

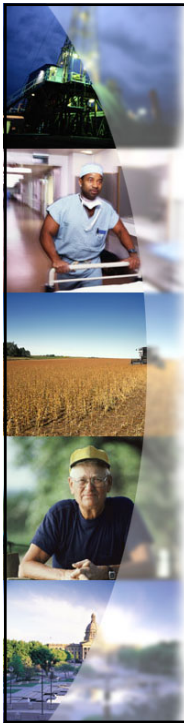
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Phase I Report:

Demographic Impacts on Alberta's Provincial Budget – Fiscal Projections Through 2026

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Executive Director & CEO
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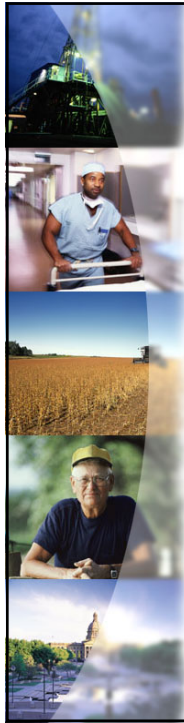


What is Vision 2020?

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- Provides insight on how demographic changes will affect Alberta's economic, social and policy landscape
- Report first of a multi-year project
- Partnership between Alberta Chambers of Commerce (ACC) and Certified General Accountants of Alberta (CGA-Alberta)

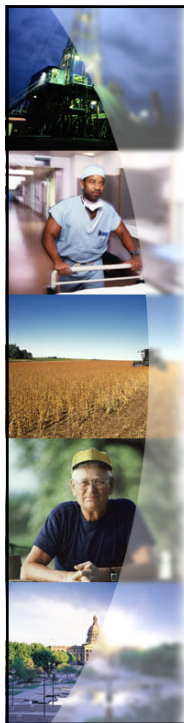




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Why now?

- Debt free status of province
- Political cycle too short to account for long-term issues
- Addressing challenges could mean difference between prosperity or economic decline
 - Project aims to identify challenges to help government respond
 - First report explains demographic changes to 2026

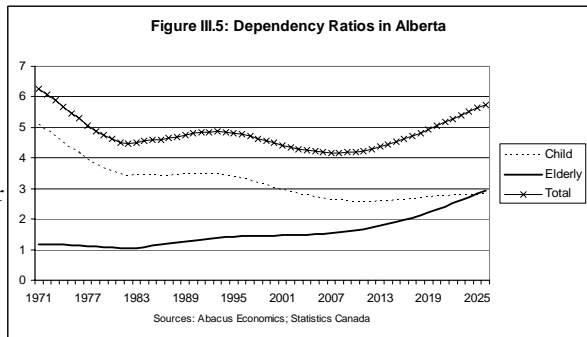


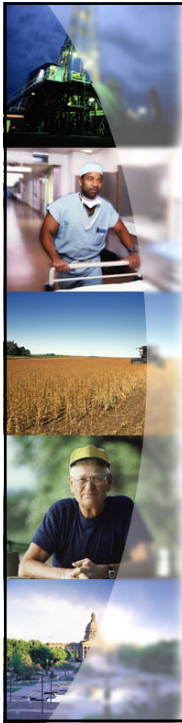
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Targeting the trends

Population aging

- Elderly dependency ratio increased from 1.2 in 1971 to 1.5 in 2003
- Expected to reach 2.9 in 2026
- Concern as health care costs are much higher in the last few years of life





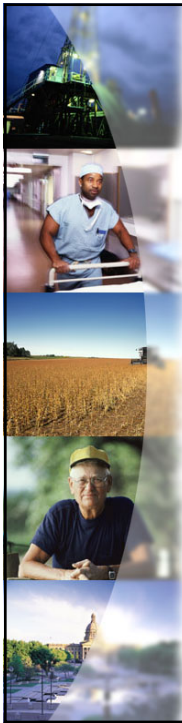
Targeting the trends (cont'd)

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- Agglomeration (rural to urban migration)
 - Edmonton/Calgary corridor likely to be the concentration of growth within Alberta
 - Population increases in the Calgary and Edmonton Census divisions account for 70.9% of the total increases in Alberta through 2026



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Targeting the trends (cont'd)

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Table V.2: Population Projections for Alberta

All figures in thousands

	High Growth	Medium Growth	Low Growth
2001	3,057	3,057	3,057
2006	3,282	3,239	3,225
2011	3,502	3,372	3,325
2016	3,717	3,490	3,404
2021	3,919	3,590	3,459
2026	4,101	3,665	3,486

Sources: Abacus Economics; Statistics Canada

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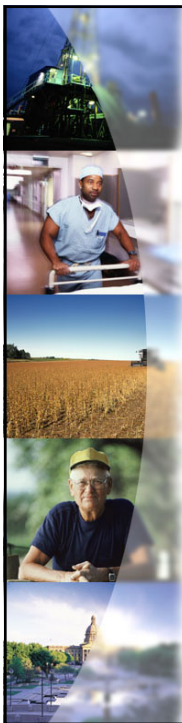
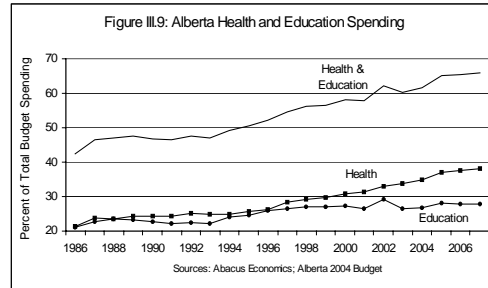


Focusing on the risks

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- Health care and education costs

–Health and education spending combined represented 42.4% of total spending in 1985/86, 60.3% in 2002/03 and is expected to reach 65.9% in 2006/07



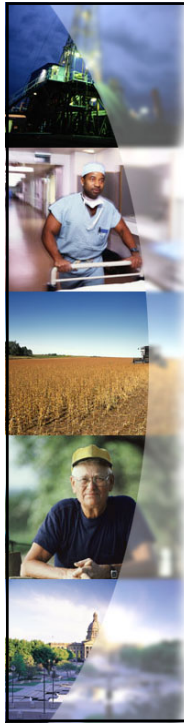
Focusing on the risks (cont'd)

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Focus on health

- Real per capita health care expenditures have increased by 2.2% on average between 1980/81 and 2003/04, while GDP has only increased 1.5% per year.
- Will continue to be on the rise with the increase in the aging population.

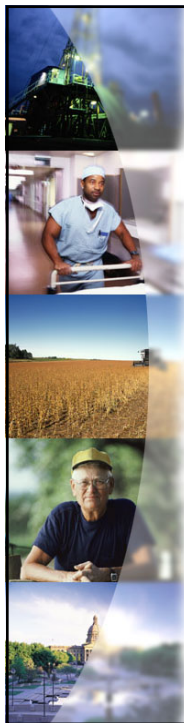




Focusing on the risks (cont'd)

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- Declining resource royalty revenue
 - Average royalty revenue for 1993/94 through 2002/03 was 24.1% of total revenue and is expected to be 21.4% for 2003/04 through 2006/07
 - Natural resource royalty revenues may fall from a moderate level of 3.7% of GDP on average to 2.8%

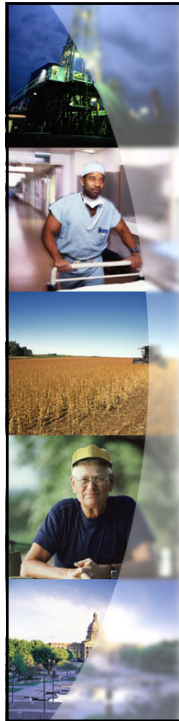


Focusing on the risks (cont'd)

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- Spending future fiscal surpluses rather than saving
 - Spending in Alberta averaged 17.5% of GDP between 1981 and 2001
 - Grew faster than the sum of population growth and inflation by 1.5% on average between 1982 and 2001
 - By 0.9% between 1992 and 2001

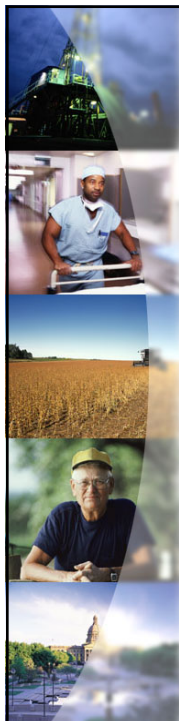




What does it all mean?

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- If real per capita health care spending continues on same path,
- If royalty revenues fall to a relatively low rate of 2.8% of GDP, and
- If government does not run surpluses over the near term,
- **Fiscal policies will NOT be sustainable.**



What does it all mean? (cont'd)

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High population growth

Variant 1: High population growth, high health care cost increases (2.2%), average royalty revenue (3.7% GDP)						
	2001	2005	2010	2015	2020	2026
GDP	151,173	188,397	240,550	300,616	370,670	470,538
Revenue, percent of GDP	16.4	12.5	14.8	15.0	15.0	14.7
Tax	8.3	7.7	7.8	7.8	7.8	7.9
Royalty	5.7	2.2	3.7	3.7	3.7	3.7
Investment	1.0	0.8	1.5	1.6	1.6	1.3
Spending, percent of GDP	15.5	12.7	13.2	13.8	14.8	16.6
Health	4.9	4.9	5.2	5.7	6.3	7.2
Interest	0.8	0.6	0.6	0.5	0.4	0.5
Surplus / (Deficit) as a percent of GDP	0.9	(0.2)	1.6	1.2	0.2	(1.9)
Net Financial Assets / (Liabilities) as a percent of GDP	6.0	5.8	12.0	16.0	15.9	15.2
Sustainable?						Yes

Variant 2: High population growth, high health care cost increases (2.2%), low royalty revenue (2.8% GDP)						
	2001	2005	2010	2015	2020	2026
GDP	151,173	188,397	240,550	300,616	370,670	470,538
Revenue, percent of GDP	16.4	12.5	13.6	13.4	13.2	13.1
Tax	8.3	7.7	7.8	7.8	7.8	7.9
Royalty	5.7	2.2	2.8	2.8	2.8	2.8
Investment	1.0	0.8	1.2	1.0	0.8	0.6
Spending, percent of GDP	15.5	12.7	13.2	13.8	15.1	17.5
Health	4.9	4.9	5.2	5.7	6.3	7.2
Interest	0.8	0.6	0.6	0.5	0.7	1.5
Surplus / (Deficit) as a percent of GDP	0.9	(0.2)	0.4	(0.4)	(1.8)	(4.4)
Net Financial Assets / (Liabilities) as a percent of GDP	6.0	5.8	6.9	5.2	(1.5)	(19.3)
Sustainable?						No

1 per cent difference





What does it all mean? (cont'd)

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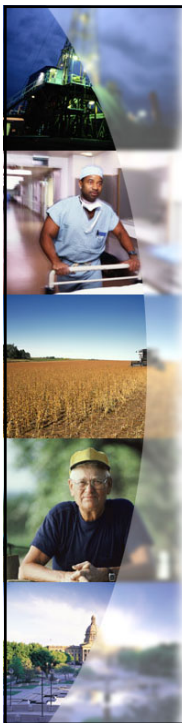
High population growth

Variant 3: High population growth, moderate health care cost increases (1.5%), low royalty revenue (2.8% GDP)

	2001	2005	2010	2015	2020	2026
GDP	151,173	188,397	240,550	300,616	370,670	470,538
Revenue, percent of GDP	16.4	12.5	13.6	13.6	13.5	13.3
Tax	8.3	7.7	7.8	7.8	7.8	7.9
Royalty	5.7	2.2	2.8	2.8	2.8	2.8
Investment	1.0	0.8	1.2	1.2	1.0	0.8
Spending, percent of GDP	15.5	12.7	12.8	13.1	13.7	14.9
Health	4.9	4.9	5.1	5.3	5.7	6.3
Interest	0.8	0.6	0.6	0.5	0.4	0.6
Surplus / (Deficit) as a percent of GDP	0.9	(0.2)	0.8	0.5	(0.2)	(1.6)
Net Financial Assets / (Liabilities) as a percent of GDP	6.0	5.8	7.9	9.0	7.6	5.6
Sustainable?						No

Variant 4: Same as Base but excess revenue spent not saved

	2001	2005	2010	2015	2020	2026
GDP	151,173	188,397	240,550	300,616	370,670	470,538
Revenue, percent of GDP	16.4	12.5	14.4	14.2	14.1	14.0
Tax	8.3	7.7	7.8	7.8	7.8	7.9
Royalty	5.7	2.2	3.7	3.7	3.7	3.7
Investment	1.0	0.8	1.1	0.8	0.7	0.5
Spending, percent of GDP	15.5	12.7	14.4	14.2	14.1	14.7
Health	4.9	4.9	5.1	5.3	5.7	6.3
Interest	0.8	0.6	0.6	0.5	0.4	0.4
Surplus / (Deficit) as a percent of GDP	0.9	(0.2)	1.5	1.1	0.4	(0.7)
Net Financial Assets / (Liabilities) as a percent of GDP	6.0	5.8	4.5	3.6	2.9	0.8
Sustainable?						No



What does it all mean? (cont'd)

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Medium population growth

Variant 1: Medium population growth, high health care cost increases (2.2%), average royalty revenue (3.7% GDP)

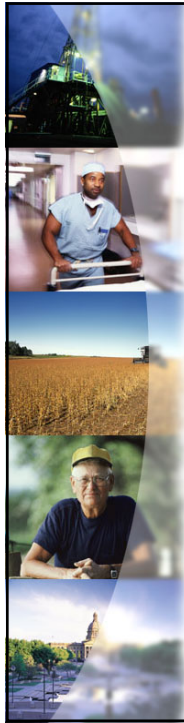
	2001	2005	2010	2015	2020	2026
GDP	151,173	187,088	234,050	286,682	346,605	428,974
Revenue, percent of GDP	16.4	12.5	14.8	15.1	15.1	14.8
Tax	8.3	7.7	7.9	7.9	7.9	7.9
Royalty	5.7	2.2	3.7	3.7	3.7	3.7
Investment	1.0	0.8	1.5	1.7	1.7	1.4
Spending, percent of GDP	15.5	12.8	13.2	13.8	14.7	16.5
Health	4.9	4.9	5.3	5.8	6.4	7.3
Interest	0.8	0.6	0.7	0.5	0.4	0.5
Surplus / (Deficit) as a percent of GDP	0.9	(0.2)	1.6	1.2	0.4	(1.6)
Net Financial Assets / (Liabilities) as a percent of GDP	6.0	5.8	12.0	16.4	17.0	5.6
Sustainable?						Yes

Variant 2: Medium population growth, high health care cost increases (2.2%), low royalty revenue (2.8% GDP)

	2001	2005	2010	2015	2020	2026
GDP	151,173	187,088	234,050	286,682	346,605	428,974
Revenue, percent of GDP	16.4	12.5	13.6	13.4	13.3	13.2
Tax	8.3	7.7	7.9	7.9	7.9	7.9
Royalty	5.7	2.2	2.8	2.8	2.8	2.8
Investment	1.0	0.8	1.2	1.0	0.9	0.7
Spending, percent of GDP	15.5	12.8	13.2	13.8	15.0	17.4
Health	4.9	4.9	5.3	5.8	6.4	7.3
Interest	0.8	0.6	0.7	0.6	0.7	1.5
Surplus / (Deficit) as a percent of GDP	0.9	(0.2)	0.4	(0.4)	(1.7)	(4.3)
Net Financial Assets / (Liabilities) as a percent of GDP	6.0	5.8	6.9	5.4	(1.0)	(10.9)
Sustainable?						No



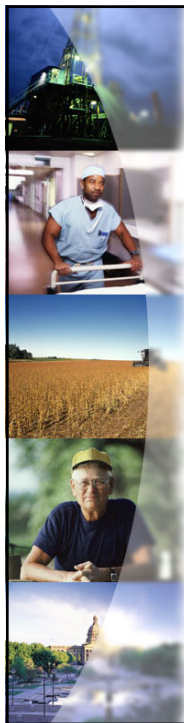
1 per cent difference



Recommendations to government

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- Health care reform is necessary as large increases in health care spending have not resolved problems.
- Although resource revenues are volatile, some measures can be taken to mitigate effects of drop in resource revenues.
 - In addition to health care spending, total spending could be capped at the growth rate of population and inflation combined. (Gov't spending grew faster than the sum of population growth and inflation by 1.5% per year between 1982 and 2001.)

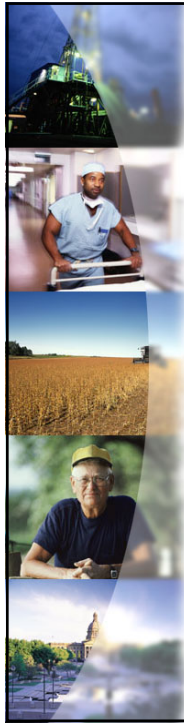


Recommendations to government (cont'd)

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- Save all or a significant portion of surpluses in coming years to account for increased health care costs and to offset revenue decreases.
- Make public their long-term projections of fiscal balance using range of reasonable scenarios.

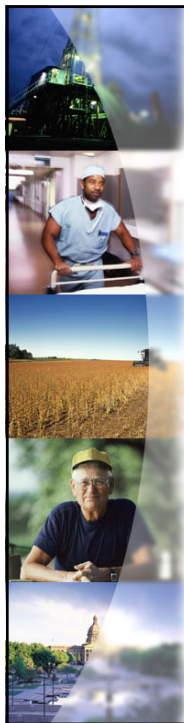




Next phase

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- Reviewing potential areas at present
- Estimated launch early 2005



More information

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www.albertavision2020.ca

