HEALTH SPENDING

Indicators, Benchmarks, Targets, Projections

Fiscal Space, Public Finance Management and Health Financing.
9-11 December 2014, Montreux

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Employment, Labour and Social Affairs
Key points

• *Standard health expenditure indicators* already offer interesting stories

• *Benchmarks/Targets* can help focus attention
  – Aspirational spending targets
  – Benchmarks on feasibility of increased spending

• *Spending projections* are most useful in illustrating the importance of different cost drivers
  – But few analyses link spending with revenue projections
CORE INDICATORS FOR HEALTH SPENDING
A core set of health expenditure indicators are available through Health Accounts

- **Total resources for health**
  - Total health expenditure (THE) as % of GDP
  - THE per capita

- **Government commitment to health**
  - Government health expenditure (GGHE) as % of GDP
  - GGHE per capita
  - GGHE as % of total government expenditure (TGE)

- **Financial protection; Public/Private**
  - Relative share of public and private spending
  - Out-of-pocket (OOP) spending as % of THE
Cross-country comparisons using these indicators are already interesting…

Health expenditure as a share of GDP, 2011 (or latest year)

Source: OECD Health at a Glance 2013
Change in OOP spending as % of THE, 2000-2012 (Asia-Pacific)

Source: WHO GHO 2014, OECD Health Statistics (in Health at a Glance Asia/Pacific 2014)
Average annual growth rate of real health spending & GDP per capita, 1990s-latest in OECD countries

Source: OECD Health Statistics (in forthcoming OECD Fiscal Sustainability Report)
Linking health spending with health outcomes

Source: OECD Health-at-a-Glance 2013
Further indicators can provide more nuanced stories, but require extra data

- Health expenditure by function, disease, age

- Equity-related indicators
  - Catastrophic health expenditures, impoverishment
  - Progressivity of financing (Kakwani index)
  - Benefit Incidence Analysis

- What about fiscal space/sustainability for health?
BENCHMARKS? TARGETS?
What are we most interested in monitoring?

- Progress towards Universal Health Coverage in LMICs; Maintaining and enhancing health care quality and access in HICs
  - How much needs to be spent overall?
  - *Can governments spend more? Fiscal space and fiscal sustainability constraints*
  - Do health systems offer adequate financial protection?
  - Is the money being well spent?
  - Health expenditure indicators only tell part of the story
• **Per capita spending:** needs to average $60 in 49 LICs by 2015 to deliver all needed services (WHO 2009)

• **THE or GGHE as % of GDP:** if GGHE <5-6% of GDP, coverage for poor difficult (WHO 2010).

• **OOP:** if <15% of total spending, financial catastrophe risk low (Xu et al); target to not exceed 30-40% (WPRO/SEARO).

• **Govt priority to health:** no clear guidelines. Note Abuja target of health expenditure reaching 15% of total government spending.

• **Efficiency:** DEA/SFA analyses can provide benchmarks (but...)

> These targets are (arguably) desirable. But are they feasible?

> Benchmarking with global, regional or income group averages is simple and can open up debates on health spending
GGHE as % of TGE, by income group

Source: Powell-Jackson et al, 2014
Spotlight on fiscal space and sustainability

- **Fiscal space...** availability of budgetary room that allows a government to provide resources for a desired purpose without any prejudice to the sustainability of a government’s financial position [IMF].

- **Fiscal sustainability...** ability of a government to maintain public finances at a credible and serviceable position over the long term. High and increasing debt levels as main red flag. [~EC, IMF, OECD].
Fiscal sustainability indicators

• Debt-to-GDP ratio:
  – 60%(72%) HICs; 40%(43%) LMICs*;
  – not on an ever-increasing path

• Primary deficit as % of GDP (cyclically-adjusted) \( \leq 4.2\%

• IMF fiscal vulnerability index [see next slide]

• Specific LMIC variables?
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
**Table 1.4. Assessment of Underlying Fiscal Vulnerabilities, April 2014**

<table>
<thead>
<tr>
<th>Advanced Economies</th>
<th>Gross Financing Needs&lt;sup&gt;2&lt;/sup&gt;</th>
<th>Interest Rate–Growth Differential&lt;sup&gt;3&lt;/sup&gt;</th>
<th>Cyclically Adjusted Primary Deficit&lt;sup&gt;4&lt;/sup&gt;</th>
<th>Gross Debt&lt;sup&gt;5&lt;/sup&gt;</th>
<th>Increase in Health and Pension Spending, 2014–30&lt;sup&gt;6&lt;/sup&gt;</th>
<th>Shocks Affecting the Baseline</th>
<th>Growth&lt;sup&gt;7&lt;/sup&gt;</th>
<th>Interest Rate&lt;sup&gt;8&lt;/sup&gt;</th>
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**Source:** IMF Fiscal Monitor, April 2014
Government gross debt as % of GDP by country category, 2010

Source: McIntyre & Meheus, 2014
What about fiscal space indicators?

• No clearly defined set, but some suggestions from the literature (e.g. Tandon/Cashin; McIntyre/Meheus; WPRO)
  – Macroeconomic environment
    • GDP growth rate
    • Revenue-to-GDP ratio
    • No fiscal sustainability constraints
  – Health-specific variables
    • Government priority to health
    • Earmarked taxes; Foreign aid for health
    • OOP payments as share of THE
    • Efficiency gains?
Fiscal space indicators in Asia and the Pacific (WPRO unpublished paper)

**ASIA: low and middle income**

<table>
<thead>
<tr>
<th>Country</th>
<th>Economic growth</th>
<th>Revenue to GDP ratio</th>
<th>Priority to health</th>
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<td>Malaysia</td>
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<td>Mongolia</td>
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<td>Myanmar</td>
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<td>Viet Nam</td>
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- **Indicators** – further refined – useful for cross-country analyses
- **Complimentary to rather than substituting detailed country-specific analyses**
  - OPM/Tanzania 2014
  - Tandon/Cashin 2010

**THE PACIFIC**

<table>
<thead>
<tr>
<th>Country</th>
<th>Economic growth</th>
<th>Revenue to GDP ratio</th>
<th>Priority to health</th>
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<td>Cook Islands</td>
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<td>Marshall Islands</td>
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<td>Micronesia, Fed States</td>
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- **Fiscal deficit >1.5%**
HEALTH SPENDING PROJECTIONS
Key determinants of health spending

- New health technologies
- Rising incomes
- Changing demography (particularly ageing in HICs)
- Changing burden of disease?
- Institutional characteristics of health systems (including high medical price inflation)

Chernew and Newhouse 2011 provide a good overview of the issues
Health exp. will consume a greater share of GDP – health policies can have a substantive influence*

Projected public health and long-term care expenditure (as % of GDP in 2060)

*or is it better to say... there is much uncertainty?!

de la Maisonneuve & Martins, OECD 2013
Growth in health spending as compared with GDP, OECD countries

<table>
<thead>
<tr>
<th>Period</th>
<th>Number of countries</th>
<th>Health spending &gt; GDP</th>
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<td>2009-latest</td>
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Source: OECD Health Statistics (in forthcoming OECD Fiscal Sustainability Report)
Projections: modelling approaches*

- **Macro-level models** (quick and light/dirty?)
  - Historical trends; Coefficient approach (GDP+)

- **Component-based models** (refined and data-hungry)
  - Model different components then combine.
  - OECD example:
    - Combine demographic projections with age spending profiles
    - Adjust (or not) for healthy ageing hypothesis
    - Combine GDP growth projections with income elasticities
    - Model technology through residual

- **Micro-simulation models** (very refined, very data hungry)
  - Model individuals with specified characteristics and behaviours

*See OECD 2012 for a detailed methodological review*
How about spending projections in LMICs?

• Most of the modelling literature focuses on HICs
• Macro-level models for short to medium term forecasting
• Component-based models for longer-term forecasting (with different assumptions)
• What about revenue constraints?
CONCLUDING COMMENTS
Concluding comments

- Simple benchmarking still a powerful policy tool
- Aspirational health spending targets useful for monitoring progress towards UHC
- Fiscal space / sustainability indicators
  - Useful compliment to aspirational targets
  - Do not replace in-depth country studies
- Spending projections
  - Best understood as showing range of what-if scenarios?
  - Needs to better link with revenue projection work
Thank you

Contact:Chris.James@oecd.org

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ADDITIONAL SLIDES
Ageing may lead to shortfalls in payroll taxes used to finance health (but not key driver of spending growth)

Average share of different sources of revenues for funding health care expenditure, selected OECD countries

- General and income taxes
- Payroll contributions/taxes
- Mandatory health insurance premiums
- Taxes on goods and services
- Taxes on profits (e.g., company taxes)
- “Sin” taxes
- Other
Uncertainty
Linking health financing to outcomes

Source: OECD, 2010
Debt-to-GDP and general government financial balances, 2011

General government balance in percentage of GDP, 2011

Gross government debt in percentage of GDP, 2011

Source: OECD, 2010
Joint network brings together Senior Budget Officials and Health Officials

- Aims to establish institutional dialogue, and identify/disseminate good practices
- Meetings and working groups with key stakeholders
- Forthcoming landmark publication (2015) on budgeting for health