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ENSURING THE FINANCIAL SUSTAINABILITY OF HEALTH SYSTEMS

Issues Note for the Joint Dinner of Health Ministers and MCM Ministers

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ISSUES FOR DISCUSSION

DINNER DISCUSSION ENSURING FINANCIAL SUSTAINABILITY OF HEALTH SYSTEMS

OECD countries spend huge amounts on health care: the average across OECD countries is now almost 9% of GDP, and it is above 11% in several of the large economies. After a pause in the late 1990's, the proportion of GDP devoted to health care is now rising again. Importantly, growth in per capita health spending in OECD countries is linked positively to per capita growth in GDP, and has exceeded GDP growth in most OECD countries over the past decade (Figure 1).

Growth in health spending is attributed to several factors. Health costs tend to rise faster than GDP: the labour-intensive nature of health care means productivity growth is lower than the economy-wide average, while wages tend to rise in the health sector in line with the economy-wide trends. Advances in the capability of medicine to treat and prevent health conditions are another major factor driving health cost growth. Recent developments in imaging, biotechnology, and pharmacology suggest that this trend is likely to continue. Population ageing is also expected to play an important role in driving future growth in health spending. The OECD has projected recently that total health spending could increase by an average of nearly 3% of GDP over the period 2000-2050 as a direct result of population ageing. In view of the significant and often predominant role of the public purse in financing health care, the financial sustainability of health and long-term care systems looms large on the political agenda (Figure 2). OECD countries have experimented with a wide range of measures to offset cost pressures in the health sector, but none offers a panacea.

Cost increases can be contained in the public sector by requiring providers to adhere to restrained global budgets, but this can lead to inefficiencies in provision and the growth of waiting lists. The growth in demand for health care could mean that families are called upon to pay a greater share of total costs. This implies an expansion of out-of-pocket payments. However, this would have adverse distributional consequences unless it is combined with appropriate exemptions for the poor; this in turn limits the scope for public savings. Private health insurance can fund out-of-pocket payments, which raises the question of whether interventions to promote access to such coverage are desirable. In a more recent initiative, some countries are now encouraging health savings accounts as a means to both set aside funds for health care and increase individuals' control over their health expenditures. But it is too early to judge the effectiveness of such accounts.

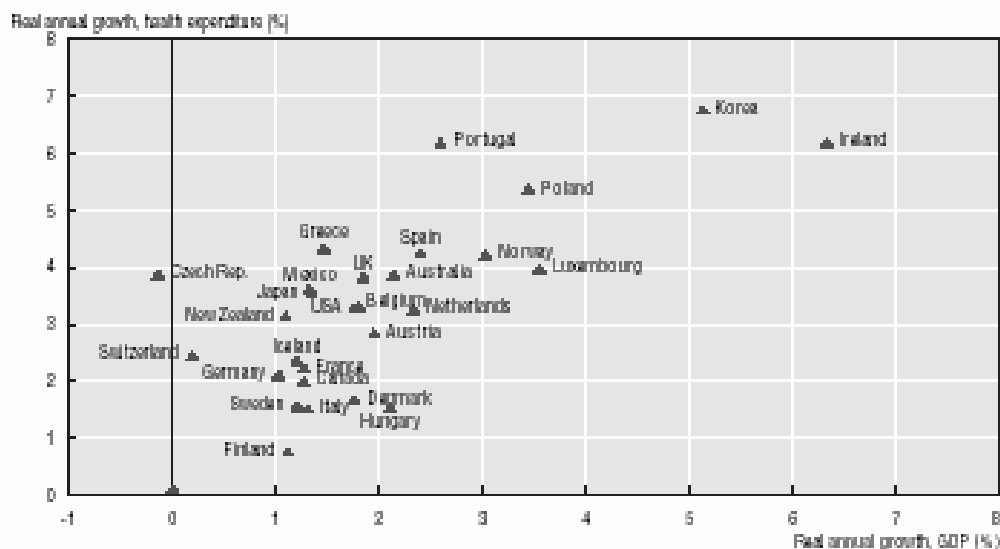
To ensure that needs of patients are addressed, cost-control in health care has to take full account of the importance of high quality of care, and be responsive to the new possibilities opened up by technological progress. Well-designed assessments of the costs and benefits of new health technologies are an important part of this process.

The interactions between health systems and the economy are important to keep in mind when considering financial sustainability. Just as economic factors influence population health status, health also has an impact on the economy that should not be underestimated. In fact, the performance of health systems and economies are deeply intertwined. Decisions about health systems affect economic conditions and have economic implications for stakeholders – and vice versa. This relationship needs to be taken into account in both health and economic policy-making.

Issues for discussion

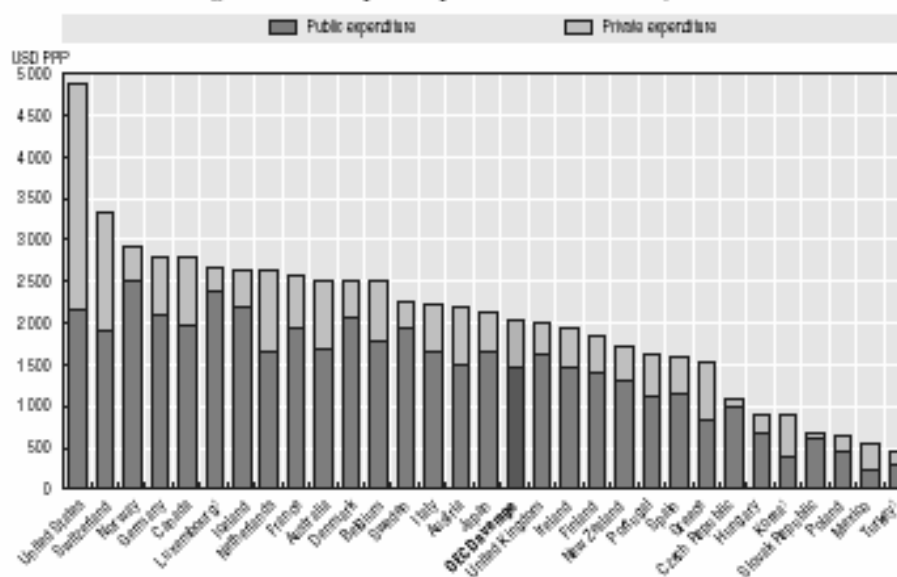
- How can the rising trend in the health spending/GDP ratio be contained without doing damage to health outcomes and equity of access?
- Is it undesirable if health-care expenditure does increase faster than GDP?
- Is it necessary or desirable that private financing and private insurance play a greater role in financing health expenditure?

Figure 1. Increase in health expenditure and GDP per capita in the 1990s



Source: OECD Health Data 2008.

Figure 2. Per capita expenditure on health, 2001



1. 2000.

Source: OECD Health Data 2008; Turkish National Health Accounts.