

Comment Unit 9 & 10

Unit 9 and 10 An alternative proposal

Summary

In this commentary note some ideas for the creation of classification of economic units in the financing of the health system are introduced along with a consistent solution for the financing sources, without overburdening the system with various additional classifications. In this proposal two classifications covering the 'whole' of the financing of health are presented as a option.

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Unit 9 and 10

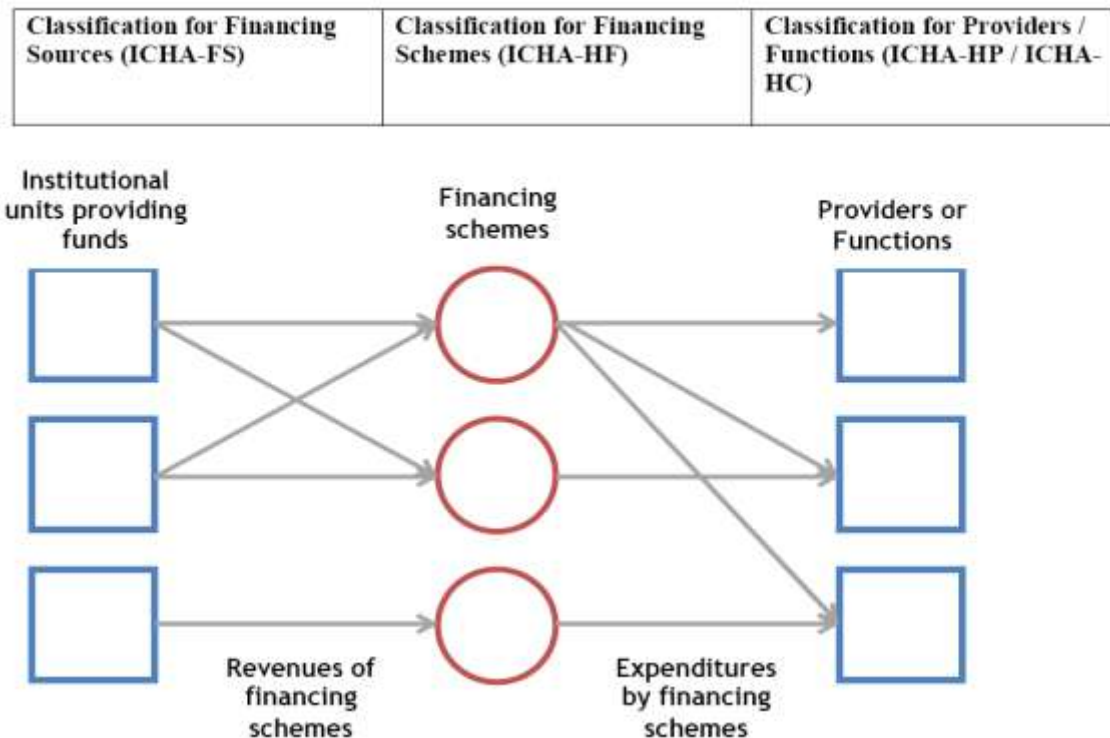
An alternative proposal

Note prepared by C. van Mosseveld¹

Introduction

The proposal for a classification of financing schemes made in the input document on Unit 10 - prepared by OECD – takes as a starting point defining “financing schemes” instead of the previous “financing agents”. In that discussion paper as presented in figure 1 already a pre-decision was taken on the introduction of schemes as replacing the financing agents.

Figure 1. Health financing systems and International Classification for Health Accounts



The main problems pointed out in that input paper regarding HF in SHA1.0 relate to ambiguity and the fact that the HF classification does not reflect the complexity of the systems of health financing neither its changes. In order to correct the appointed

¹ The ideas and the opinions expressed in this note do not necessarily reflect the official views of EUROSTAT or the European Commission, but are for the responsibility of the author. The author is grateful for the comments received from various colleagues in the field of health accounting.

problems the input document proposes a classification of financing schemes. The proposed classification in the input paper mixes up units and schemes.

In this figure 1 schemes are defined according to the definition used in ESSPROS.

In ESSPROS a scheme is defined as

A social protection scheme is a distinct body of rules, supported by one or more institutional units, governing the provision of social protection benefits and their financing.

41. Social protection schemes are concerned exclusively with redistribution and not with production. They are supported by institutional units and are not themselves institutional units.

Various problems can be derived from this description if used in SHA. First schemes defined as such deal only with social protection. It could be said also to include private insurance as a wider ingredient of protection through pooling mechanisms. However it would be difficult to include in any way the direct payments of households, NPISH, corporations and maybe also government. I doubt if financing flows of these entities can be described in such a way that they fit the definition of scheme.

Moreover it is stated that schemes are not institutional units. They are also not part of institutional units. In the input document on unit 10 no mention is made of the institutional units (or parts thereof) supporting these schemes. Economic units (being institutional units or parts thereof) are basic entities in SHA. The lack of these units also makes it difficult to link to transactions, basic in the interactions between units. Transactions are going to be important in SHA2. For consistency reasons it would be best to create the three basic sets of classifications around a set of economic units and sets of transactions governing their interrelations.

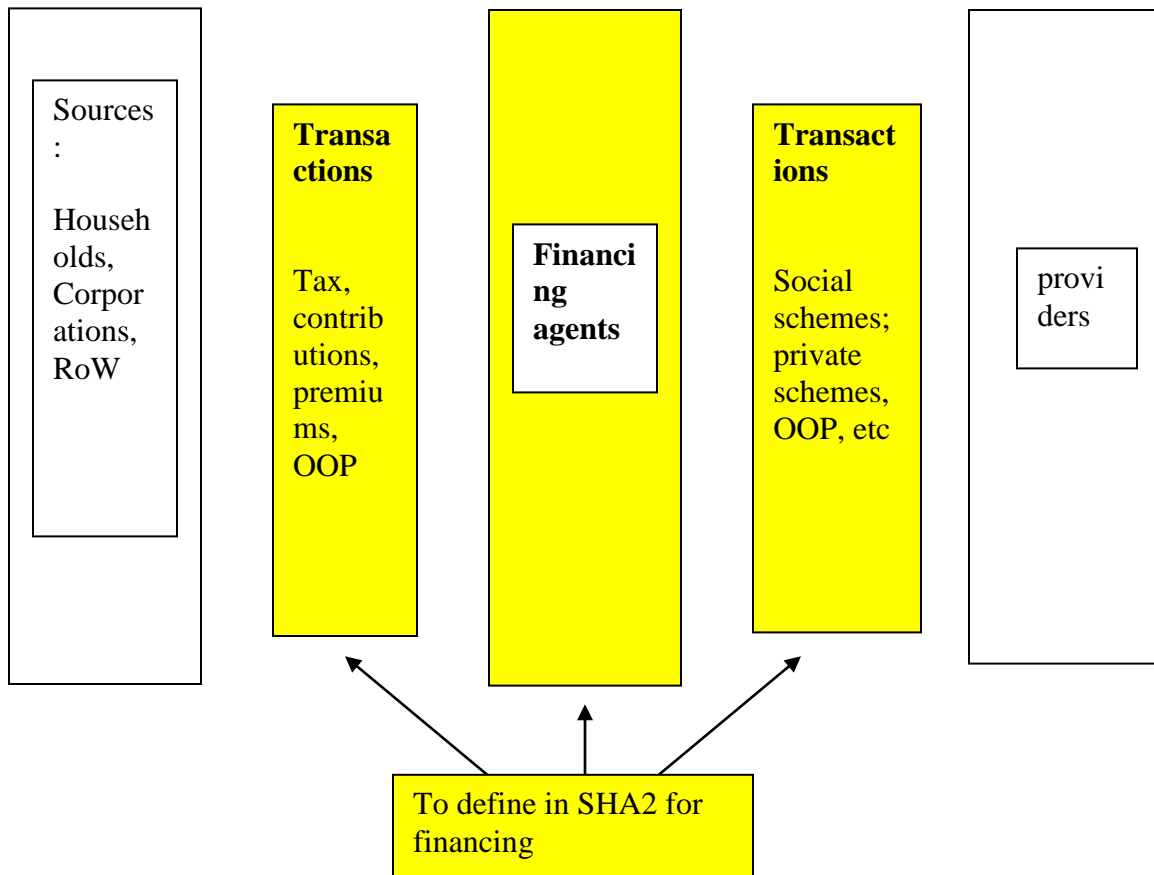
In the same figure the financing sources (FS) are described as institutional units. In the input paper on unit 9 – prepared by CMS - some ideas about the use of these units are presented. In principle it is OK to create institutional units as FS. However this implies the construction of a classification of financial transaction as well as a determination of the level of aggregation at which these institutional units are going to be used. The RoW will also be a problem, not an institutional unit but very important as source. The actual question on how many steps back in the financing process are going to be taken starting in the financing agents level, is not dealt with. Apart from the fact that this is going to be difficult is it also very policy sensitive.

Proposal

The proposed HF classification should intend to answer the question “Who is spending funds on health?” The health goods and services are purchased by units that can be institutional units or establishments (Kind of Activity Units). “Who” refers to the units that are spending funds. In conceptual terms units are spending funds on health out of resources that may be generated in different ways (sources of financing). In operational terms these units are data providers.

This proposal starts with the idea of creating a set of economic units (institutional units are parts thereof) to be used as actors in the financing sequence (see figure 2). Further it proposes to create a classification of financial flows (financial transactions) on the one hand governing the transactions between financing agents and the providers of care (payments by type of service) and on the other hand governing the transactions between the sources and the financing agents without actually specifying the financing sources. This means that the financial transactions of the HF are limited to the description of the incoming financial flows – revenues - by type of source (taxes, contributions, premiums, etc) and the outgoing financial flows (payments to providers) by type of scheme and other kinds of payment characteristic. The identification of economic flows provides a picture on the type of flow associated with the revenue structure as well as the purchasing of health care goods and services. A starting point for the classification on these transactions could be found in the article on financing flows (*Measuring Health Systems' Financing Flows*).

Figure 2: Financing agents and related financial transactions



Basically two elements are to be defined: **classification of units** acting as financial agents, and a **classification of financial transactions**²; one serving for the revenues or

² A classification of financial transaction makes it also possible to solve the problem of multiple intermediation in health funding

receipts for these agents and one governing the financial transactions used as payments to the providers (with schemes and other characteristics where relevant and possible).

For the **financing agents** a basic starting point can be found in the institutional units as presented in SNA/ESA and GFS. These units concern Government (in all levels), Social Security Institutions, (Private) Health Insurance Organizations, Non-profit organizations, Corporations (non-health, private and public), and Households. For a more detailed proposal of this classification see Annex 1.

For the **financial transactions classification serving as revenues** a starting point can be found in the paper on financing flows and the IMF GFS manual, where distinctions can be made in Government funding flows (with various negative flows for refunding flows to e.g. households), subsidies and transfers to Social Security (from various origins and again including some negative funding flows), contributions and premiums to health insurance (including refunding), Subsidies, grants, transfers and payments originating abroad, etc. For Households as a financing agent an assumption on the receipts for health funding may be necessary, e.g. stating that the receipts for health equal the OOP (in order to exclude the complete income). Analogous assumptions could be made for the spending on intermediate health consumption of all corporations and the RoW funding flows.

On the **financing transactions to be used for paying the providers** a distinction could be made in which the character of the schemes can be visualized. These payment flows could include Payments for services on behalf of Government, Social Security funds, NHS, Private insurance funds, etc.

A more detailed proposal of both the classification of revenues and the classification of payments is presented in Annex 2.

Conclusion

A construction in which Financing agents are introduced again as economic units (as originally intended in SHA1) would guarantee consistency with the other classifications as economic or institutional units are introduced as main actors. Using two distinct parts of a financial transactions classification would also guarantee consistency with SNA/ESA and at the same time make it possible to show the distinct features of SHA, in which all stakeholders are interested.

References:

Hernandez, P, Poullier J-P and van Mosseveld, C; *Measuring Health Systems' Financing Flows*, Background document prepared for the EUROSTAT SHA Workshop in Tallinn, May 2007

Cowan, C; *A proposal for the main categories of the Classification of Financing Sources (ICHA-FS)*; Input Document to Unit 9 in the Program of work for the SHA revision, CMS, 2008

OECD, *A proposal for the main categories of the classification of financing schemes (ICHA-HF)*, Input document to Unit 10, OECD 2008

EUROSTAT, ESSPROS, *European System of Integrated Social Protection Statistics*

IMF, *Government Finance Statistics Manual 2001 (GFSM 2001)*

Annex 1: Proposal for a classification of economic units financing health (HF)

- HF.1 General government excluding social security funds
 - HF.1.1 Central government
 - HF.1.2 State/provincial government
 - HF.1.3 Local/municipal government
- HF.2. Social security institutions (funds)
- HF.3. Non-financial corporations
- HF.4. Financial corporations
 - HF4.1 Insurance corporations and pension funds
 - HF4.1.1 Health insurance corporations
 - HF.4.2 Other financial intermediaries, except insurance corporations and pension funds
 - HF.4.3 Other monetary financial institutions
- HF.5. Non-profit organizations
 - HF.5.1 Non-profit institutions serving households
 - HF.5.2 extra budgetary units
- HF.6 Private households
- HF.9 Rest of the world
 - HF.9.1 Non-resident households
 - HF.9.2 non-resident corporations and other economic un its

Annex 2: Proposal for a classification of financing flows in health

A: revenues

- general government revenues for health
 - budgetary and related allocations
 - earmarked health insurance tax
 - revenues for health n.e.c
- social security revenues for health
 - transfers from general government
 - Employee contributions to Health Protection schemes
 - Employer contributions to Health Protection schemes
 - grants domestic origin
 - self-employed and non employed contributions
 - revenues for health n.e.c
- health insurance revenues
 - premiums from employers
 - premiums from employees
 - refunding of premiums and other repayments
 - transfers from government
 - contributions from employers
 - contributions and premiums from abroad
 - re-sinurance revenues
 - deductions from / contributions to reserves
 - revenues for health n.e.c
- corporations earmarked health flows
 - revenues from sales and other sources dedicated to health
 - deductions from / contributions to reserves
- NPISH earmarked health flows
 - contributions
 - grants domestic origin
 - deductions from / contributions to reserves
 - revenues for health n.e.c
- Households earmarked health flows
 - transfer from government
 - tax deductions and refund
 - revenues/income dedicated for health services and goods
 - revenues for health n.e.c
- Foreign health flows
 - EU
 - EU MS
 - grants and donations in cash
 - donations in kind
 - EU institutions
 - grants and donations in cash
 - donations in kind
 - Non-EU

Countries

grants and donations in cash
donations in kind

Institutions

grants and donations in cash
donations in kind

B: payments for products

general government payments for health
originating abroad
domestic origin

social security institution payments for health
originating abroad
domestic origin
for mandatory schemes
for voluntary schemes
for goods and services foreign providers

health insurance payments
originating abroad
domestic origin
for mandatory schemes
for voluntary schemes
for goods and services foreign providers

corporations earmarked health payments
originating abroad
domestic origin
for goods and services domestic providers
for goods and services foreign providers

NPISH earmarked health payments
originating abroad
domestic origin
for goods and services domestic providers
for goods and services foreign providers

Households earmarked health payments
for goods and services domestic providers
for goods and services foreign providers

C : Other flows used by providers

Loans from commercial financial institutions to domestic providers
balancing the revenues and expenditure
for investment purposes

Loans from non-commercial institutions to domestic providers
balancing the revenues and expenditure
for investment purposes

deductions from / contributions to reserves