Summary

Discounting and the Evaluation of Health Care Programs

The CADTH *Guidelines for the Economic Evaluation of Health Technologies: Canada* details best practices for conducting economic evaluations in Canada. In 2014, CADTH began the process of updating this document and identified a number of technical areas where additional information would assist in the update. CADTH then commissioned work from experts in the field to produce a series of technical reports. This brief summarizes one of these reports.

Discounting and the Evaluation of Health Care Programs was commissioned to provide information on methods for determining the appropriate discount rate for use in Canadian economic evaluations. In the previous version of the CADTH *Guidelines*, it was recommended that future costs and effects be discounted at an annual rate of 5%, with sensitivity analysis at rates of 0% and 3%. However, methodological advances that have occurred since the publication of the previous version necessitate a re-evaluation of these recommendations. This report was commissioned to identify the key considerations that should inform the choice of discount rate.

What is discounting?

Discounting is a way to account for the effect of time on the value of certain outcomes. The value of an outcome in the future compared with today is discounted due to a number of factors:

- Opportunity cost of the decreasing marginal utility of consumption — the expectation that increases in future consumption will have a lower value because real incomes will increase over time.
- Catastrophic risk — the possibility that future expected utility may not be realized due to death or large-scale disaster.
- Pure time preference — the desire to receive payoffs sooner rather than later.

What does the report cover?

This report provides an overview of the different theoretical bases for selecting a discount rate, as well as the empirical evidence supporting the estimation of the discount rate for Canada under each model. More specifically, it:

- summarizes the concepts of personal and social time preference, and the different perspectives on social choice that can be adopted — welfarism, extra-welfarism, and social decision-making
- highlights the importance of understanding whether the decision-maker’s budget is constrained or unconstrained
- discusses the Ramsey equation for estimating the social rate of time preference for consumption, used when considering a welfarist or extra-welfarist perspective on social choice, and some of the challenges in estimating the associated parameters
- presents a quantitative analysis of the real cost of borrowing for each provincial government, which is required to estimate the discount rate from a social decision-making perspective.

For more information, please visit: **cadth.ca/economic-evaluation-guidelines-update**