

Total health expenditure

In line with the terms of reference, this study projects the fiscal pressure on Australian governments arising from an ageing population. However, international comparisons of health expenditure often focus on total public and private expenditure. To facilitate such comparisons, this paper uses a single aggregate model (in contrast to the component models used for government expenditure) to project total Australian health expenditure.

Current expenditure

In 2002-03, health expenditure in Australia was \$72 billion or 9.5 per cent of GDP (AIHW 2004b). In common with many countries, health expenditure in Australia is increasing: since 1991-92 it has grown at a real average annual rate of 4.6 per cent a year, and from 8.1 per cent of GDP to its present level.

It should be noted that high level residential aged care (\$4.9 billion in 2002-03) is included in the above figure. However, elsewhere in this report this spending is excluded from health expenditure and projected separately as aged care expenditure.

Data

The key elements underpinning projected health expenditure are:

- the existing age profile of health expenditure for males and females — table 4.1 shows that expenditure is significantly higher for older age groups;
- projected demographic change — consistent with the rest of this report PC-M projections are used; and
- the assumed growth rate in per capita health spending.

As discussed in chapter 6, projections of health expenditure are particularly sensitive to assumptions about increases in per capita spending arising from demand (including prevalence of diseases), technology, and price. This growth is often termed the non-demographic growth rate. In the projections this growth rate is expressed as a premium over the projected increase in GDP per capita (see

appendix D). Owing to the sensitivity of results to this variable the projections incorporate a range of growth premia.

Table 4.1 Australian health expenditure per capita by age group
2000-01^a

<i>Age group</i>	<i>Males</i>	<i>Females</i>
	\$ per capita	\$ per capita
0-4	1 876	1 564
5-14	1 091	1 240
15-24	1 271	1 732
25-34	1 230	2 126
35-44	1 402	1 936
45-54	1 915	2 343
55-64	3 179	3 305
65-74	5 657	5 371
75+	9 924	10 877

^a In the projections 2000-01 data is re-calibrated to sum to total expenditure in 2002-03.

Source: AIHW (2004e).

Projected expenditure

Total health expenditure is projected to increase in Australia to between 16 per cent and 20 per cent of GDP in 2044–45 (table 4.2).

Table 4.2 shows the sensitivity of the results to small variations in non-demographic growth — primarily technology and demand. However, the impact of ageing is also significant. The Commission estimates that expenditure levels will be over 30 per cent higher than they would be if the population did not age. This is higher than the 25 per cent estimate for the government sector only, because of the inclusion of high level residential aged care in the projection, and because it does not take account of death-related costs for hospital expenditure.

Table 4.2 Projected Australian health expenditure as a proportion of GDP

<i>Growth in per cap health exp above per cap GDP growth</i>	2002-03	2014-15	2024-25	2034-35	2044-45
	%	%	%	%	%
0.5 per cent premium	9.5	11.0	12.8	14.5	16.0
0.75 per cent premium	9.5	11.4	13.5	15.8	17.8
1.0 per cent premium	9.5	11.7	14.3	17.1	19.7

Source: Commission estimates.