Financial sustainability challenges for unified health systems in Europe

Joseph Kutzin, WHO

Moving towards universal, comprehensive and sustainable health systems: lessons from an international perspective

10 August 2022
Getting the sustainability question right

Concept is meaningless without reference to policy objectives

• Sustain progress towards UHC (equitable use of high quality services, with financial protection)
• Sustain improvements in health and equity in health
• Sustain progress towards achievement of health security

It is not merely about keeping the system functioning or balancing revenues and expenditures

• Otherwise, it’s easy: just cut spending
Public spending matters for our policy objectives

Relationship between public spending on health and out-of-pocket payments in the European Region, 2018

The out-of-pocket payment share of current health spending is generally lower in countries that spend relatively more publicly on health.

Source: Spending on Health in Europe: Entering a New Era (WHO Barcelona Office for Health Financing)
How can we improve health system performance subject to the constraint of maintaining fiscal balance?

From a financing perspective, this requires either/both

• More public spending – where feasible (current outlook is not optimistic)

• Better public spending – always needed
FINANCING "MODEL" AND SUSTAINABILITY
Regardless of label, all systems

• Raise revenues
• Pool funding
• Purchase services
• Define (implicitly or explicitly) benefit entitlements and ration services
The revenue side

Stylized NHS (non-contributory entitlement)
  • Revenues from general budget, perhaps including some earmarked taxes for health

Stylized SHI (contributory-based entitlement, whether single or multi-fund)
  • At least in Europe, typically a combination of wage-based and other taxes
Budget transfers to SHI in Europe

Compulsory spending on health in European Region countries mainly financed through SHI schemes, by source of SHI scheme revenue, 2018

Revenue diversification for SHI offers protection against the weakness of wage-linked contributions – a resilience feature

Source: Spending on Health in Europe: Entering a New Era (WHO Barcelona Office for Health Financing)
Revenue side challenges

The overall macro-fiscal context arising from COVID and Russia’s war in Ukraine

Wage-linked contributions (and entitlement!) not resilient to employment shocks, but can be cushioned by general revenues and employment policies (e.g. Germany)

For all countries: for how long can counter-cyclical spending be maintained?

Single vs multi-payer arrangement not relevant to the revenue side
Learning from the 2008 global financial crisis: austerity slowed public spending on health...

--- | --- | ---
GDP | Health (public) | OOPS | GDP | Health (public) | OOPS | GDP | Health (public) | OOPS
2.8 | 3.6 | 2.6 | 0.5 | 0.7 | -1.2 | 2.3 | 1.8 | 2.1

Average annual growth in public spending on health (%)
Average annual growth in OOPs (%)

Source: Spending on Health in Europe: Entering a New Era (WHO Barcelona Office for Health Financing)
...and undermined progress towards UHC

Shifting health care costs onto households increased unmet need and financial hardship in Greece and other countries in Europe.

Source: Spending on Health in Europe: Entering a New Era (WHO Barcelona Office for Health Financing)
“Strategic purchasing” means not only aligning payment with provider performance and population health needs, but also managing expenditure growth:

- Avoid open-ended financial obligations (no overall budget cap on reimbursements)
- **Budget impact analysis** should be required for any proposed expansion of benefits

These are aspects of **fiscally responsible health financing**, while staying focused on achieving sectoral goals.
Potential advantages of Single Payer vs Multi-Payer

Potential for greater efficiency

• Reduce scope for cost-shifting (very difficult to manage system expenditure growth when provider scope for doing this is large)
• Reduce administrative costs and burden on providers
• Enable more effective service purchasing from unified national database

Potential for greater equity

• Reduce scope for selection/discrimination because same benefits (and cost sharing) and payment rates for all patients
## Single payment system can involve multiple funds

<table>
<thead>
<tr>
<th>Country</th>
<th>Insurance market</th>
<th>Single payer?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Netherlands, Switzerland</td>
<td>Multiple insurers (mostly for-profit) under strict regulation, with risk adjustment</td>
<td>Unified payment system for standard package; supplemental HI allowed</td>
</tr>
<tr>
<td>Germany</td>
<td>Multiple non-profit “sickness funds” with risk adjustment for standard package; about 10% of pop opts for private coverage</td>
<td>Unified for main system; private insurers generally pay more</td>
</tr>
<tr>
<td>Sweden, Denmark, Spain</td>
<td>Managed through sub-national governments (Spanish regions with separate purchasing agency); supplemental HIF allowed</td>
<td>Unified for standard national package; supplemental HI extra</td>
</tr>
<tr>
<td>Japan</td>
<td>Multiple, non-competing</td>
<td>Unified payment system</td>
</tr>
<tr>
<td>Korea, Estonia</td>
<td>Single national fund</td>
<td>Single payment system</td>
</tr>
<tr>
<td>Maryland (hospitals)</td>
<td>Multiple, competing</td>
<td>Unified “all-payer” system</td>
</tr>
</tbody>
</table>
From a purchasing perspective

Advantage arises from having a single payment system

• Single Fund for country or territory: Hungary, Estonia, Sweden, Norway...

• Multiple insurers using unified payment system: Germany, Switzerland, Japan

“Single payer” in the sense of standard benefits, unified payment systems, common administrative processes
From a pooling perspective, however...

Aligning with UHC goals requires additional administrative requirements

• Risk selection behavior by insurers is a socially unproductive use of resources

• Risk adjustment (Germany, Netherlands, Czech Republic) involves some additional cost, and needs to be good enough to reduce/eliminate the incentives for strategic pooling behavior by insurers
POLICIES THAT WORK TO SUSTAIN PROGRESS
Move towards unified purchasing (and benefits)

Unified purchasing arrangements offer best potential to create coherent incentive environment for providers and minimize unproductive administrative cost.

Unified benefit entitlements offer best potential to enhance equity.

Whether to do this via one single fund or multiple (with risk adjustment) depends critically on starting point and political context.

- Both can get you there, though latter will cost more.
But potential not enough; policies still matter

Countries with similar levels of out-of-pocket spending get different results on financial protection. Why?

Source: WHO Barcelona Office for Health Financing
Policies to sustain progress

Stronger financial protection

- Low fixed co-payments
- Annual cap on co-payments
- VHI covers co-payments
- Poor people exempt from co-payments

Weaker financial protection

- Percentage co-payments
- + limited protection mechanisms

OOPS account for <15% of total spending on health in most of these countries

Source: Can people afford to pay for health care? New evidence on financial protection in Europe (WHO Barcelona Office for Health Financing)
CONCLUSIONS
Without reference to goals, sustainability not a meaningful concept

Difficult outlook for public spending on health, regardless of model

Unified payment system with common benefits offers best potential to sustain progress

Model alone is not enough; policy design matters