Annual Universal Health Care Financing Forum: Focus on Resource Mobilization

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Panel discussion: "Making the Case for Health: Prioritizing Health in Public Budgets"

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Share of health care in government budget - Estonia

Health care spending has increased over the last years. Nevertheless, health care spending as a percentage of GDP is relatively modest at less than 6% of GDP (of which the public sector share is roughly 70 per cent). So overall, we have relatively efficient health care system in terms of both clinical and fiscal respects and we get reasonably good results for the moneys invested. Indeed, close to one half of the increase of average life expectancy is directly attributable to improved health care spending.

In this context, I believe that increase in health care spending is good thing. We have been able to regularly expand public health insurance package by adding new medically and financially efficient health care treatments and medicines, so we can every year provide our customers with new efficient services and drugs. This increase has also supported the extension of prevention and primary level services, while at the same time allowing investments in competence centers for specialist care hospitals. So by and large, I think higher spending reflects better health care services from one side and re-calibrating of health care model towards primary level and prevention from the other side. Surely, part of higher spending allows hospitals and service providers to pay higher salaries to doctors and nurses - this also is important to incentivize medical staff to stay in Estonia and reduces brain drain.

Are these developments the result of an explicit prioritization of health care? This requires a somewhat nuanced answer. Estonian health care is based on independent public insurance that is financed by health care component of social tax. Social tax is levied exclusively on payrolls, 13 per cent of every salary is automatically transferred to public HIF. Thus, economic growth has resulted also in increase of funds for health care. At the same time, health insurance fund is responsible to ensure that higher revenues are managed carefully, as to avoid reduction in spending during economic downturns.

There are also other sources for health care financing. Central government budget covers population based health programs, such as vaccines and emergency services. And then there is structurally extremely important source of investment support from European Union. This European Union and European Economic Area component has been very important to finance investments in physical infrastructure and also a few important projects like mental health for children and also HIV/AIDS prevention.

So I think it is fair to say that our general political and fiscal framework takes into account importance of sustainable health care system. We have had in place for almost 20 years a broad based political agreement that health care financing should be safeguarded by independent public insurance and by a special financial arrangement in a form of social tax. I would also say that EU membership has allowed government to spend and invest in important health care projects.

On the other hand, we need more informed discussion domestically about the future financing needs and financing modalities. As Estonia has had a rather robust framework in place for some time, there is always temptation to postpone difficult issues until they become really urgent. Also, there is certainly

need to prepare for folding up the EU financial support so as to integrate these investments and projects into national framework, both financially and institutionally. Therefore, I would also support gradual further increase in public health care financing. There should be fiscal room in central government budget to provide more funds for public health concerns as well as to beef up investments in, say IT and possibly also in pilots for precision medicine. On the insurance side, I believe that income from social tax should be complemented to some extent by rules based transfers from central budget – that would allow us to address the impact of population aging on both sides of the balance sheet, improve integration of care in the context of increasing prevalence of chronical diseases and, possibly, also to reduce the out of pocket expenditures by providing more extensive coverage.

Needless to say, any increase should be managed prudently and efficiently so as to ensure efficient use of funds and to reduce waste.

Efficiency considerations in using UHC funds

Ministers of finance are, as a rule, very sensible people and their concerns should be taken very seriously. After all, if state finances are in peril, so are all sectors of the society. Sustainability of public finances has by definition welfare and health enhancing impact over medium and long term. And we know that there are many examples, regardless of the level of development of a country, of inefficient use of scarce health care resources and, indeed, of outright waste.

But I would also argue that ministers of finance as being sensible people would support prioritization of sustainable and efficient health care spending. So I believe that health and social authorities need probably go some extra miles to alleviate concerns and perceptions of fiscal authorities. But this is certainly an investment that will pay off.

In this context, I would just to point out some elements of domestic policy goals that go long way to address fiscal concerns from Estonia's own experience:

First, put in place **strategic purchasing framework** to define roles and responsibilities of purchasing agents and service providers. Equally important are **transparent pricing rules that public authorities apply to health care service purchases and for compensation of medicinal products**. **Rules of strategic purchasing as well as technology and cost efficiency assessments establish the very basis of accountability, incentive structure and, ultimately, prioritization of health care spending in every country**, irrespective of the level of income.

Second, **health care authorities should be able to provide estimates for medium and long term health care needs**. The needs assessment should take into account key parameters, notably demographic trends, realistic target levels for primary and specialist care delivery and estimated structural increase to account for new technologies.

Third, health care authorities should compile **comprehensive universal health care budget** that includes all health care spending and income, encompassing all financing sources and spending agencies. Even if some line items are divided between various ministries, common health care budgetary framework, at the very least for analytical and planning purposes, is supporting efficient resource allocation.

Forth, **externally funded health care projects need to be implemented from the outset with a view of eventually incorporating them into national framework**. Otherwise, these projects will develop their unique organizational and financial structures that will be difficult to incorporate into "regular" health care in the future.

Fifth, **even simple quality frameworks are instrumental not only to ensure better clinical outcomes, but also to facilitate political and fiscal decisions** concerning health care prioritization. We should avoid the fallacy of using overly simplified metrics for health care quality assessment, but careful and gradual introduction of quality and performance measures on system-wide and provider level would enhance transparency of health care spending and address a number of concerns by fiscal authorities.

In sum, to health care authorities have special responsibility to set up the political and technical framework conducive for substantial technical and political discussions to prioritize health care. The key concern is often efficient engagement of fiscal authorities. Coherent and articulated principles for strategic purchasing and service coverage, methodological and comprehensive budgeting and planning and basic elements of quality assessment will likely pre-emptively address many (while certainly not all) concerns and would facilitate decision making on inter-ministerial and higher political level.

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Background notes

General considerations

Health care has to be one of the key priorities in every budgeting process, not only for purposes of immediate budgeting for the next year, but equally importantly for medium and long term budgetary planning.

Best practices assume that discussions on key fiscal parameters need to be discussed on the highest political level so as to ensure that medium and long term sustainability of health care finances are enshrined in political/social compact by due political process.

Best practices are increasingly adhered to in many countries to build up social, incl. health care systems for the whole population in low income countries, to ensure increasing and efficient provision of public services in the emerging world and to achieve fiscal sustainability in what is used to be called as advanced countries. However, prioritization of health care spending poses some distinct challenges for budgeting process.

First, as the health care is often by far the most sizable single budget line, at least in more mature countries, it is often assumed that **health care spending should also bear the significant part of fiscal adjustment**. This is particularly relevant in cases where fiscal adjustment needs are discussed in conjunction with the perceived efficiency gains in health care.

Second, often is a bulk of **health care spending financed by dedicated tax/social insurance payment or by ear-marking some other public revenue source**. Consequently, financing modalities and fiscal size of political/social compact are taken as granted, thereby relieving political decision makers from tedious and potentially flammable issues. While stable financial base is of crucial importance for every health care system, a lack of timely political discussions may simply postpone regular review of health care spending and financing.

Third, if health care spending is financed by grants, development loans or any other external sources, **the uses of external funds are administered by special dedicated institutional arrangements and other vehicles set up for special purposes**. These institutional arrangements – while important, necessary and in any case politically unavoidable in the given country context – would nevertheless

by their very nature remove health care (or any other social policy issue) farther away from regular domestic policy deliberations and planning.

Thus, there are at least **three health-specific issues that may complicate prioritization of health care spending** in various contexts: (i) health care could be perceived as the "natural suspect" to bear the brunt of fiscal adjustment (especially if public health care beneficiaries have weak political standing), (ii) regular and often difficult considerations are postponed if health care is overwhelmingly financed by some dedicated public revenue source, and (iii) high share of external funding will reduce the room and incentives for regular domestic political discussions.

Surely, often or even in majority of instances would either dedicated and ear-marked revenues and/or external contributions not only the second, but the first best solutions at any given point in time. However, even in these cases domestic political frameworks need to be steered so as to ensure regular assessments of health care financing needs and institutional frameworks so as to prepare for the exit from overwhelmingly external financing and/or to ensure sound revenue base over medium and long term.

Additionally, there is additional consideration that may have distinctive impact on "prioritization within prioritization" of health care spending. Health care is likely one of the most conservative human activities with changes in established fundamental practices spreading over several years, even generations. Therefore, the issue of fostering innovation (disruptive or otherwise) and IT-solutions in health care is increasingly prominent in public policy agenda. In this context, it is worthwhile to note that while supporting innovation and IT-solutions is a very important public policy goal, **innovative solutions and e-health systems from one side and sound public health care policies form the other side are not mutually exclusive, but rather mutually supportive goals** that reinforce each other.

Resource allocation for providing health care

Health care policies should be discussed on highest political level and be part of governmental political manifesto. However, in order to avoid the caveats referred to above, health care prioritization on political and fiscal agenda hinges crucially on cooperation and coordination between fiscal and health care authorities and, ultimately, on the quality and comprehensiveness of policy analysis and design by the health care authorities. The latter is the precondition for engaging first, the fiscal authorities who have an ultimate say on proposals for public spending priorities and related efficiency estimates, and second, the highest political levels thereafter.

In order to ensure health spending prioritization and its sustainability, it is therefore important to have in place first a few key principles.

First, there should be in place **consistent domestic health care policy framework (however sophisticated or rudimentary) to ensure and develop universal health coverage**, most importantly (i) **the principles of strategic purchasing**, defining purchasing agents (government, public insurer, private insurer, private individuals), service providers (public/private hospitals, primary health care) and rules governing health care service purchasing, i.e. their role of purchaser(s) and service providers in the unified system of universal health coverage; and (ii) **transparent rules on setting up lists of health care services and medicinal products** that will be covered by universal health care, thereby defining binding benchmarks for both medical and cost efficiency assessments.

It should be underlined that **the very basic elements of strategic purchasing as well as health technology and cost efficiency assessments establish the very basis of prioritization of health care**

spending in every country, irrespective of the level of income in given society. Without prejudice to plethora of national health care frameworks, the policy framework should specify the public sector's role in strategic purchasing and the role of private service providers in national health system.

Second, **health care authorities should be able to provide estimates for medium and long term health care needs** in quantitative and, ideally, also in financial terms. The needs assessment should take into account key parameters, notably demographic trends, target levels for primary and specialist care delivery and estimated structural increase in health care spending to account for new technologies.

In the same vein, it would be important to devise at least some measures of system efficiency and to measure clinical quality.

Third, **externally funded dedicated health care projects need to be implemented with a view of incorporating them into national framework from the very outset**. Without due regard to national framework, projects will during their life spans develop their unique organizational and financial structures that will be extremely hard to incorporate successfully into "regular" health care once project will be folded in the future.

Forth, health care authorities should compile **comprehensive universal health care budget** that includes all health care spending and income, encompassing all financing sources and spending agencies. It could be the case that various item lines of health care spending are divided between more than one or two line ministries reflecting domestic political frameworks. Common budgetary framework, at the very least for analytical and planning purposes, is therefore very important to support efficient resource allocation and use of consistent budgeting methodologies.

Fifth, **developing even simple quality frameworks will be instrumental in health care system not only to ensure better clinical outcomes, but also to facilitate political and fiscal decisions** concerning health care prioritization. Care should be taken so as to avoid the fallacy of using overly simplified metrics for health care quality assessment, but careful and gradual introduction of quality measures on system-wide and provider level would enhance transparency of health care spending and address a number of concerns that may be raised by fiscal authorities.

In sum, to health care authorities have special responsibility to set up the political and technical framework conducive for substantial technical and political discussions to prioritize health care. The key concern is often efficient engagement of fiscal authorities. Coherent and articulated principles for strategic purchasing and service coverage, methodological and comprehensive budgeting and planning and basic elements of quality assessment will likely pre-emptively address many (while certainly not all) concerns and would facilitate decision making on inter-ministerial and higher political level.

Revenues

Revenue mobilization systems for health care financing are fundamentally national by definition. Domestic fiscal resources can be enhanced and in many cases in both advanced and emerging world are very substantially enhanced by international and regional funding. However, it is paramount that sustainable health care financing systems are to rely first and foremost on domestic revenue collection.

Efficient health care system is about pooling risks – by definition, every universal health care system is insurance system. In turn, the very nature of insurance implies resource allocation from those in good health towards sick. Therefore, domestic political compact is needed to set up

modalities of how the insurance premiums are paid – to what extent resource transfers will take place between healthy and sick, but also between generations and between higher and lower income strata in society.

The key to health care financing is its political and fiscal sustainability that, in turn, requires that certain time consistent ground rules as per revenue sources are in place. Health care prioritization is concerned not only with absolute amounts of health care spending, but predictability of revenues that are safeguarded to the largest extent possible from yearly negotiations on general state budget.

The ground rules for health care financing should establish whether the bulk of UHC costs (insurance premiums) are **credited to some (broad based personalized) tax (e.g., social tax)** or, as the case may be, directly to insured persons, **or these costs are internalized so as they are covered by general budget revenues**. Most systems combine these two approaches, albeit using very different weights.

Sustained financing models can be (technically) developed under both systems or by combination thereof. The starting point for health care sustainable prioritization and sufficient revenue mobilization would in any case be the needs assessment. Nevertheless, transfers from general budget should be determined by using concrete and time consistent budget rule.

Finally, two essential points are to be made: first, that **total amount of health care spending is determined via an iterative (political) process that would result in eventual agreement on how much society as a whole is willing to spend on health** and second, that while technically the use of any particular financing model can be regarded as fiscally neutral, the **ultimate choice between insurance-based (either public or private) and budget-based approach may have, in turn, impact on the delivery side.**

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