Communication to Parliament --

All residents for all medical conditions are entitled to health care services on a timely basis, in a dignified manner, throughout their lifetime and without financial worry.

It is stated in the broadest most inclusive terms possible; and it was presented as a "no compromise" proposal. In his presentation to Parliament the PM embellished this statement by saying that NHI will diminish the need to save or borrow to pay for the medical services of ones self and family or to extend charity to others for that purpose.

* Ralph J Massey is a Director of the Nassau Institute and a contributor to the National Coalition for Healthcare Reform.

In short, Government intends to solve Bahamians' need for medical services using the 50-year old healthcare solutions of Europe and Canada that are presently in deep trouble.

The UK. The deficit of the National Health System is expected to reach 94 million pounds (\$182 million) in fiscal 2006 ending March 31 producing a vigorous debate in Parliament. The Health Secretary is proposing immediate draconian cuts in services; while defenders of the status quo are claiming that all that is needed is a change in management.

Canada. The 10 separate provincial health systems of Canada are going through a financial crisis. Robert Brown writing in the North American Actuarial Journal states "We can see that solely because of population aging, health care costs are projected to more than double over the 75-year projection period...the most rapid period of growth because of the shifting demographics is in the early years of the projection period."

The New Demography.

Robert Brown identifies the factor that the NHI Implementation Project avoids, the affect of the declining fertility rates on the ability of countries to fund welfare schemes. Such welfare schemes need an ever increasing number of taxpaying workers to fund the healthcare needs of older workers and retirees. Populations as a whole age if the Total Fertility Rate (TFR), the number of children per women, declines below the population replacement rate of 2.1 children per women.

The developed world experienced a very visible decline in fertility rates in the post World War II period because of changes in the economics of parenthood, medical advances and various institutional factors.

- In the early 1970s according to the UN, only six of Europe's 22 countries, specifically Belgium, Denmark, Finland, Germany, Sweden and Switzerland, had fertility rates below the population maintenance rate of 2.1 children per women. Today only Albania is at or above the population maintenance rate.
- According to Jean-Claude Chesnais, a French demographer, Italy and Spain have experienced the lowest fertility ever seen in the history of mankind.
- Today the population of Europe is declining in absolute terms. For instance, the Russian population is losing 800,000 people per year.

March 2002 is significant because that was the date that the UN Population Division recognized that –

1. The Total Fertility Rate ("TFR") of the Less Developed Countries would emulate the more developed nations and fall below the 2.1 TFR replacement level.
2. The world population would decline in the latter part of the twenty-first century.

Ben Wattenberg, the moderator for the PBS program "Think Tank", states

"Never have birth and fertility rates fallen so far, so fast, so low, for so long, in so many places, so surprisingly."

The Bahamas.

The decline in fertility rates has also occurred in The Bahamas. Its Total Fertility Rate in the early 1970s was 3.44 children per female and presently

is being shown as 2.3.

In contrast Barbados in the most recent period had the lowest fertility rate (1.50) in the Caribbean with Cuba (1.61) and Trinidad and Tobago (1.61) just above it. In its forecasts the UN Population Division assumes that the Bahamian TFR will decline to a rate of 1.85 in the year 2030 and not to the present rates of these three countries or lower.

In the UN's 2004 Report, the picture one sees is a Bahamian population of 79,000 in 1950 growing at an increasing annual rate to 170,000 in 1970 and then increasing at a steadily declining rate to the peak in 2040 of 394,000.

To visualize this process one should note that the initial decline in fertility rates and the decline in the annual growth population come well before the peak in total population. The reality of the New Demographics is that the population peak has already occurred in Europe and it will happen in the Less Developed World later in the century. Depopulation is a reality.

The New Demographic reality affects substantially a population's age structure and the actuarial projections that determine the likely future medical costs of a healthcare system. Such analysis is essential to making a judgment not only on costs but also on financial sustainability.

Wall of Silence.

Members of the National Coalition for Healthcare Reform individually and collectively over the past three years have asked the Blue Ribbon Commission and then the Minister of Health for its actuarial assumptions.

The response of the Government to date is the Executive Summary of the Steering Committee Report on the Components, Costs and Financing of National Health Insurance. That Summary gave the program cost for one year that is applicable at best to only the first three years of operations. This is a totally inadequate response.

Then the Nassau Institute in July 2006 gave the Government an authoritative 71-page report prepared by Nadeem Esmail, a Director of the Fraser Institute of Canada. He analyzed the Government's proposal and examined alternative policy options.

The 18-page Response of the NHI Implementation Project was largely dismissive. For instance, the Fraser report described the effect of aging on total program costs. The NHI Response stated that this factor was less important than other medical cost factors such as the economies of scale, public sector inefficiencies and high private care health charges.

More recently the Government repeatedly claimed that an International Labour Organization report dated July 2006 gave a "thumbs up" approval to NHI. Thanks to the investigative efforts of the Bahamas Employer's Confederation, it appears that the "approval" was conditional and limited to the "one number" forecast of the Steering Committee. The ILO alleged that exact forecasting could not be made beyond the first three years; and then went on to state that the aging of the population would result in a pattern of costs that would require substantially higher taxes in the future.

The present situation unfortunately may be described as follows:

- **The healthcare entitlement of NHI will require sharp increases in taxes in**

the medium and long term and is highly likely to be financially unsustainable.

- **A national healthcare program has such an appeal to the electorate that potential short-term political gains swamp longer term medical, financial and political considerations. This applies to both the party in power and its loyal opposition. The latter neither voted "No" nor did it make a strong case for an alternative. As a result unless something changes costly long-term structural errors will be "baked" into Bahamian political landscape.**
- **The efforts of the National Coalition for Healthcare Reform to discuss these fundamental issues and help fashion a wise alternative have been impaled on what has been described elsewhere in the media as the "Wall of Silence."**

January 18, 2007

Word Count: 1, 333