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Improving value for money from a health economics perspective

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Contents

Short introduction: **A new understanding of health**

» **Perspective 1:** A functional approach by objectives

» **Perspective 2:** An institutional approach by sources of funds

» **Perspective 3:** The empirically based economic benefit of the health economy (value added, export, import, employment etc.)

» **Perspective 4:** Improving value by avoiding inefficiencies

Summary: **Improving value for money**

Short introduction: A new understanding of healthcare

Towards an open health society

OLD UNDERSTANDING		NEW UNDERSTANDING
Part of healthcare		is the health economy
Instead of mainly public financing		new financing methods, second health market; new methods of paying providers (P4P)
Less of input orientation		better quality, more outcome orientation
Instead of health care as cost factor		growing sectors, increasing work force, new career opportunities
Instead of healthcare consumption		investment in health to promote growth and productivity
Instead of separate silos, e.g. the Statutory health insurance		health in all areas of life and lifelong; less fragmentation

Economic Resources – how to use them?

1. From a macroeconomic point of view (top down)
2. From a mesoeconomic point of view (sectoral/ regional)
3. From a microeconomic point of view (bottom up)

Perspective 1: A functional approach by objectives

From a macro- and mesoeconomic point of view

Economic Resources – how to use them (top down)?

Macrolevel

Education, science, research	Mass transit, Transportation	Environment, climate protection
Defense	Old-age incomes,	Family policy, child care
Development assistance	HEALTH	etc.

Mesolevel 1

- Prevention and health promotion
- Medical treatment of patients with acute and chronic diseases and healthy persons including
- drugs, remedies and Medical appliances
- Rehabilitation
- Nursing care
- Psychosocial care
- Dental treatment
- Sick pay

Objective conservation, promotion and regeneration of health

Perspective 1: A functional approach by objectives

From a health economics perspective

Macrolevel: There is no optimal Health Expenditures Quota.

Mesolevel 1 : There is no optimal structure within health care.

- But: Resources should be invested, where the health benefit is the highest or
- „Value defined as the health outcomes achieved per dollar spent“ (M. E. Porter);
- On the basis of evidence-based-medicine (EBM) and health technology assessment (HTA)

Solution: An Ex-ante-Macro-Allocation of resources is indispensable!

But: through whom, which mechanism and through which institution? NICE and similar institutions? The role of competition, of ministries and of the parliament?

Perspective 1: A functional approach by objectives

Economic Resources – how to use them (bottom up)?

Objective | **Avoidable Mortality, Morbidity and Invalidity**

Mesolevel 2

- Diseases of the respiratory organs
- Diseases of the skeleton, muscles, and of connective tissue
- Traumas
- Infectious diseases
- Psychiatric diseases and diseases of the nervous system
- Malignant growth
- Heart and circulatory diseases
- Diseases of the digestive organs
- Allergies
- etc.

Disease Management on the basis of multimorbidity

Microlevel

Individual demand for Insurance, individual protection and consumption (2nd health market) for prevention and health promotion

Perspective 1: A functional approach by objectives

From a health economics perspective

- **Mesolevel 2:** Cost-of-illness studies show us the most expensive diseases according to expenditures, life years lost etc. and are a basis for priority setting

- **Microlevel:** Empowerment of the patient. Enabling the population to enjoy a healthy lifestyle
- Freedom to choose health insurance coverage, the doctor, the hospital etc. as far as possible

- **Challenge:** The correlation between health and growth (three hypotheses)

Perspective 1 : A functional approach by objectives

A positive correlation between health and growth

Three key hypotheses

Healthy aging raises productivity and thus gives a supply-side boost to growth and quality of life

Healthy aging gives a demand-side boost to GDP by growing private demand for non-reimbursable health-related goods and services

A healthy society saves money on treatment, rehabilitation and nursing care and stabilizes expenditures

Perspective 2: An institutional approach by sources of funds

Eight financing agents in a Bismarckian System

Total expenditures on health, € 278,3 bn. (2009), 100%

1	2	3	4	5	6	7	8
Private households private non-profit organi-sations	Private health insurance	Statutory health insurance	Statutory pension insurance	Social long-term care insurance	Statutory accident insurance	Employers	General government excl. social security funds
€ 37,50 bn	€ 25,96 bn	€ 160,86 bn	€ 4,01 bn	€ 20,31 bn	€ 4,46 bn	€ 11,60 bn	€ 13,66 bn
13,5%	9,3%	57,8%	1,4%	7,3%	1,6%	4,2%	4,9%

Forms of Financing

1	2	3–5	6	7	8
Out-of-pocket payments	Risk-oriented premiums	Social insurance contributions: Employer and employees	Risk-oriented social insurance contributions (only employer)	Continued (sick)pay	General revenue,i.e. mainly taxes

Source: www.gbe-bund.de

Perspective 2: An institutional approach by sources of funds

From a health economics perspective

Are 8 fiscal agents necessary? Are single-payer systems better?

1. Should hospital financing (current outlays and investment expenditures) be in one hand? **YES**
2. Should statutory health insurance and long term insurance be in one hand? **YES**
3. Should rehabilitation (currently divided between health insurance and pension insurance) be in one hand? **YES**
4. Does the current „system" of private and statutory health insurance in Germany need a reform? **YES**

Perspective 3: The economic benefit of the health economy

German Health Satellite Account (GHSA)

» The Technical University Berlin together with Roland Berger and BASYS / WifOR and in close cooperation with the **Federal Statistical Office** was **commissioned by the Federal Ministry of Economics and Technology** (BMWi) to create a so-called satellite account on the basis of the National Accounting System

» The research project with the Federal Ministry of Economics and Technology (BMWi) runs until the end of 2012

Perspective 3: The economic benefit of the Health economy

Basic values of the German health economy from 2005 to 2008

Key figures [EUR bn]

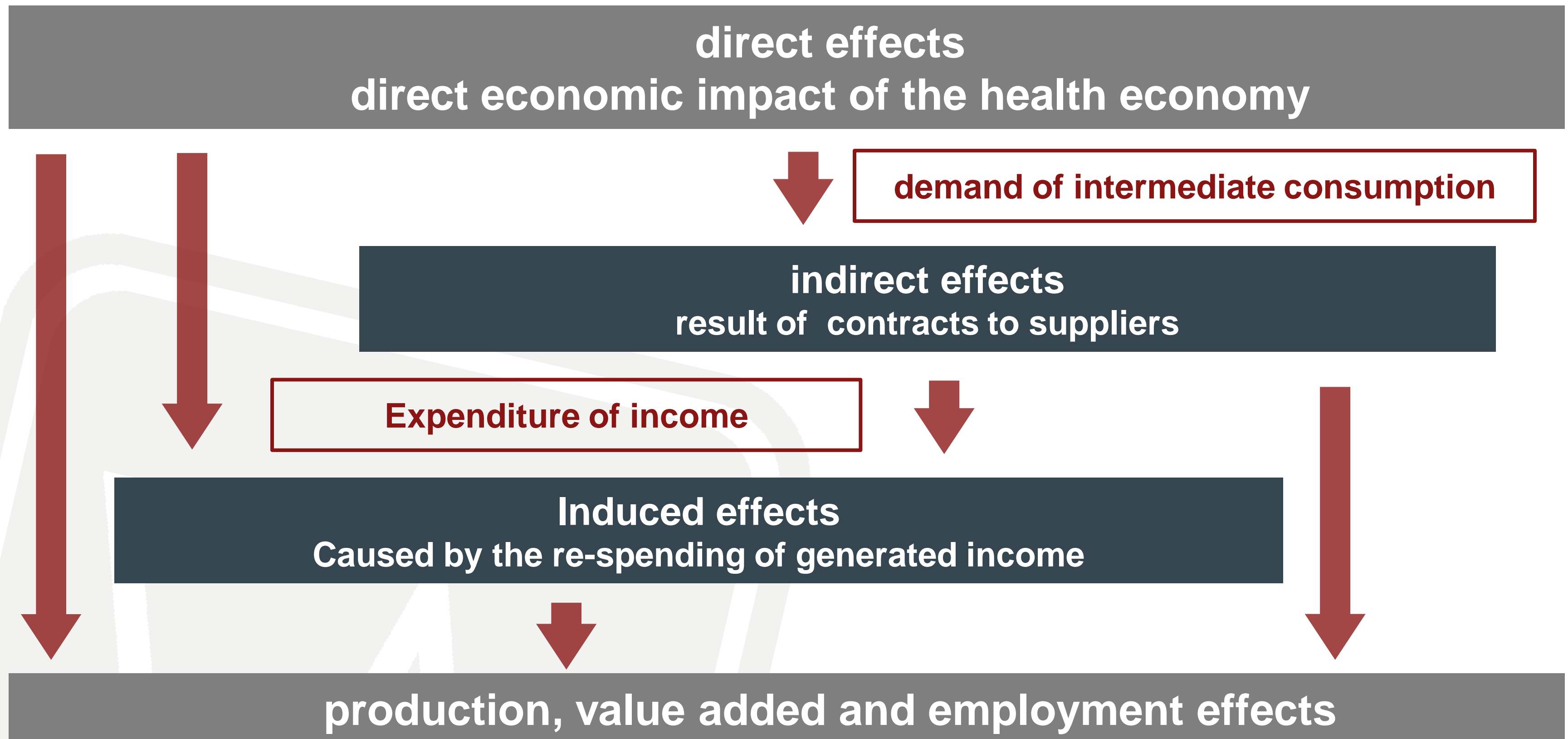
	2005	2006	2007	2008[1)]	change 08 to 05	
Total output of goods	373.98	392.61	412.61	428.34	54.36	*14.54%*
Share of overall economy	*7.80%*	*7,64%*	*7.63%*	*7.67%*		
Production value	327.14	339.06	353.32	367.54	40.40	*12.35%*
Share of overall economy	*8.08%*	*7.94%*	*7.86%*	*7.96%*		
Gross value added	203.22	208.79	214.64	223.74	20.52	*10.10%*
Share of overall economy	*10.04%*	9.96%	*9.86%*	*10.06%*		
Consumption expenditures	273.47	281.31	289.36	299.33	25.86	*9.46%*
Share of overall economy	*17.33%*	*17.44%*	*17.77%*	*17.88%*		
Exports	54.78	63.78	71.51	72.84	18.06	*32.98%*
Share of overall economy	*6.09%*	*6.19%*	*6.41%*	*6.29%*		
Employed persons [tsd.]	5.315	5.342	5.439	5.593	278	*5.24%*
Share of overall economy	13.69%	*13.67%*	*13.69%*	*13.89%*		

1) extrapolation

Source: health economy total account, at current prices.

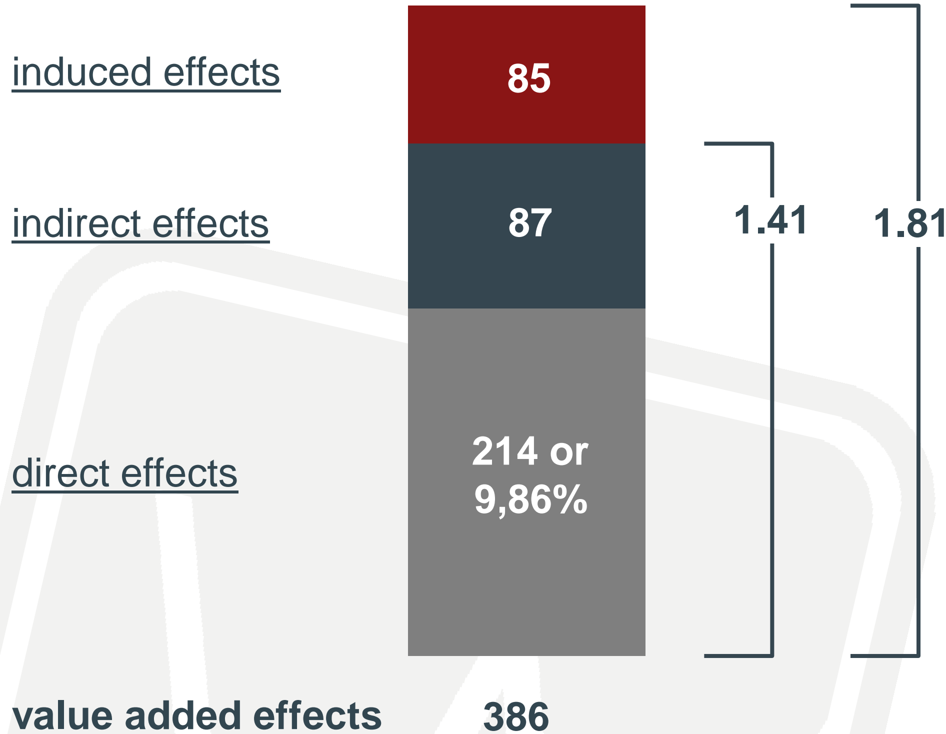
Perspective 3: The economic benefit of the health economy

Simplified illustration of the formation of spillover effects



Perspective 3: The economic benefit of the health economy

Generation of considerable indirect and induced value added effects



- Through the value added of the health economy, additional indirect and induced effects with a value of EUR 386 billion are generated
- The multiplier for the indirect value added effects (including the direct ones) is 1.41, i.e. **one Euro produced in the health economy generates an additional production of 0.40 EUR in the upstream industries**
- By taking the consumption of generated incomes into account the multiplier rises to 1.81

1) Model calculations based on the 2007 HIOT domestic production (excluding imports and processing of production)

Source: HETA

Perspective 3: The economic benefit of the health economy

Next steps in the current research project

What is the health economy after all?

Within the National Accounting Systems it is an economic sector similar to many others.

OPEN QUESTION: What is the connection between the economic dividend and the health dividend of the health economy?

Perspective 4:

Measurement of the macro, meso and micro performance in regard to structure, process and outcome of the health sector

Perspective 4: Measuring performance in the health care sector

What is the health care sector ?

- Health system, Health care system, Health market, Health economy, the Health institutions, Health care industry, the Public health system, the Beveridge or the Bismarckian-System? A healthy society or

- **just a bundle of health indicators collected with the**

- National Statistical Office,
- Eurostat,
- OECD,
- WHO and the
- World Bank.

Perspective 4: Measuring performance in the health care sector

What do international comparisons tell us?

International comparisons are indispensable and always subject to improvement.

Pros

- The "open method of co-ordination" and "best practice at low cost" may hopefully come out of international comparisons. Learning by comparing is the message.

Cons

- Ranking is always arbitrary, its contents depends on the persons, the commissions etc. and the interests behind them; there is no overall truth or rationality.

What is meant by „value“ ?

„Value should be measured for defined groups with similar needs“

„The only way to accurately measure value, is to track patient outcomes and costs longitudinally“ Michael E. Porter

In addition there is
the social and economic benefit of better health
and the welfare benefit for the society.
Avoiding wasteful activities improves „value for money“.

Perspective 4: Measuring performance in the health care sector

Improving value for money

There are inefficiencies in all systems at all times, i.e.
there are always possibilities to improve value for money
from a health economics perspective (1):

More value

» through improving care coordination and better navigation of patients

» by avoiding overuse and inappropriate use of resources and through better financial incentives

» through more disease management programmes and centers of competence

» through maintenance and promotion of an independent life-style and autonomy by the elderly

Perspective 4: Measuring performance in the health care sector

Improving value for money

More value

» by paying for performance; more selective contracting

» by involving patients more in their own care

» through a more entrepreneurial and innovative behaviour

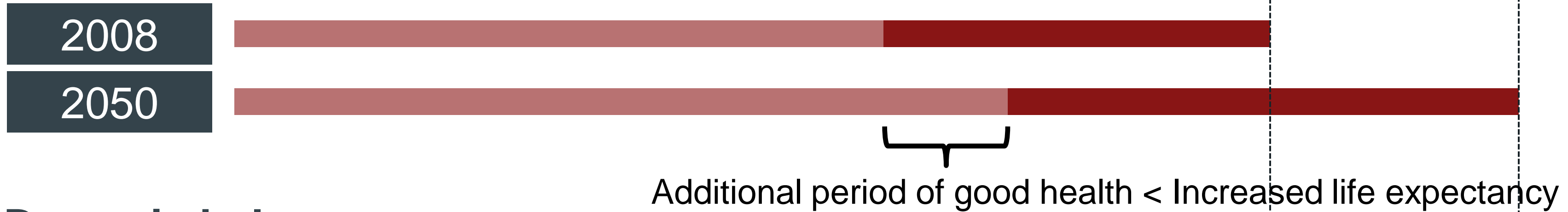
» through evidence-based health policy

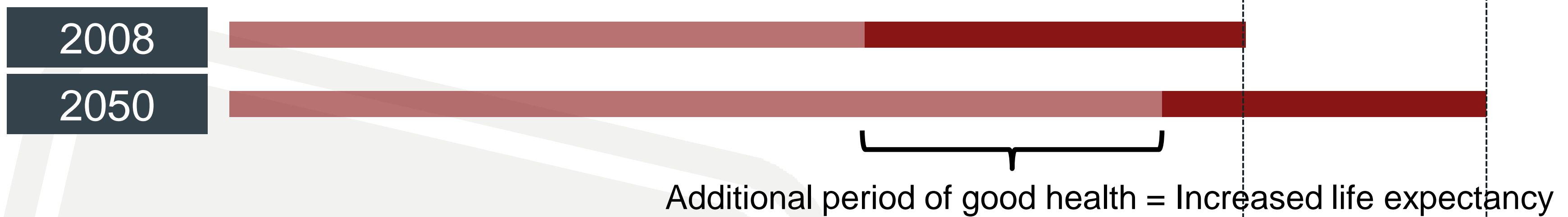
» through a consistent basic legal framework and binding guidelines

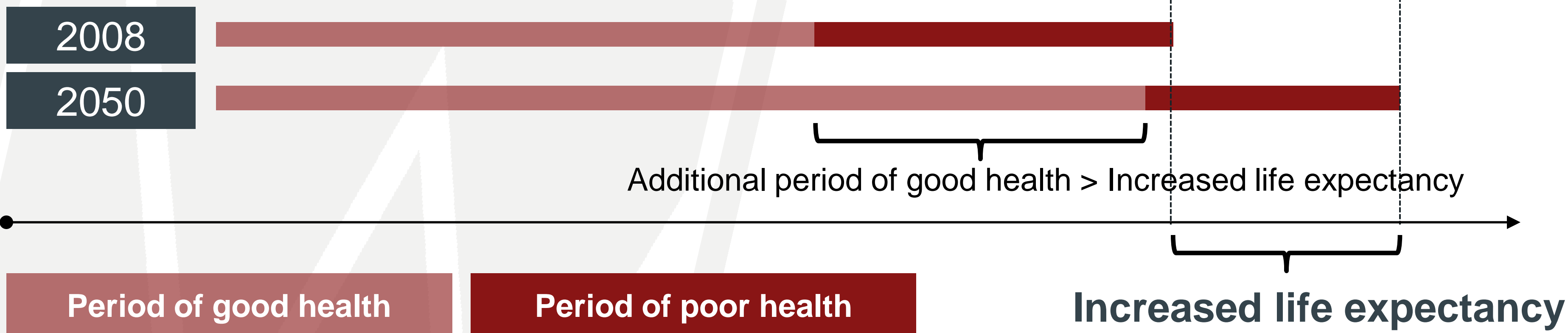
And last but not least:
Health assessment (HA) as the major scientific challenge

Perspective 4: Measuring performance in the health care sector

Health assessment as a major scientific challenge







Improving value for money from a health economics perspective

Summary

» **Perspective 1:**
There is no optimal health expenditure Quota and no optimal structure for health expenditures

» **Perspective 2**:
How many fiscal agents are necessary? Germany has too many

» **Perspective 3**:
The economic benefit of the Health economy (export, value added, consumption, employment etc.) should be measured regularly on the basis of the National Accounting system.

» **Perspective 4**:
Additional healthy life years as a major policy objective

There is no gold standard or panacea for balancing the competing demands
for resources, quality and access,
but the OECD approach comes close to it.

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