Ministry of Finance
of the Republic of Estonia

Fiscal independence of the health insurance system

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Main sources of health financing

- Estonian health system is largely publicly financed through an earmarked tax on wages – the social tax. Around two thirds of total health financing comes from the social tax.
- Approximately 10% comes from central government budget.
- Under 15% of health financing comes from private sources.

The social tax

The social tax is levied four categories:

- ✓ wages paid by employers (about 95% of total social tax revenues)
- ✓ benefits in kind (about 2%)
- ✓ tax paid from the state budget on behalf of some socioeconomic groups (about 2%)
- ✓ the earnings of self - employed people (about 1%)

The social tax

- The social tax on wages is paid by employers at a rate 33%, of which 13% is transferred to Estonian Health Insurance Fund and 20% to pension insurance schemes. The rates have not changed since 1992.
- Social tax is not levied from dividends, deposit interests, capital gains and rental income thus health financing relies on labour taxes and direct payments by households with capital taxes having a minor role.

Public revenue collection and pooling

- The social tax is collected by the Estonian Tax and Customs Board.
- Health part of social tax is pooled by Estonian Health Insurance Fund, an independent and autonomous agency responsible for purchasing health services on behalf of its members.
- The central government finances services available to the whole population such as emergency care, public health programmes and immunization.

Public revenue collection and pooling

- Estonian Health Insurance Fund covers about 95% of population. Contributors account for about half of all insured people.
- Non-contributing account groups including children, pensioners, disability pensioners and students are eligible for the same benefit package without any social tax contribution.
- The state covers about 3% contributions of population (individuals on parental leave, unemployed and carers of disabled people).

Estonian Health Insurance Funds budget

- Estonian Health Insurance Funds budget is determined by the amount of revenue generated by the part of the social tax earmarked for health.
- Health Insurance Funds budget is approved by its supervisory board and based on four-year revenue and expenditure planning principals.
- Because Funds budget depends through social tax on the state budget, it cannot be approved before the state budget has been approved.

Health Insurance Funds reserves

- The cash reserve administrated by the State Fund ensures smooth daily cash flow management.
- The legal reserve 6% of budget (created by transferring at least 2% of the budget every year), decreases risk from macroeconomic changes.
- The risk reserve, 2% of budget, minimizes risks arising from health insurance obligations and can be used after supervisory board's approval.

The role of Ministry of Finance

- Minister of Finance is a member of Estonian Health Insurance Funds supervisory board.
- The goal of Ministry of Finance is to follow the use of legal reserve and to ensure that Health Insurance Fund‘s budget four-year revenue and expenditure planning principals are in line with national budget strategy.

The role of Ministry of Finance

- The share of state budget for the health sector is prepared by the Ministry of Social Affairs.
- Ministry of Finance set‘s budgetary ceiling for Ministry of Social Affairs based on legislative obligation and government priorities.

Strengths and weaknesses of Estonian health financing policy

- The single payer system has served well since it was established in the early 1990s.
- Central revenue collection and national pooling contribute to efficiency in resource use.
- The separation of health from other forms of social insurance helps to ensure transparency and accountability of the system to the public.
- Weakness is the lack of central control over capital investment and expensive medical equipment.