

Medical Cannabis Benefits Savings: A Note on the Government's Estimate

The Parliamentary Budget Officer was requested by MP Blake Richards (Airdrie-Cochrane) to examine the cost profile of the Budget 2025 measure to lower the maximum reimbursement rate for medical cannabis under the Cannabis for Medical Purposes program from \$8.50 per gram to \$6 per gram – as part of the Comprehensive Expenditure Reduction exercise for Veterans Affairs Canada.

Highlights

This measure will affect Canadian Armed Forces veterans and RCMP members by decreasing the maximum annual amount that most eligible veterans or members can claim by \$2,737.50, from \$9,307.50 to \$6,570. From the latest usage statistics under the program, a veteran using the average amount per day and receiving the average reimbursement rate will incur an additional \$2,668 each year due to the reduced reimbursement rate.

This note explains key accounting calculations that underlie the Government's expected savings of \$4.4B over the 4-year period spanning 2026-27 to 2029-30. While annual cash reductions related to the policy measure range from \$90M to \$120M, the Government records the fiscal savings for Budget purposes on an accrual basis using an accelerated amortization treatment to reflect the reduction of the accrued benefit obligation within the relevant program.

Budget 2025 Savings

Prior to Budget 2025, the Cannabis for Medical Purposes (CMP) program compensated eligible Veterans Affairs Canada (VAC) clients for an amount up to \$8.50 per gram of medical cannabis.¹ Budget 2025 lowered the maximum reimbursement rate to \$6 per gram effective April 1, 2026, reducing Government expenditures by an estimated \$4.4B

over the 4-year period spanning 2026-27 to 2029-30. Savings are presented in Table 1, with \$4.2 billion attributable to Canadian Armed Forces (CAF) veterans (the "VAC component") and \$0.2 billion to RCMP members.

The remainder of this note focuses on the VAC component, as the underlying explanation of the accounting calculation is identical for the RCMP portion.

Table 1
Budget 2025 Savings from Lowering CMP Reimbursement Rates,
Millions of CAD

Fiscal Year	2026-27	2027-28	2028-29	2029-30	Total
Savings from CAF clients	-1,183	-1,202	-1,065	-789	-4,239
Savings from RCMP clients	-50	-50	-50	-50	-200
Total Savings	-1,233	-1,252	-1,115	-839	-4,439

Source:

Office of the Chief Actuary (OCA) on behalf of VAC, with additional calculations by Parliamentary Budget Office (PBO).

Note:

Values were rounded for ease of interpretation therefore totals may not add up due to rounding.

Negative values represent a reduction of the Government's liability.

While the information received by PBO is current as of publication, it is unaudited and therefore subject to change.

Cannabis for Medical Purposes Background

Starting with one veteran in 2007, VAC has reimbursed eligible CAF veterans and RCMP members for the use of medical cannabis as treatment for pain and compensation due to their service or employment.² A formal policy was introduced in 2016 and revised in 2019 following the 2018 *Cannabis Act* and Regulations. The policy compensates eligible veterans for a maximum of 3 grams of medical cannabis as dried cannabis or its equivalents per day.³ Clients requiring more could request to raise their daily limit with supporting medical documentation.

Table 2 presents CMP usage and reimbursement amounts published by VAC, accompanied by calculations of usage and reimbursement ratios by PBO. The data shows rapid growth in both clients served and usage per client served, which has led to

total program expenditures expected to more than double between 2021-22 and 2025-26. Modeling done by VAC and the Office of the Chief Actuary (OCA) forecasts more clients to be served in the future as medical cannabis usage rates increase, which would further increase total program expenditures.

Table 2

VAC clients, reimbursed amounts, reimbursed monies, and calculations of averages.

Fiscal Year	2021-22	2022-23	2023-24	2024-25	2025-26
Clients	18,400	21,100	24,100	27,600	32,100
Reimbursed Amount (kg of dried cannabis and equiv.)	19,400	21,300	24,300	30,300	36,900
Reimbursed Monies (M CAD)	\$150	\$170	\$190	\$240	\$310
Amount per client (g/client)	1,050	1,010	1,010	1,100	1,150
Reimbursement per gram	\$7.95	\$7.88	\$7.88	\$8.07	\$8.32
Reimbursement per client	\$8,400	\$7,900	\$7,900	\$8,800	\$9,600

Source:

VAC with additional calculations by PBO. RCMP client statistics are not included here.

Note:

Values were rounded for ease of interpretation therefore totals may not add up due to rounding.

Note that while the daily maximum amount and reimbursement rate of 3 grams per day at \$8.50 per gram implies an annual maximum of \$9,307.50, actuarial data showed that around two-thirds of all clients were approved for the maximum 3 grams per day, and an additional quarter were approved for more than 3 grams per day, which is permissible with supporting medical rationale. This could reasonably drive the average per client annual reimbursement to exceed the calculated maximum, and further supports the assumption that usage is increasing.

Actuarial Valuation

To understand the Government's expected savings from the reduction in the reimbursement rate, it is necessary to consider the actuarial valuation prepared by OCA. OCA produces actuarial valuations of the Government's benefit plans, such as CMP, for inclusion in the Public Accounts and to support decision making.

Key Actuarial Terminology

Triggering event: An event that will ultimately lead to a valid claim being reported. Each triggering event incurs a cost to the Government for the future benefits that will be paid to the client for their benefits.

Actuarial Present Value: A present value calculation accounting for actuarial factors such as interest, mortality, and ultimate loss development.

Accrued Benefit Obligation (ABO): Actuarial present value of expected benefits to be paid for all claims incurred from triggering events that have taken place from plan inception up to the date of valuation. It is a liability for the Government and is valued by the OCA routinely.

Service Cost: Actuarial present value for all claims incurred from triggering events that are expected to occur in the fiscal year of study.

Expected Interest Cost: Accumulation of a year of interest. The ABO was summed for all years of expected payments using a discount factor to account for the time-value-of-money, so carrying the amount forward requires an interest cost.

Expected Benefits: Cash payments for actual benefit claims per fiscal year. Expected benefits pay down the ABO.

Event-based accounting: The estimated number of claim-triggering events is the base unit that determines the estimated liability incurred from each period of program coverage.

At a high-level, the Government's expected savings were calculated in 5 steps:

1. Estimating the Accrued Benefit Obligation (ABO) as of 31 March 2026,
2. Reducing the ABO by the savings from the reimbursement rate reduction,
3. Recognizing the savings from the reduced ABO over a future period of time,
4. Estimating the additional costs not in the ABO from each year of additional service (that is, events expected in FY 2026/27, 27/28, and so on), and finally,
5. Reducing each year's costs by the total savings calculated above.

The ABO represents claims from events that have already occurred, while Service Costs represent claims that are expected to occur in future years. The savings from reducing the reimbursement rate come from reducing the pool of funds (ABO) set aside in the Government's fiscal framework for claim-triggering events that have already taken place, from the amount based on the previous \$8.50/rate to the lower \$6/gram rate.⁴ Both the ABO and the reduction of the ABO from the plan amendment is shown in Table 3.

Table 3

VAC Clients, Accrued Benefit Obligation on 31 March 2026, Millions of CAD

Fiscal Year	31 March 2026
ABO	14,100
Reduction of ABO	-3,650
ABO with reduced reimbursement rate	10,450

Source:

OCA on behalf of VAC.

Note:

Values were rounded for ease of interpretation therefore totals may not add up due to rounding.

Negative values represent a reduction of the Government's liability.

TBS uses the term "Plan amendment costs" for ABO.

The ABO is the actuarial present value as of the 31 March 2026 date of valuation of all reimbursements that clients will be ultimately paid from events (i.e. injuries during service or employment) that have already taken place. The ABO being slightly above \$14 billion may seem large, but it must account for a lifetime of reimbursements for both claimants that have already claimed and claimants that have been injured but have not yet claimed.⁵ The latter group forms the Incurred But Not Reported (IBNR) provision which is money set aside for claims that have yet to emerge but will ultimately claim. Injury Benefit programs such as CMP can have long delays between reporting, assessments, and settlement and therefore large IBNR provisions, which require an actuarial evaluation to estimate their emergence and claimed amounts over time.

This one-time reduction of the ABO will be recognized as per the Public Sector Accounting Standards through an accelerated amortization treatment. Each year the valuation of benefit plans such as CMP generates an actuarial gain or loss (G&L) primarily due to interest rate changes. If each year's G&L were recognized immediately, there could be large swings in the Government's financial position that would make interpretation and management difficult. Therefore, the G&L is spread-out (i.e.

amortized) as an annual amount on an accrual basis and is managed by the Treasury Board Secretariat on behalf of the Office of the Comptroller General of Canada. When a plan amendment produces a one-time savings as it has for CMP, it is recognized in such a way to cancel out the oldest actuarial G&Ls from each year until the savings is cancelled out.⁶

Table 4
VAC Clients, Accelerated Amortization Treatment of CMP Plan Amendment of the ABO, Millions of CAD

Fiscal Year	Budget 2025 4-year period							Total
	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	
Accelerated Amortization Treatment	-843	-842	-705	-419	-336	-336	-171	-3,653

Source:

OCA on behalf of VAC, PBO calculations.

Note:

Values were rounded for ease of interpretation therefore totals may not add up due to rounding.

Negative values represent a reduction of the Government's liability.

TBS uses the term "Accelerated Actuarial losses recognized" for Accelerated Amortization.

Table 4 presents the PBO's estimate of the amortization of the reduction in the ABO, with the total aligning with the amount of \$3.65 billion shown in Table 3. In the context of Budget 2025, the amounts in the 4-year period from 2026-27 to 2029-30 that sum to \$2.8 billion is the portion recognized.

Each new year of plan coverage adds a Service Cost and Expected Interest Cost which increases the ABO as at the end of the new fiscal year and is decreased by cash payments made that year represented as Expected Benefits. The Service Cost represents claims that are expected to occur in future years, for which the Government must set aside additional money to eventually pay for, which will add to the ABO. The Expected Interest Cost is the accumulation of interest on the ABO. This is because the ABO is valued on a present value basis using a discount rate to reflect the time value of money. The annual additions to the ABO, along with their reductions from the plan amendment are shown in Table 5.

Table 5
VAC Clients, Annual Additions to ABO, Millions of CAD

Fiscal Year	2026-27	2027-28	2028-29	2029-30
Service Cost	870	870	870	870
Reduction of Service Cost	-220	-230	-230	-230
Expected Interest Cost	460	490	520	550
Reduction of Expected Interest Cost	-120	-130	-130	-140

Source:

OCA on behalf of VAC, PBO calculations.

Discounted at 3.19% as per OCA risk-free rate calculations.

Note:

Values were rounded for ease of interpretation therefore totals may not add up due to rounding.

Table 6 shows the annual cash expenditures that represent actual reimbursements paid, with and without the reduction in the reimbursement rate. These cash expenditures are the key wedge between understanding the relatively small annual CMP expenditures leading to the large \$4.4B savings from the amendment. The Government's fiscal framework is managed on an accrual basis, which must account for the lifetime expected stream of payments for each eligible client, claimed or not yet claimed. This results in a much larger ABO and annual service cost/expected interest cost accumulation amount, which in turn leads to billions of dollars of savings even when annual cash expenditures only decrease by a magnitude of the hundreds of millions.

Table 6
VAC Clients, Cash Expenditures, Millions of CAD

Fiscal Year	2026-27	2027-28	2028-29	2029-30
Expected Benefits (Cash expenditures)	-340	-390	-420	-460
Reduction of Expected Benefits (Cash expenditures)	90	100	110	120

Source:

OCA on behalf of VAC.

Discounted at 3.19% as per OCA risk-free rate calculations.

Note:

Values were rounded for ease of interpretation therefore totals may not add up due to rounding.

For cash expenditures negative values represent payments made by the Government, and positive values represent a reduction of payments made, that is, savings from the plan amendment. This is flipped from earlier tables because Expected Benefits pay out the obligation the Government accrued (ABO), so reducing future benefits reduces payments the Government would have made.

Finally, Table 7 shows total savings shown earlier in Table 1 with a breakdown by each component discussed in this section.

Table 7

Budget 2025 Savings from Lowering CMP Reimbursement Rates, Millions of CAD

Fiscal Year	2026-27	2027-28	2028-29	2029-30	Total
Total Savings	-1,233	-1,252	-1,115	-839	-4,439
Savings from CAF clients	-1,183	-1,202	-1,065	-789	-4,239
Component: Amortized Reduction of ABO	-843	-842	-705	-419	-2,809
Component: Reduction of Service Cost	-220	-230	-230	-230	-900
Component: Reduction of Expected Interest Cost	-120	-130	-130	-140	-520
Savings from RCMP clients	-50	-50	-50	-50	-200
Component: Amortized Reduction of ABO	-30	-30	-30	-20	-110
Component: Reduction of Service Cost	-20	-10	-10	-10	-60
Component: Reduction of Expected Interest Cost	-10	-10	-10	-10	-30

Source:

OCA on behalf of VAC and RCMP, with additional calculations by PBO.

Note:

Values were rounded for ease of interpretation therefore totals may not add up due to rounding.

Negative values represent a reduction of the Government's liability.

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Notes

¹ [Reimbursement Policy for Cannabis for Medical Purposes, VAC](#)

² [Cannabis for Medical Purposes, VAC Departmental Report](#)

Pertinent Excerpts from the *Reimbursement Policy for Cannabis for Medical Purposes*, by VAC

Veterans entitled to a VAC Disability Pension, Disability Award, or Pain and Suffering Compensation are eligible for the cost of treatment for their disability benefits entitled condition.

The maximum daily VAC reimbursement limit is 3 grams per day of dried cannabis or the equivalent in fresh cannabis, edible cannabis, cannabis extracts (including cannabis oil) or cannabis topicals.

Requests for reimbursement for more than 3 grams of dried cannabis (or the equivalent in fresh cannabis, edible cannabis, cannabis extracts (including cannabis oil) or cannabis topicals) will require additional supporting information for consideration as set out in Annex A.

VAC only reimburses the purchase of cannabis for medical purposes when the product is purchased from a federal licensed seller.

VAC requires the following documents to confirm the Veteran meets the requirements of Health Canada's Cannabis Regulations for the purposes of determining entitlement for reimbursement: (a) copy of the medical document completed by the health care

practitioner; and (b) copy of the completed and confirmed registration document issued by a federal licensed seller.

³ At the time the policy was formed, VAC found 1-2 grams per day is reasonable for most cases, and Health Canada found average approved daily consumption by medical professionals to be 2.7 grams per day.

⁴ OCA found that the average actual reimbursement rate was around \$8.10/gram and the expected savings from lowering the reimbursement rate to \$6/gram was then applied uniformly. This implies that claimants are not assumed to change their consumption of medical cannabis to manage their pain due to price changes (i.e. strongly inelastic demand, which means that receiving a lower reimbursement will not reduce their consumption of medical cannabis) which is a reasonable assumption as clients use medical cannabis to cope with the nature of their injuries and poor health. Market prices were found, as of this publication, to be at least as much as the new \$6 per gram cost therefore it will be binding to most clients. Therefore, a uniform reduction of the ABO and future year costs from \$8.10/gram to \$6/gram is reasonable. Both OCA and PBO acknowledges that some behavioural impacts are possible and are open to future study.

⁵ Understanding the IBNR reserve is needed to understand the cost of the CMP program because it addresses why current cash expenditures can be so low compared to the larger pool of funds set aside for CMP, the ABO. The Government is paying claimants that have claimed, but there is a group of claimants that are eligible for CMP but have not yet come forward. The Government must account for these people as well, hence the IBNR.

Behind each claim-triggering event is a member of the CAF/RCMP that was injured. Among them there are two types of claimants: firstly, those that have been injured and claimed CMP, and secondly those that have been injured but have not yet claimed CMP. That is to say, there is a reporting delay between the injury and claiming CMP.

So the actuaries must forecast enough money to pay for both those that are currently claiming CMP, and those that are not yet claiming CMP but have been injured by an event that has already occurred. This latter part is the IBNR explanation given in the text.

⁶ This is akin to using an unexpected one-time large sum of money to pay off the oldest streams of debts until the one-time amount is used up.

