The Effects of Ageing on the Financing of Social Health Provision

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Outline

How might governments finance increases in their healthcare costs, if they wish to do so?

- Efficient ways of raising revenues
- Possible inefficiency of using social security contributions – increasing the tax wedge on labour
- Risks to support for social healthcare
- The sustainability of social security revenues
- Sin taxes
- Conclusions

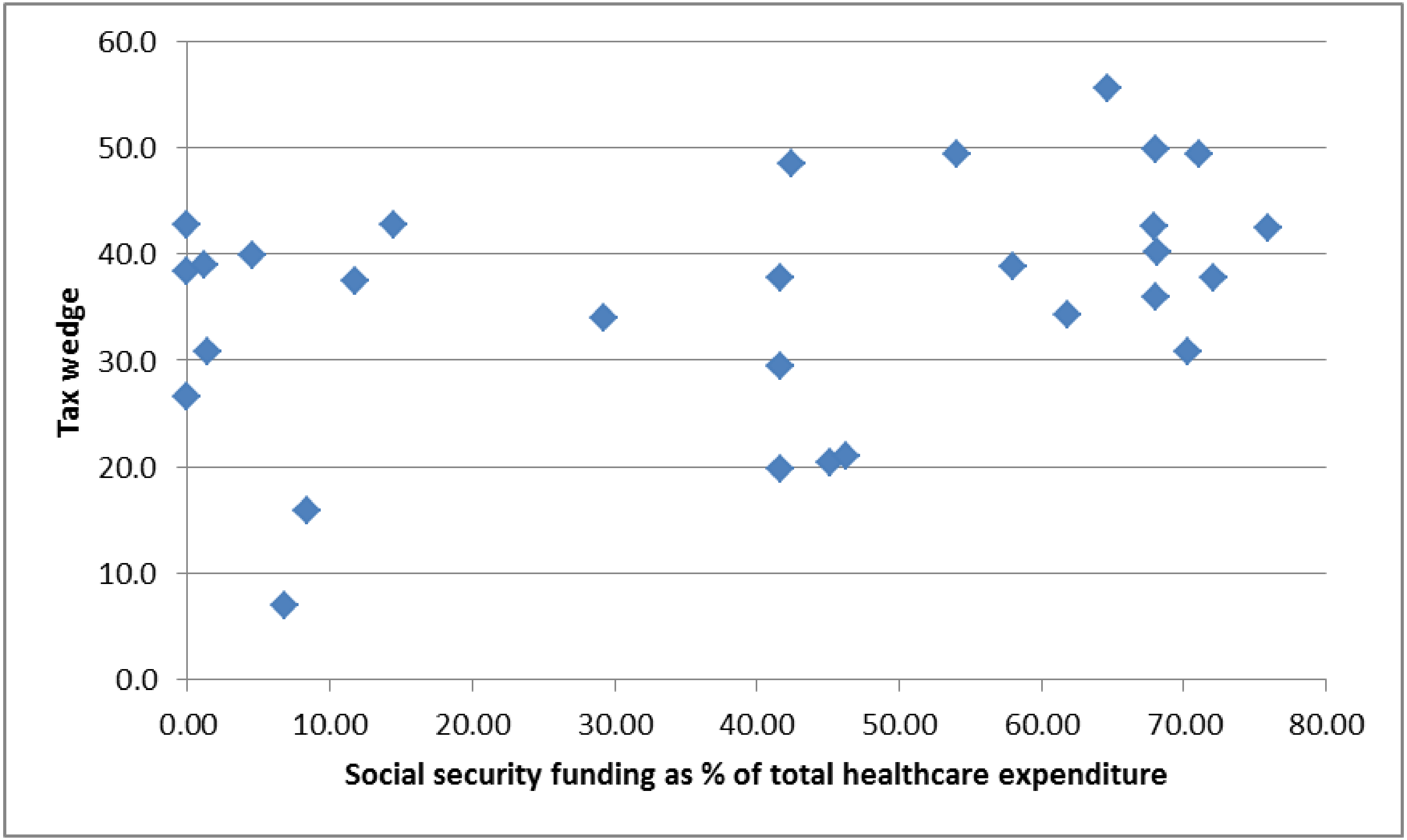
Efficient ways of raising revenues

- Findings from recent OECD study:
  - A shift from income taxes (particularly corporate but also personal) towards consumption taxes and recurrent taxes on residential property would probably, in most OECD countries, increase economic growth.
  - Reforms to the design of individual taxes could be expected to improve economic performance. Beneficial reforms mostly consist of those that broaden the base of the tax and lower its rate.
- The study could not find any difference between the effects of personal income tax and the effects of social security contributions in terms of reducing economic performance

Possible inefficiency of using social security contributions

- Increased social security contributions by an individual do not increase the quality of their healthcare
  - So, they have the same disincentive effects as personal income tax
- Social security contributions are usually a smaller proportion of high earners' incomes than low and middle earners' incomes, because of 'ceilings'
  - So, the burden falls more heavily on lower income people and increases their tax wedge on labour income
- The OECD Jobs Study shows that a higher tax wedge reduces labour force participation, particularly for low wage workers

Figure 5: Reliance on Social Security Contributions and the Tax Wedge



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Risks to support for social healthcare

- Older people use a higher level of healthcare resources than those of working age
- But many taxes – particularly social security contributions – are paid mainly by those of working age
- So, will those of working age vote against tax increases that finance healthcare of the elderly?
- This risk can be reduced by minimising the efficiency costs of taxation and increasing the share of the taxes paid by older people
  - This involves using broader based taxes than social security contributions
- But, there is no evidence yet that this is a problem

Figure 3: Public health care expenditure by age (% of GDP per capita)

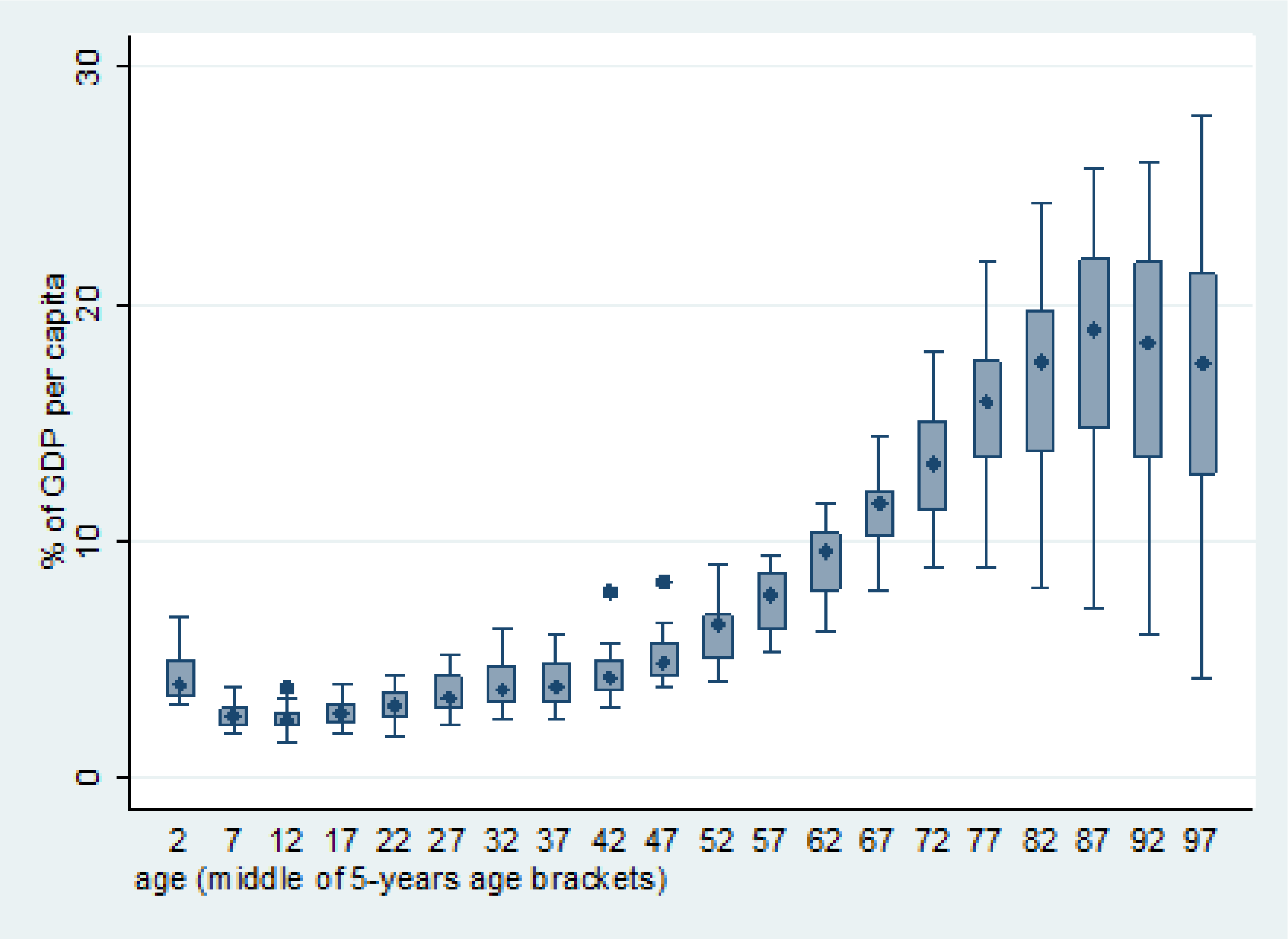

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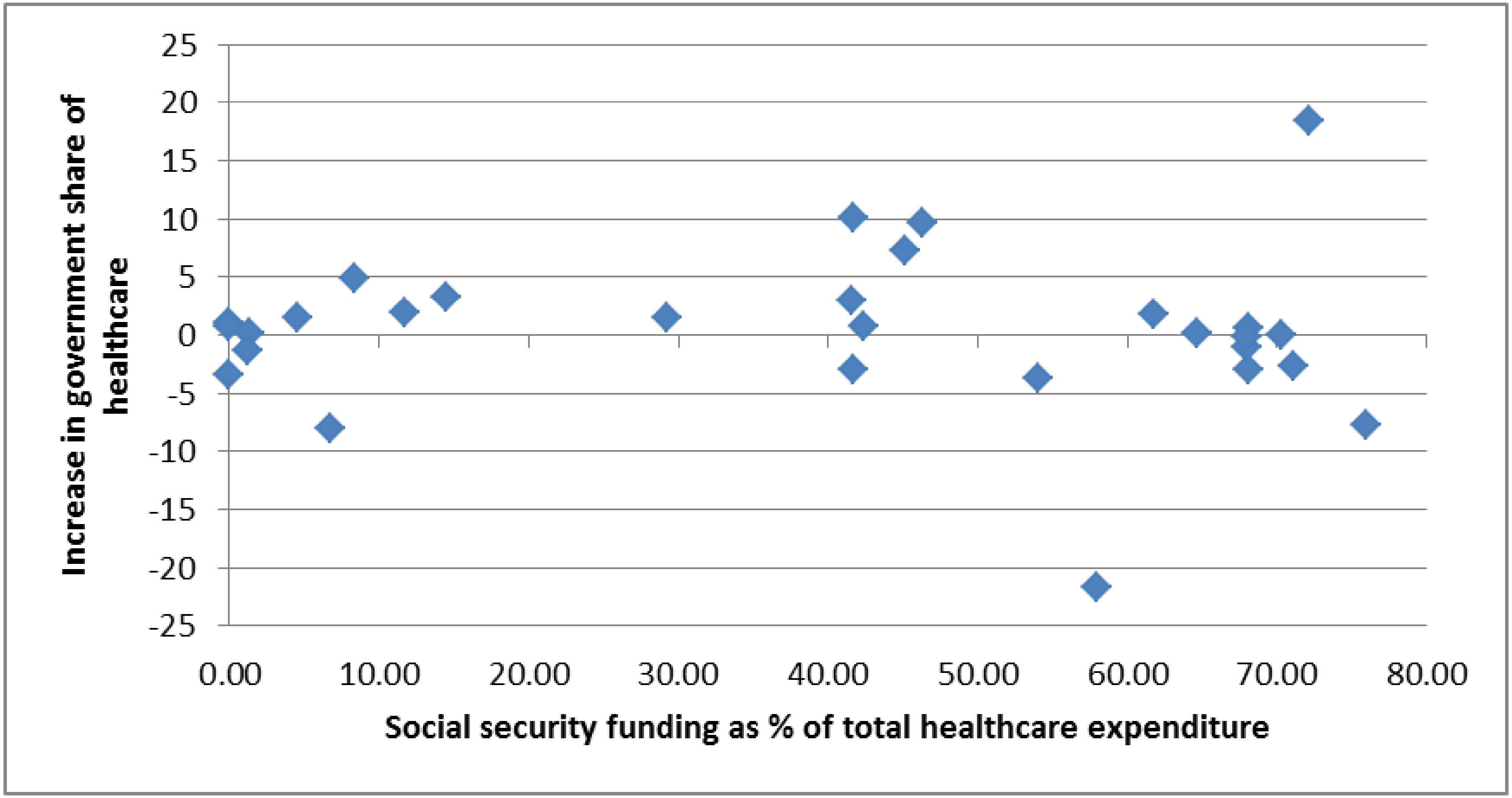
Figure 6: Reliance on Social Security Contributions and the increase in the government share of healthcare expenditure



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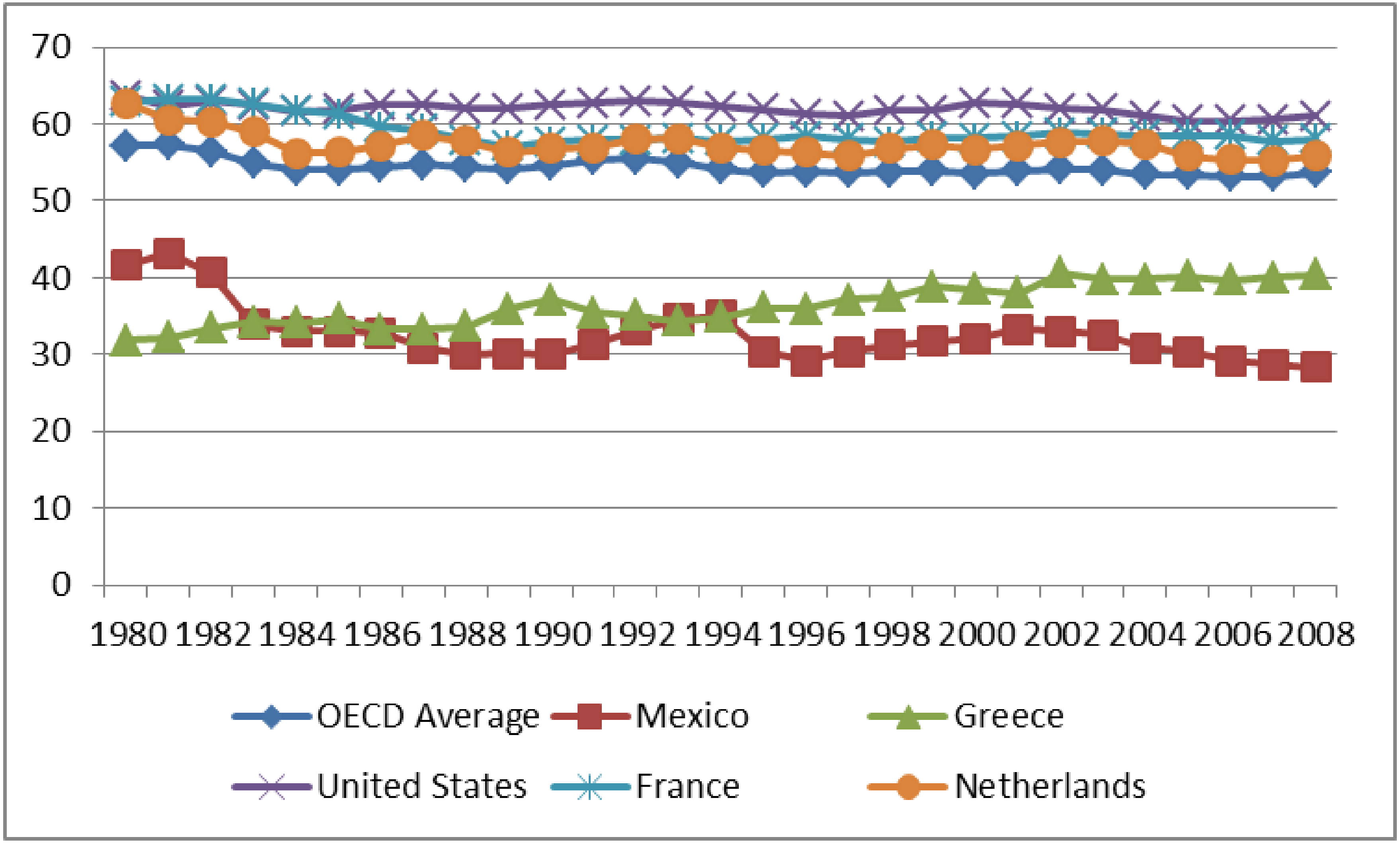
The sustainability of social security revenues

- As much of healthcare funding in many countries comes mainly from working people, the ageing population may put this funding at risk
- There has been a decline in the share of labour income in GDP in OECD countries but this is likely to be more a result of globalisation than ageing
  - The decline has slowed while ageing continues
- Also, the theory suggests that if the number of workers falls, their wages will rise to reduce or eliminate the fall in labour's share
- However, there is a risk to narrow tax bases such as social security contributions,
  - including the increasing income share of high earners, who pay a smaller proportion of their income in contributions

Figure 4: Compensation of employees, percentage of gross value added



Sin taxes: what contribution can they make

- Some countries earmark excise duty revenues to finance healthcare
- This makes some sense, as the excises are often levied on goods that are harmful to health
- Also, the standard objection to earmarking does not apply because they are such a small part of the required funding
- However, the revenues from these duties has tended to fall rather than rise over time in most OECD countries
- Also, increasing these duties substantially can reduce economic efficiency

Conclusions

In brief, the implications of this paper are that:

- Broader based and less distortionary taxes are likely to be the best means of meeting any increasing financing needs for public healthcare.
- The use of social security contributions should be moderated, especially for those countries that rely on them heavily.
- Sin taxes can have a modest role to play but will not solve the financing problems created by population ageing.

Thank you for your attention

Figure 1: Total expenditure on health, % gross domestic product

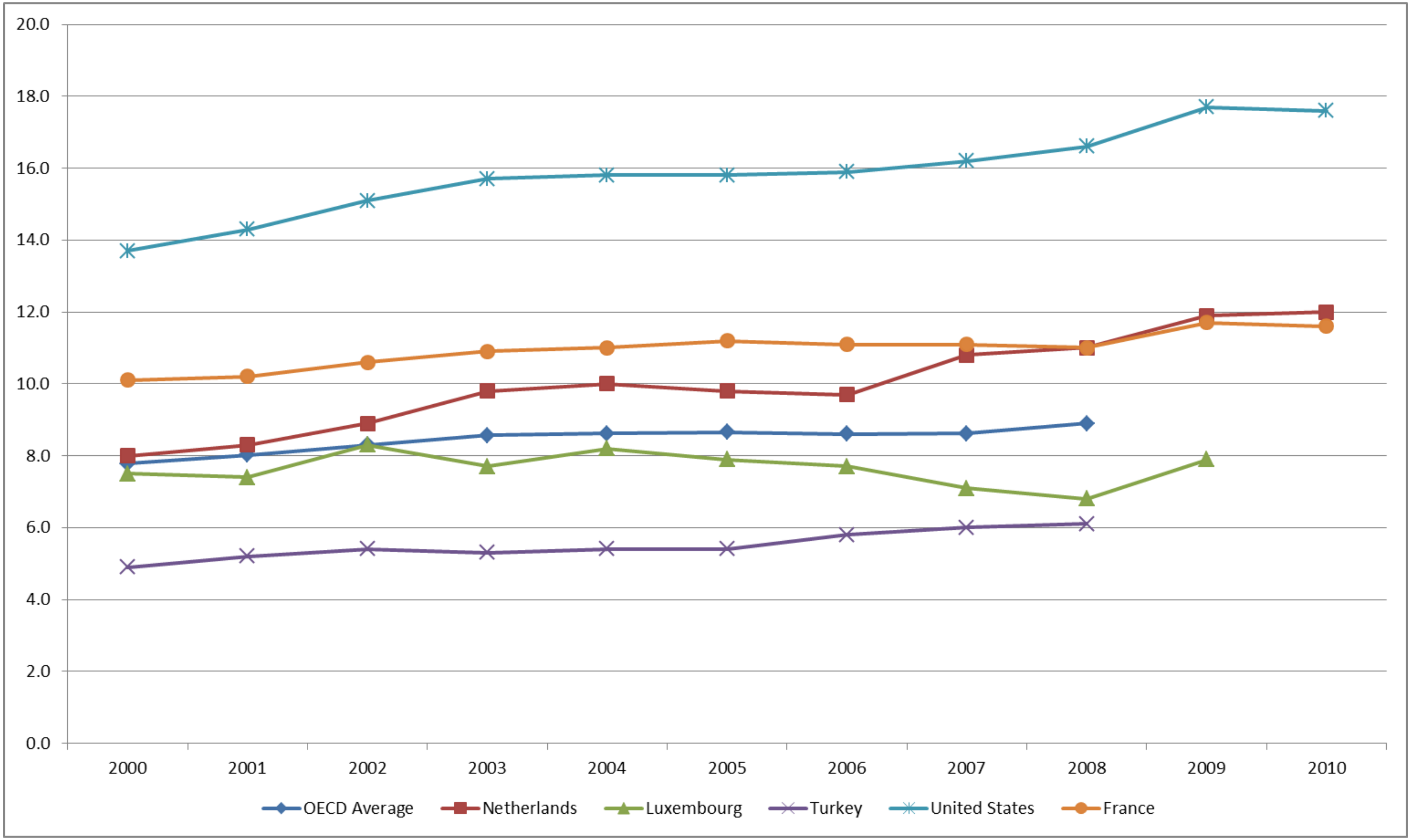


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Figure 2: Public expenditure on health, % total expenditure on health