



Summary of the first workshop to explore the sustainability of health system financing in Estonia

**April 3, 2009
Tallinn, Estonia**

1. Background

The Estonian Health Insurance Fund, in collaboration with the Ministry of Social Affairs and the WHO Regional Office for Europe, is conducting in 2009 an in-depth analysis of the Estonian health financing system's mid- and long-term sustainability. Findings will be synthesized in a report by October 2009.

The analysis will address: the foundations of health financing in Estonia; how basic principles and values have driven the development of the social health insurance (SHI) system in the country; how those are understood by different stakeholders and the relative weight they apply to different principles/values; whether the principles/values have changed over time, and what effect this could have on the SHI system's future development; the performance of the health financing system and its ability to cope with future challenges. As a European Union (EU) country the wider impact of EU policies on health financing will be considered and included where relevant.

The workshop in April launched the process by facilitating discussion among invited stakeholders and experts on the value base of the health financing system as well providing input to shape the next steps of the process. The participants received in advance three questions¹ to prepare for the discussion.

2. Key messages from opening words

The importance and timeliness of the process was highlighted by all parties involved, as was the fact that long-term sustainability was already a concern before the current financial situation, but the issues are now higher up on the agenda than previously. The importance of taking a long-term approach was also emphasized, even in the current context of financial crisis and meeting Euro-zone requirements. At the same time,

¹ 1. What are the principles and goals of the Estonian health financing system? Do you think these principles and goals are followed and achieved?
2. What are the main challenges to the long-term sustainability of the health financing system in Estonia?
3. How do you think these challenges should be addressed?

number of the changes are introduced in recent months (for example, an increase in value added tax on medicines; a significant decline in funding of public health programs; reduced health insurance expenditures, mainly for specialist care; the abolition of dental care reimbursement for the working age population; limiting the possibility of using accumulated health insurance reserves; and, starting from July 1, changes to the system of sick leave, with shared responsibility between patients and employers). It is not yet clear what the long-term financial consequences of these decisions will be for the state, health insurance and providers' budgets or for population health.

In the longer term the aging of the Estonian population presents a challenge to the current health financing system, which relies heavily on employment-based contributions. A lower proportion of employees to non-working people in future will decrease the revenue base. Analysis of health financing sustainability should take a broad approach taking into account all health costs – health insurance, health services covered by the state budget, public health programs, the role of the local governments and patient cost sharing.

3. Key messages from presentations

It is important not to look at sustainability as an objective on its own right as this diverts policy attention from the ultimate objectives of the health financing system, which have to be maximized within the constraints of the sustainability requirement. If sustainability was treated as an objective of the system, then a simple cost cutting exercise would deliver achievement with potentially avoidable adverse effects on health, financial protection and responsiveness to needs. When looking for solutions we have to keep in mind the objectives and underlying values of the system but at the same time take into account the country's general contextual environment (tax and fiscal policy, public sector role, etc).

European countries vary in their fiscal context, the public and private sources of finance available to health, and their distribution. However, it is possible to identify some trends in recent years. First, the breadth of coverage is increasing to cover the whole population, including in countries with SHI such as Germany, Belgium, the Netherlands, France, where the basis for coverage is changing from employment to residence. In addition, this has been supported by a broadening of the revenue base via various income sources (including also de-linking coverage and employment) and structural changes favouring one pool to purchase services. Second, private health insurance has a limited role in the European Union countries, in most countries accounting for less than 5% of overall health expenditure. Third, population aging is a relatively minor cost driver when compared to others such as technological innovation and changes in medical practice. Fourth, countries are focusing on achieving better value from health spending, moving away from a singular focus on cost containment.

In discussion following the presentations participants urged a cautionary approach to looking at other countries' experience. We have to understand the context in which others have made their reforms and assess carefully applicability to the Estonian environment. At the same time many participants highlighted the opportunity to learn from others and avoid their mistakes.

It was also noted that smaller government as measured by its share of GDP does not automatically mean lower level of public sector financing of the health sector or overall health expenditures. Contrasting examples from the EU (e.g. Czech Republic and Slovenia) show higher public sector investment compared to Estonia in spite of reduction in the size of the government, albeit to a moderate extent. On the other hand the level or share of health spending does not answer the question of what value the population and individuals receive from health system.

4. Participants' views on the sustainability of health system financing in Estonia

After sharing the international experience, the basic principles, value base, current situation and further implications of demographic change for the Estonian health financing system were revisited. The presentation concluded with a number of potential ways forward to improve the revenue base for health system and to improve value. The participants were urged to express their views on health financing sustainability in Estonia.

All participants agreed that the present health financing system in Estonia is currently performing well and its organizational design has ensured stable financing up to today. Nevertheless, the need to adapt the system in the mid and long term was highly stressed. Sustainability can be understood in different ways but discussion showed that it is not purely about more money for the health sector but rather about the importance of having a stable financial basis in the long term to develop the health care sector, ensure services for the population while balancing revenues and expenditures, and spending wisely.

It was highlighted that in good times (for example, economic growth in the past five years) Estonians did not think much about **fundamental values such as solidarity** and available resources supported the attractiveness of the individualistic approach without significantly threatening financial protection and the level of redistribution in the Estonian health system. Moderate signs of erosion of the solidarity principle have been detected without attracting significant policy attention. However, participants thought it highly likely that support for solidarity and redistribution of resources will increase in coming years. As many people lose their jobs (the first rise in unemployment in 15 years) and face the need for public support, the general population may start to favour the redistributive role of the state more and the meaning of solidarity becomes clearer. It was also noted that since the development of health insurance system, solidarity has been a

central value supported by politicians and the general public and reflected in general public satisfaction with the system.

The current health financing system has been relatively **independent from political decision making** and this was seen as a strength of the system as trust in politicians' ability to make transparent and stable decisions is low. The latest example is the capital cost financing which was set as an obligation of the state budget in 2008 but was not fulfilled in 2009. Similar examples have reduced trust in decision-making processes. Taking this into account, the earmarking principle was favoured, when looking at the current and potential additional revenues for the health system, to ensure the stability of the revenue base in the future.

In addition, the **institutional structure** (the Estonian Health Insurance Fund) was highlighted as an important precondition for sustainable health financing. The current structural form has allowed the health system to prepare itself for economic crises and fluctuations in the revenue base as collecting reserves can help to overcome short-term crises. However, the current decision not to allow the health sector to utilise reserves due to fiscal policy priorities highlights one weakness of the system. The importance of having a public independent body that can lead transparent public discussions was supported. Further, the importance of having one pool of funds to purchase health care services for the population and avoid fragmentation was mentioned as a strength.

Potential sources of additional resources have to be considered carefully while looking at current arrangements funded mostly from direct taxes (e.g. the social tax) and less from indirect taxes. It was clearly felt that the revenue base of the health insurance system needs to be broadened and earmarked funding is favoured. At the same time, the potential ways of doing this need considering and weighting. Using broader income taxation, earmarking excise taxes on health damaging consumption, allocations from general Government revenues etc were mentioned; most of them have pros and cons.

Private insurance was not seen as an important source of additional funding in the future as it has not developed even in the current enabling environment (regulatory and other conditions such as relatively high cost sharing for pharmaceuticals and dental care). It was highlighted that potential buyers of private insurance (richer population) have enough resources to pay directly out of pocket or have a supporting informal network that guarantees faster access to care. One option mentioned was to develop an optional private health insurance for older people to cover the needs of long term care.

Increasing the current system's efficiency was seen as a very important task for the near future when funding is not increasing and to be accountable for current investments in health. At the same time, participants noted that while increasing internal efficiency, long-term sustainability needs to be addressed due to demographic change and other cost drivers. Some potential areas to increase efficiency were seen in the provider sector. First,

full implementation of the hospital sector reform for acute care and development of sufficient long-term care with linkages to social support systems are needed. Second, a well organised family medicine system should be put in the centre to coordinate care, to manage chronic diseases, and put greater emphasis on health promotion and preventive services. Third, the prices of pharmaceuticals could be better controlled. Fourth, improved control and coordination of the purchasing of high-tech equipment for hospitals are needed. The latter points were supported by a general notion of the need to have stronger purchasing power of public sector agencies and setting right incentives for providers. However, it was noted that it is not feasible to reduce the benefit package available (both in terms of excluding services or increasing cost sharing).

5. Summary

The seminar provided a number of views on the current arrangements for health financing and potential ways forward for sustainable health financing while addressing both revenue and expenditure side issues. The health sector representatives and opinion leaders at the meeting highlighted the need for clear analysis and the vision for long-term health financing that is expected as the outcome of the ongoing process in 2009.

Final list of participants

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