SUSTAINABLE HEALTH SPENDING

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Key points

• Health spending is likely to continue to grow as a share of the economy

• It will pose a major fiscal sustainability challenge to governments unless:
  – We reallocate public funds from other areas or raise new funds
  – We reassess the boundaries between public and private expenditure
  – We deliver better value for money
Health spending has typically outpaced economic growth

Average annual growth rate of real health spending and GDP per capita, 1990-2012 (or closest years)

- GDP per Capita
- Real health spending

Health spending has typically outpaced economic growth.
Rapid growth is a fiscal concern for governments as healthcare is predominantly publicly funded

Health spending as a share of GDP (2012 or latest year)
Despite a recent slowdown, health spending will continue to rise

• 2008 economic crisis affected health spending
  – Post-crisis reductions in real health spending per capita in 13 of 34 OECD countries

• However, major increases in health spending still expected in medium to long-term

Public health spending as % of GDP without effective cost containment

<table>
<thead>
<tr>
<th>Year</th>
<th>% of GDP</th>
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<tbody>
<tr>
<td>Today</td>
<td>6%</td>
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<tr>
<td>2030</td>
<td>9%</td>
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<tr>
<td>2060</td>
<td>14%</td>
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Based on: OECD De La Maisonneuve & Oliveira Martins, 2013
What is driving these increases in spending?

- NEW TECHNOLOGY IN MEDICAL SERVICES
- RISING INCOMES DRIVING HIGHER EXPECTATIONS
- GROWING NEEDS OF AGEING POPULATION
Why is controlling expenditure on health care so difficult?

- Healthcare considered by most finance/budget officials as one of the most complex expenditure areas and one of the hardest areas to control costs
  - Very high priority for citizens
  - Many stakeholders involved
  - Great institutional variation

- Achieving fiscal sustainability of health systems is therefore a major challenge
Achieving fiscal sustainability is easy…

“I’ll have someone come in and prep you for the bill.”

…it’s how you achieve it that matters
There are 3 broad policy options

1. Reallocate public funds from other areas; raise more revenues for health
   – Limited feasibility (currently) in many OECD countries

2. Deliver better value for money & eliminate waste
   – e.g. Pharmaceutical policies, reduce low value care, coordinate, provider payment reform,

3. Reassess the boundaries between public and private spending
   – Critical role of Health Technology Assessment
   – Maintaining access and financial protection
Short-term cost containment strategies do not always save money in the longer term

- Country responses to global financial crisis were necessarily short-term, with mixed results
  - Some strategies appeared useful in enhancing value-for-money, e.g. pharmaceutical reforms
  - Other interventions risk worsening access or even increasing costs in the long term, e.g. reduced spending on prevention; blanket cost-sharing

- Some countries have taken a longer-term perspective
  - E.g. France: spending targets (ONDAM) since 1996; gradual broadening of revenue base (CSR)
Survey of budget officials illustrates range of policy levers to control costs & their limitations

Early warning systems (EWS)

- There is an EWS and sets in motion required action for future years
- There is an EWS and sets in motion required action for the current year
- There is an EWS, but an alert does not legally require action
- No EWS

Delay in reporting health expenditure to central budget agency

- Korea
- Slovenia
- Slovak Rep.
- Poland
- New Zealand
- Hungary
- Estonia
- Denmark
- Chile
- Australia
- UK
- Norway
- Mexico
- Germany
- France
- Czech Rep.
- Austria
- Finland
- Switzerland
- Netherlands

(more) (months) None 1 to 2 3 to 6 6 to 12 12 to 24
Concluding thoughts

- Health spending is likely to continue to grow as a share of the economy
- Without major reform, this will put great pressure on public budgets
  - Implement reforms that will improve value-for-money
  - Reassess boundaries between public and private spending
  - Blanket increases in private health spending are not the solution
- Political economy aspect is also crucial
Joint Network on Fiscal Sustainability of Health Systems

✓ Annual discussions between Senior Officials from Health and Finance
✓ Report on fiscal sustainability

Ministerial Conference 2017
✓ Combatting waste
✓ Managing innovation

www.oecd.org/health/health-systems/fiscal-sustainability-of-health-systems
Thank you

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