

Revision of the

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Comment
Unit 9

Comments on Unit 9: Classification of Financial Sources

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Comments on Unit 9: Classification of Financial Sources

The following comments on the Input-paper on the “Classification of Financial Sources” intend to highlight the challenges that lie in the definition of the categories of such a classification. Rather than proposing a comprehensive set of mutually exclusive categories this document merely addresses practical issues arising from the implementation of such a classification. To establish a fully-fledged classification of Financial Sources (FS) the following questions must be answered:

1. What is the ultimate aim of the Financial Sources Classification?

The overriding goal of the introduction of the Financial Sources classification is to get additional information about the nature of financing of a health care system. The defined classification should be applicable to all health care systems, the results should be internationally comparable.

To align these two aspects will be the hardest part in the precise definition of the FS categories. There is a risk that either the FS-classification will be too crude and hence not policy-relevant (ultimately all taxes are paid by households and corporations and all corporations are owned by households) or the categories of the FS-classification (or the accounting rules for the categories) will be too country-specific and you end up with data of limited comparability.

The Input-paper proposes the notion of Financial Sources “as entities (actors) providing funds” (Option B para. 18). We believe that this approach would conceptually be more consistent with the question the FS-classification is trying to answer in the first place: “Who is the ultimate payer of health care?”

2. In what context should this classification be understood?

The aim of the Financial Source Classification should be the in-depth analysis of the dimension of health care financing (HF). Therefore the Classification of Financial Sources (FS) need only be analysed in combination with Financing Schemes (HF) because there is no common interface between FS and providers (HP) or functions (HC).¹

The information on health expenditure by Financing Schemes (HF) could serve as a starting point for the analysis of the Financial Sources.

3. Do we want to analyse expenditure or revenues of Financing Schemes?

As has been stated various times in the input documents to Unit 9 and Unit 10 Financing Schemes perform multiple tasks in the health systems. They can collect revenues, they

¹ The private household can be a Financial Source and Financing Scheme but in the interaction to functions and providers the household acts only as a Financing Scheme

can pool resources and they purchase services for a defined group of people or the population as a whole.

The amount of the revenues collected by a Financing Scheme in a given period does not have to be equal to the amount of services purchased by this Financing Scheme.

This is typically true for the Private Health Insurance Schemes: The amount of premiums collected from insurers can exceed the amount of services purchased by Private Health Insurance in a given period.

On the other hand deficits can arise for Financing Schemes whose revenues fall short of the costs of services they have to provide in a given year. These Schemes might have to take out loans to cover their deficit. How should these loans be classified in the Financings Source dimension? Should commercial banks providing these loans be considered as a Financial Source? Alternatively it could also be assumed that these temporary deficits will be covered by future revenues.

From our point of view the FS-dimension should analyse the expenditure of the Financing Schemes (the health services purchased). If this concept should be applied how are we going to deal with the difference between revenues collected and services purchased in the classification and accounting rules of the Classification of Financial Sources? Guidelines will have to be prepared on how to deal with surpluses and deficits.

4. What is the expenditure volume to be analysed in the FS-classification?

If the intention of the introduction of the FS-dimension is the analysis of the *expenditure* of the different Financing Schemes what is the aggregated expenditure figure that should be in the focus of examination?

Clearly we would propose analysing **total health expenditure** of each Financing Scheme. One major advantage of the usage of this figure is that total health expenditure of each Financing Scheme is already compiled for the two basic SHA tables HFxHC and HFxHP. Alternatively it could also be argued that all expenditure of the Financing Scheme should be analysed regardless if the services provided are health related or not. Limiting the scope of our analysis to total health expenditure of the Financing Schemes has some practical consequences as Financing Schemes do not necessarily only provide health services but other services as well. To clarify the problems encountered we would like to present the case of the German Statutory Pension Insurance Scheme²: The Statutory Pension Insurance is a Social Insurance Scheme (HF12) that provides medical rehabilitation (HC2) to a certain group of people. The main purpose of this scheme however is to pay out pensions at retirement age. These payments clearly have no health component at all.

The share of health expenditure to overall expenditure of this scheme is less than 5%. Having this example in mind we don't believe it should be part of health accounting to analyse all expenditure of the financing schemes. This would go way beyond health accounting. We should limit ourselves to the question "where do the funds come from that are used on health care by the Financing Schemes?"

If there is an agreement that this question should be in the focus of the FSxHF analysis it will be challenging to discern the relevant flows of funds dedicated to health care.

² The same problem also arises for the Statutory Accident Insurance Scheme

In the above mentioned example there are no dedicated funds on the revenue side of the Statutory Pension Insurance Scheme that correspond to the health expenditure of that scheme.

One possible way to solve this problem would be to track down the whole revenue side of this scheme to the ultimate provider of the funds (for example government, households and corporations) and apply the resulting quota distribution to the health care expenditure in question. But this is only feasible if the ultimate providers of the funds of the Financing Schemes are known and can be grouped into the desired FS-classification.

This described approach might be a national solution to overcome the problem to track unearmarked funds that go in the system but common guidelines will have to be established otherwise the resulting figures would limit the international comparability of data.

Though we agree with para. 23 in Input-document to Unit 9 that the classification should not measure how revenues are generated we believe it is impossible to identify the ultimate payer of health care without looking at the revenue side of the Financing Schemes.

5. Can Financial Intermediaries be considered as a Financial Source?

To increase the level of complexity and to add more reality to the current financing situation of existing Financing Schemes what should be done if one social security scheme is getting substantial revenues from other social security schemes? Clearly a social security scheme should not be classified as a Financial Source (cf. Para. 28 in Input-document to Unit 9). However there is an accounting issue on how to treat revenues from social security schemes in the t-accounts of other social security schemes that cannot be ignored. One possibility would be to assess the composition of the Financial Sources of each Social Security Scheme that is functioning as a “Financial Source” of the Financing Scheme in question. But again we are not sure how this solution would affect the international comparability of data generated following this approach.

6. How should tax deductibility of social contributions be treated?

How should social contributions of employers and employees be treated that are tax deductible? In the records of the Social Security Schemes these contributions would be attributed to employers and employees respectively. But we don't know if the consideration of tax deductibility of these contributions is rather part of tax policy than health policy analysis.

These are some of the most pressing issues that we feel need to be clarified before establishing a FS-classification. Not to mention the problems of data availability we would encounter once we decided to introduce this dimension in our health accounts.

In repeating what we said under question 1 we would not like to see the development of a classification and methodology of Financial Sources that will either result in incomparable data open to misinterpretation or give no additional information to what we already know from the Financing Schemes dimension.