SLOVAK HEALTH REFORM
Courage to reforms

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Health Policy Institute

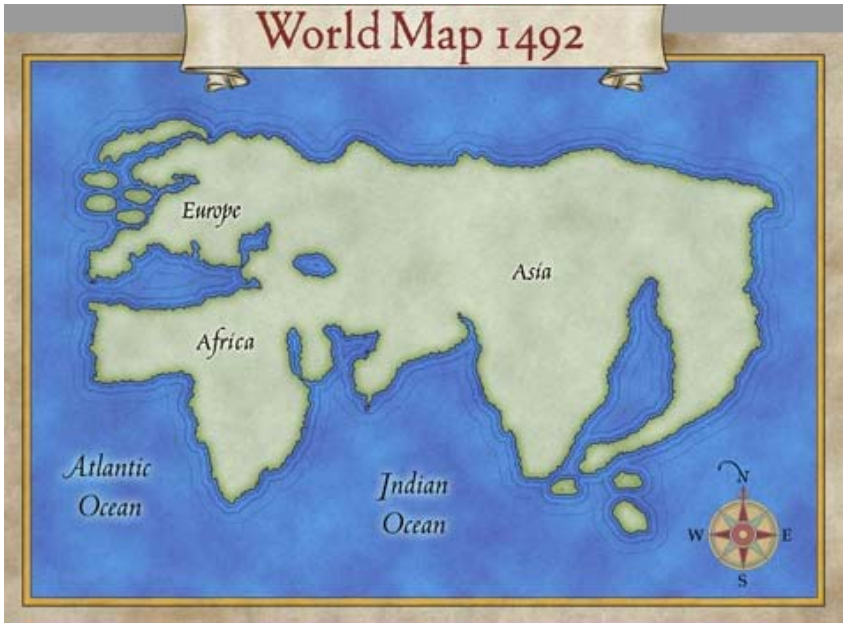
Content

- Why Columbus discovered America?
- In 2002
- Three success factors
- Reform goals
- No „All-you-can-eat“ table
- Balancing solidarity and motivation
- The role of profit
- No „Animal Farm“
- Conclusions and Outlook

Why Columbus discovered America?

Europe:

decentralized



China:

centralized

Why Columbus discovered America?

Duke of Anjou

↓

King of Portugal

↓

Duke Medina-Sidonia

↓

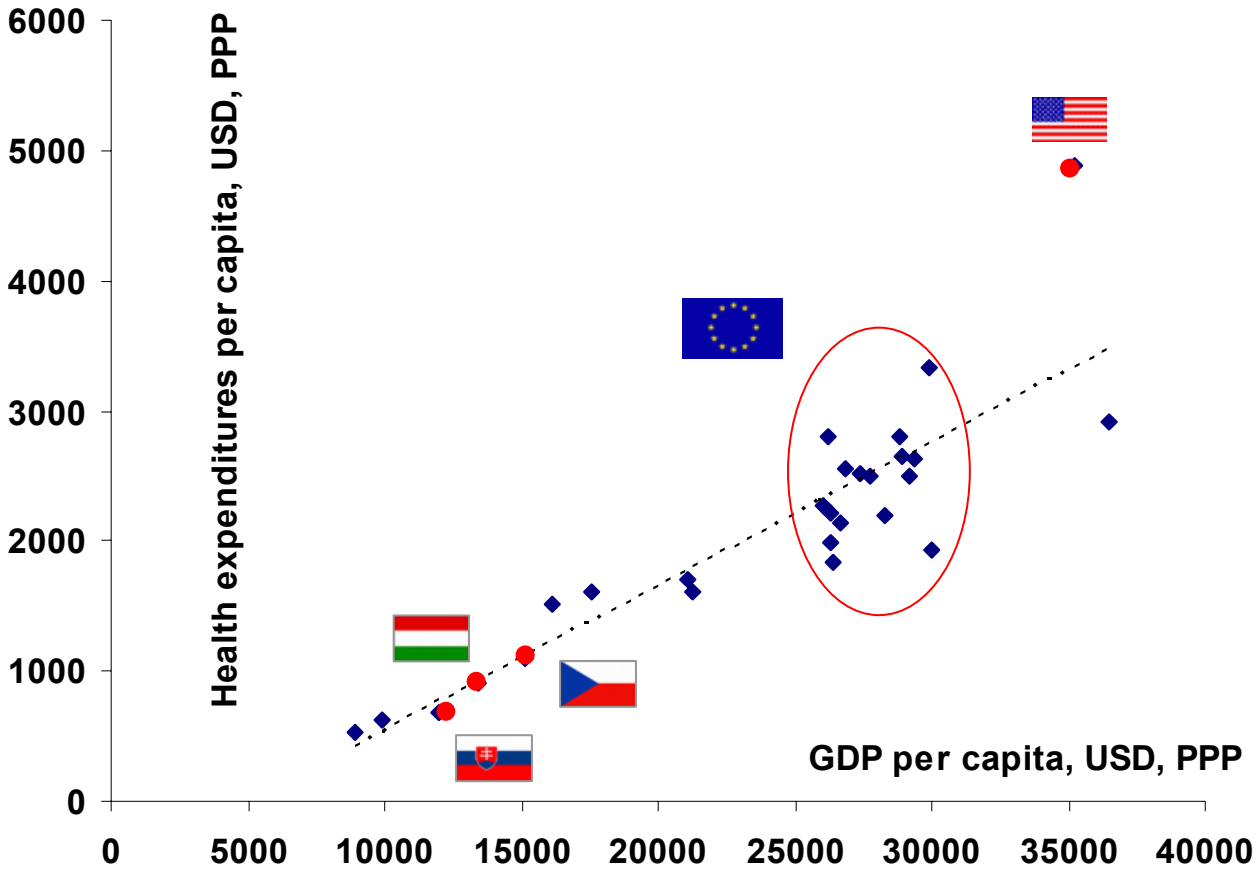
Duke Medina-Celi

↓

King and Queen of Spain

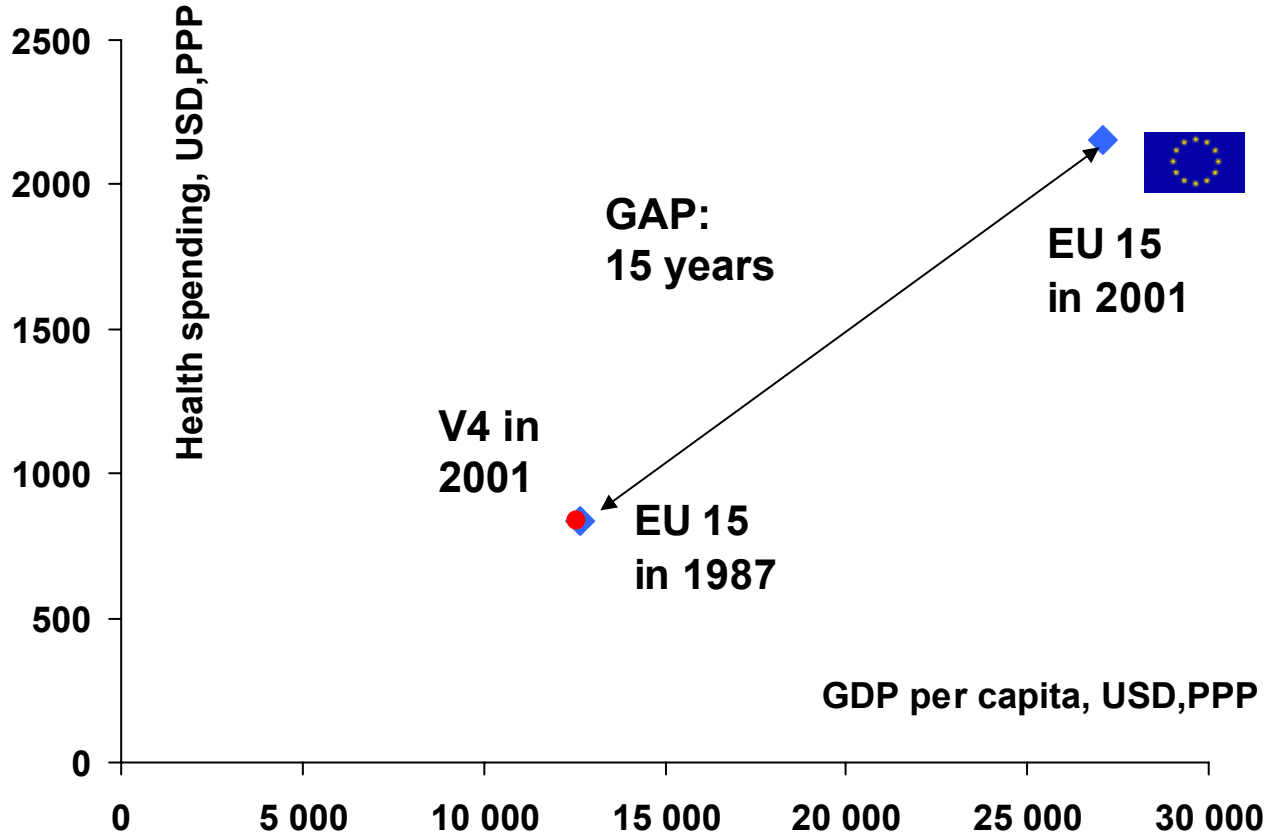
Slovakia in 2002:

GDP and Health



Source: OECD, 2004

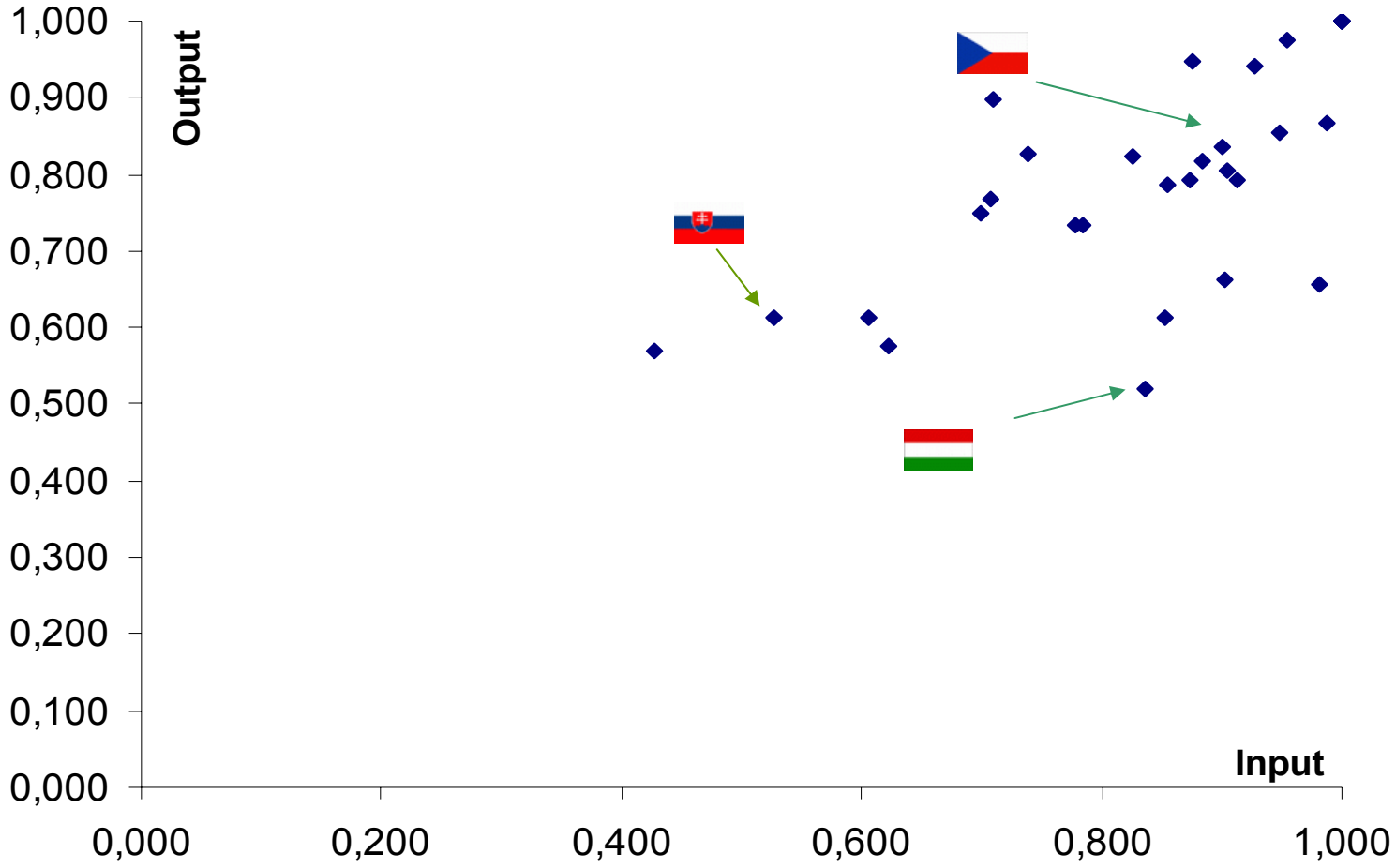
V4 versus EU 15: Gap 15 years



Source: OECD, 2004

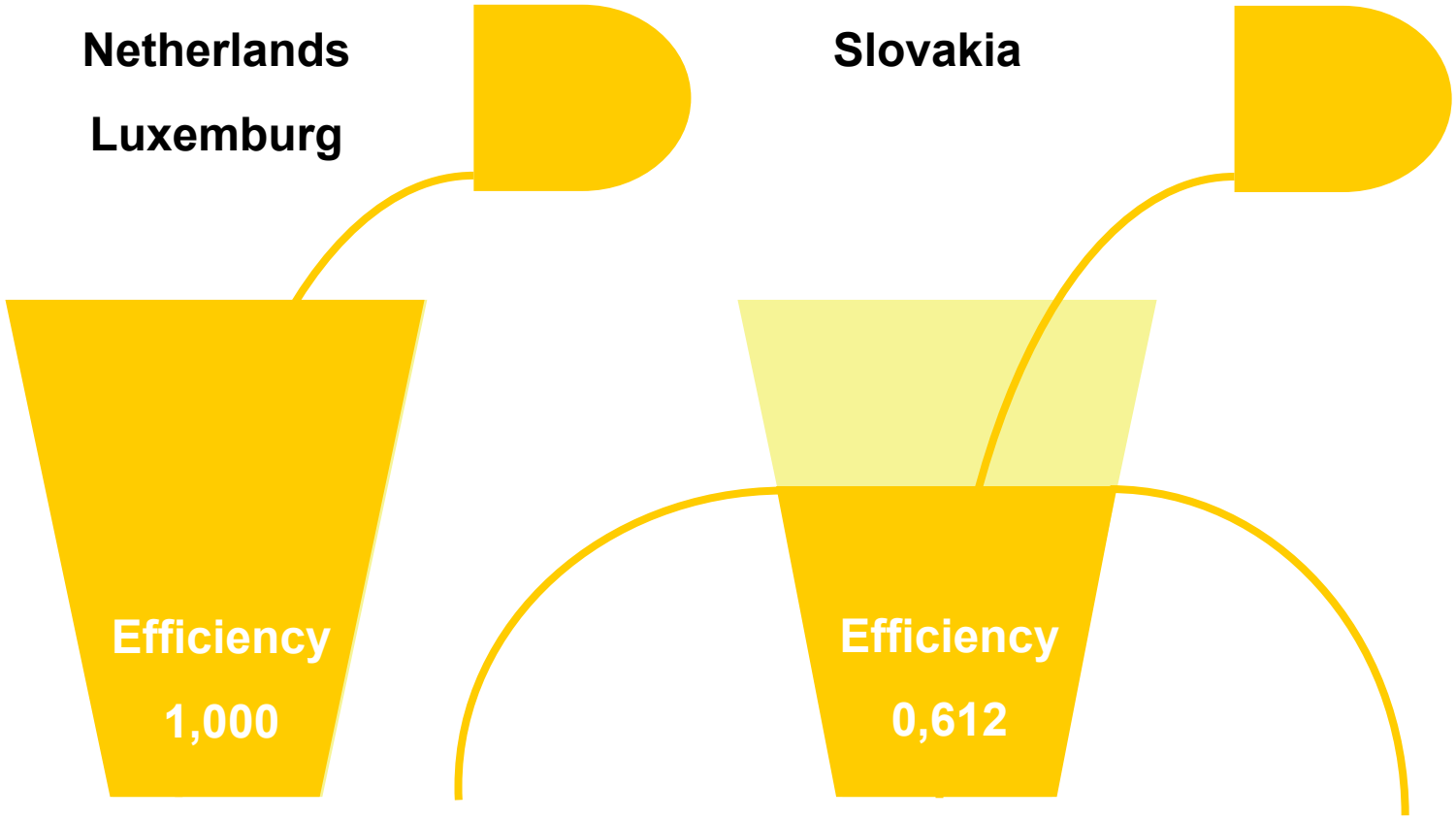
Efficiency gap

NED,LUX,
JAP, MEX



Source: ifo Institute Munchen , 2004

Problem: efficiency



Three success factors

- Clear Vision

- Strong Leadership

- Commited Government

Clear Vision

- November 2001 – vision
- September 2002 – elections
- June 2003 – stabilization measures
- September 2004 – reform laws
- January 2005 – implementation

Strong Leadership

Poland	Czech Republic	Hungary	Slovakia
Mariusz Łapiński (Oct 2001 – Jan 2003)	Marie Součková (July 2002 – Apr 2004)	Csehák Judit (May 2002 – Sep 2003)	Rudolf Zajac (Oct 2002 – June 2006)
Marek Balicki (Jan 2003 – Apr 2003)	Jozef Kubínyi (April 2004 – Aug 2004)	Kökény Mihály (Sep 2003 – Oct 2004)	
Leszek Sikorski (Apr 2003 – May 2004)	Milada Emmerová (Aug 2004 – Oct 2005)	Rácz Jenő (Oct 2004 – Mar 2006)	
Wojciech Rudnicki (May 2004)	Zdeněk Škromach (Oct 2005 – Nov 2005)		
Jerzy Hausner (May 2004 – June 2004)	David Rath (Nov 2005 – June 2006)		
Marian Czakański (June 2004 – July 2004)			
Marek Balicki (July 2004 – Oct 2005)			

Commited Government

I. Tax Reform (2003) – Corporate and Wage Tax – 19 %
II. Pension Reform (2003) – Two pillars (public and private)
III. Public Administration Reform (2004) – Fiscal Decentralization
IV. Labour Market Reform (2003) – Modern Labour Code
V. Health Care Reform – Stabilization (2003)
– Reform Acts (2004)

Goals of 2004 Reform

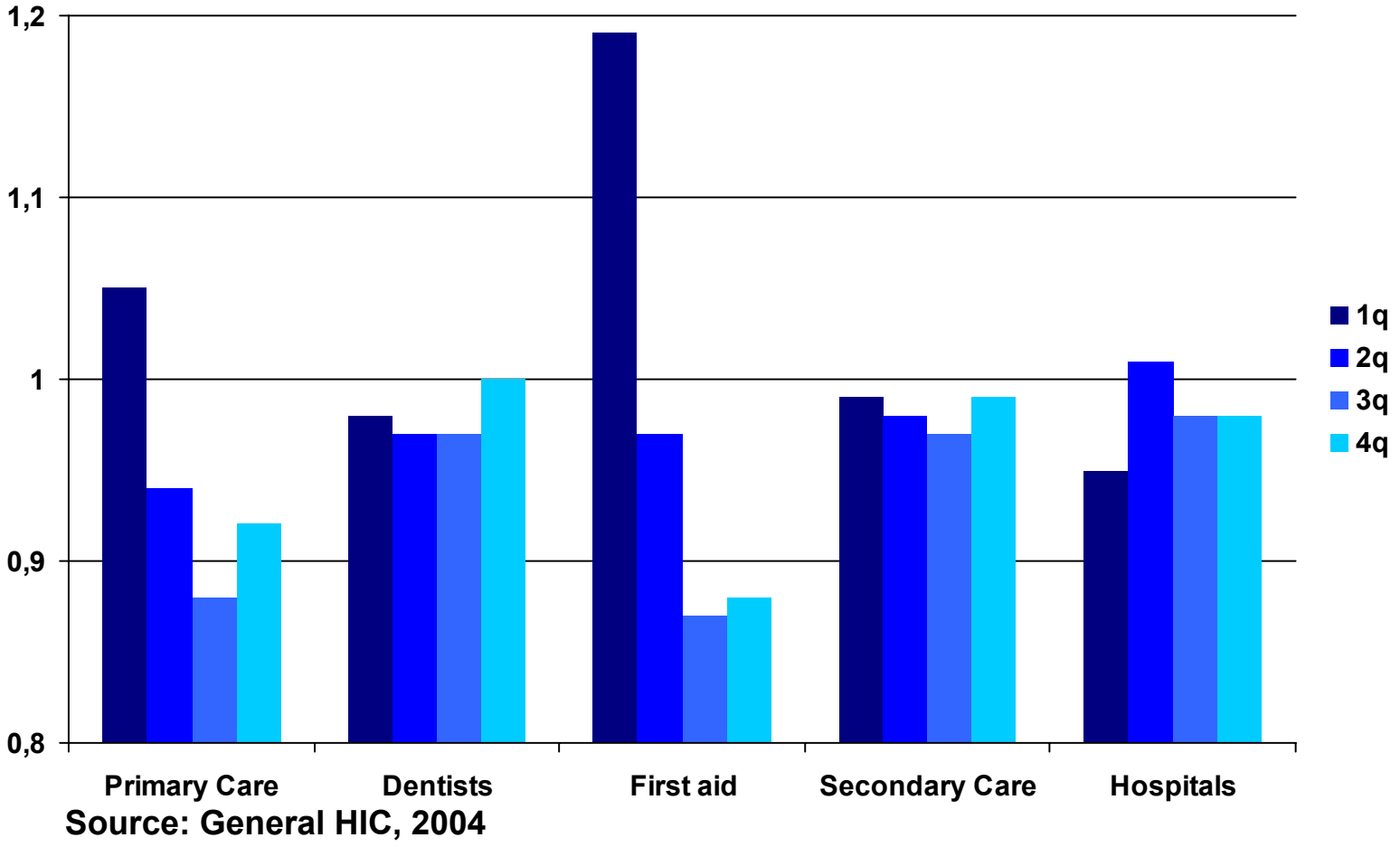
- Create environment and incentives for patients to improve their health status
  (Health is an individual good)
- Equal treatment to equal need
  (with respect to the national list of priorities)
- Guarantee protection of catastrophic costs
  (increase financial self responsibility with respect to vulnerable groups)
- Increase allocative efficiency of Health Insurance Companies
  (Regulated Competition in Purchasing)

No „All-you-can-eat“ Tables

Evidence from application of co-payments

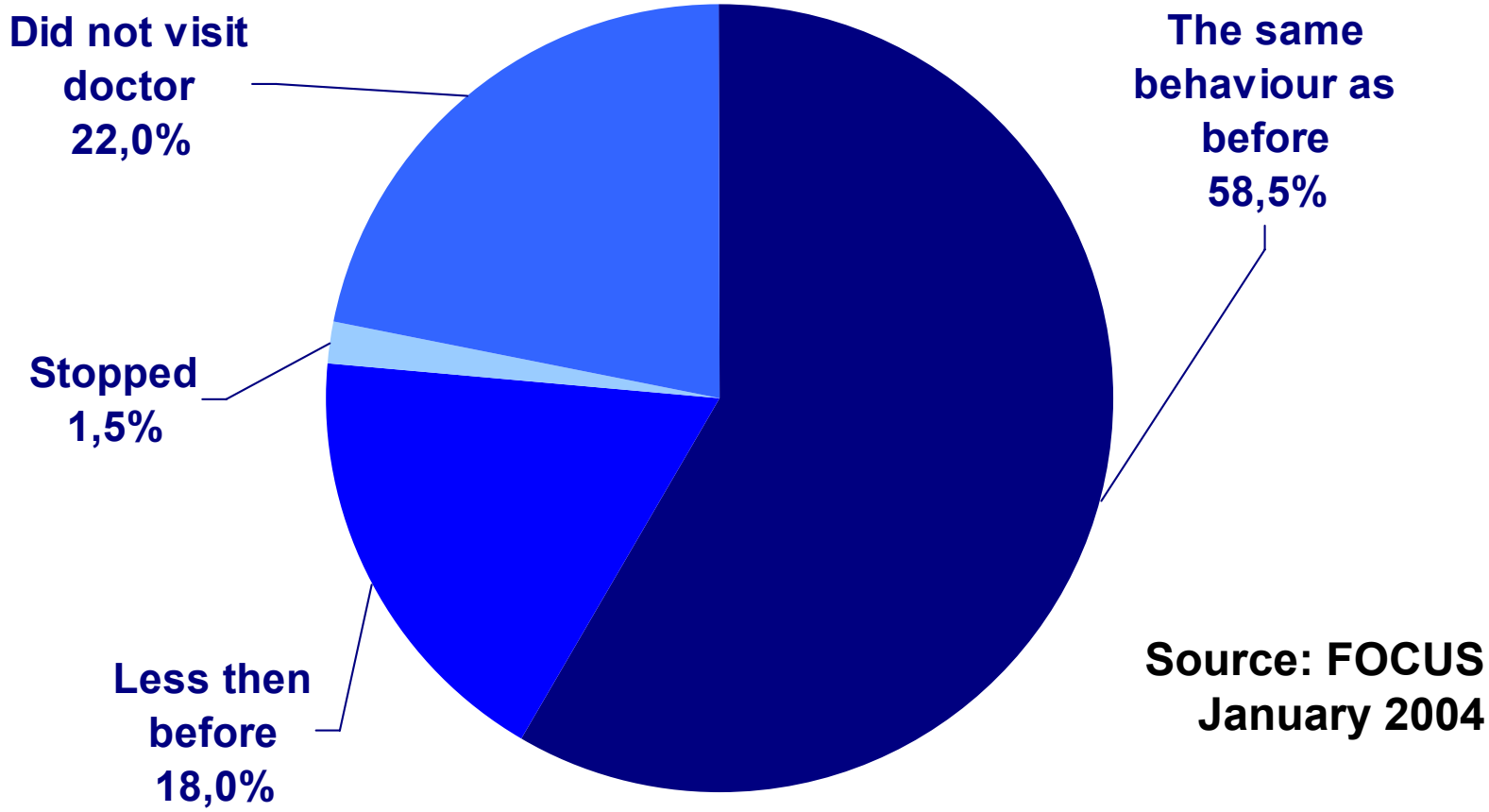
	Patient	Health Insurance Company	Provider (Pharmacy)
Primary care	20 Sk	0 Sk	20 Sk
Secondary care	20 Sk	0 Sk	20 Sk
Accomodation and food in inpatient care	50 Sk	0 Sk	50 Sk
Transport	2 Sk/km		
Prescription fee	20 Sk	15 Sk	5 Sk

Impact of co-payments
(Index 2003/2002)



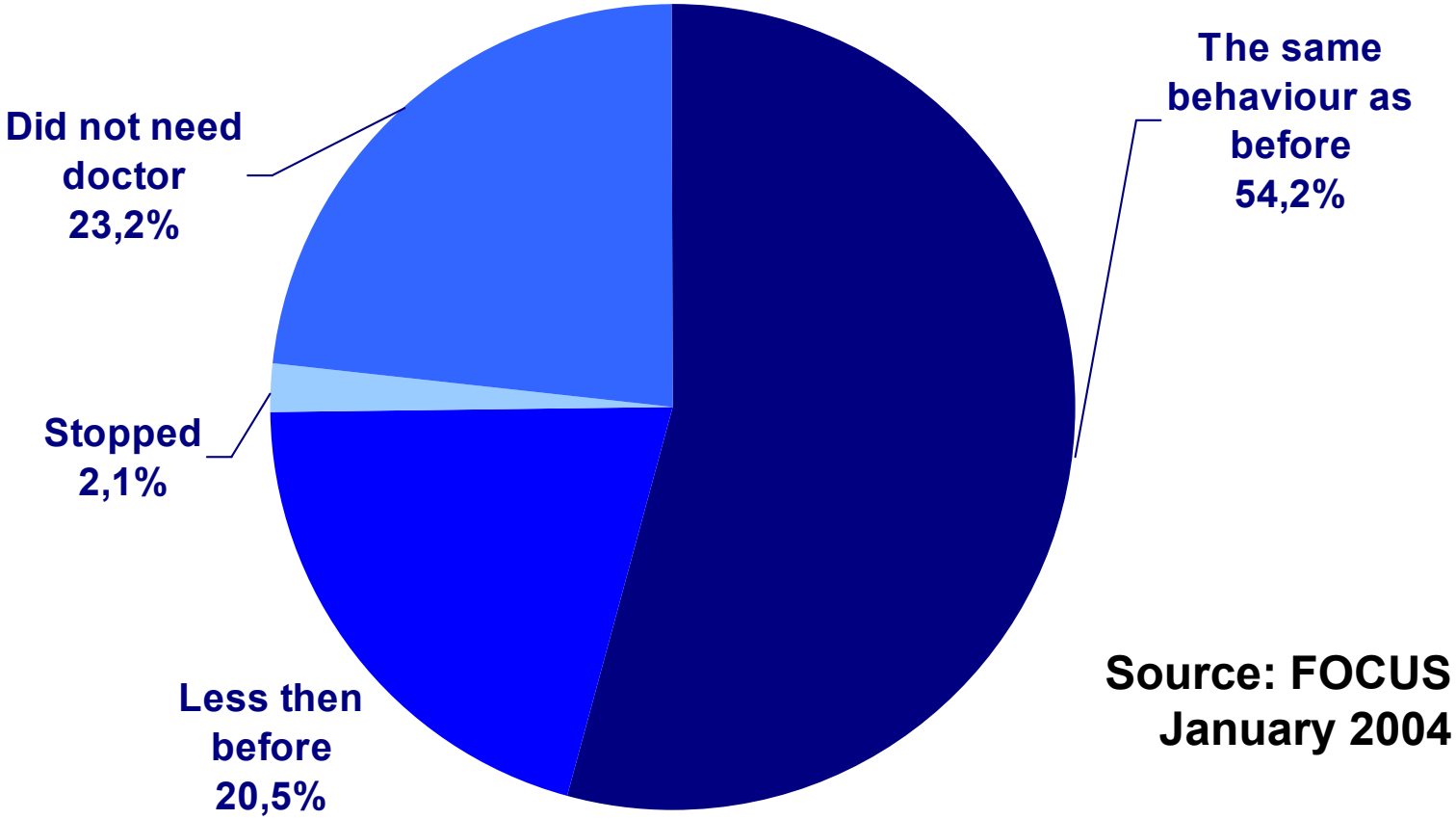
Source: General HIC, 2004

The access to care was not hurt



Source: FOCUS January 2004

The prescription of drugs was not hurt



Source: FOCUS January 2004

Access to care was not decreased

The initial hypothesis came true, that

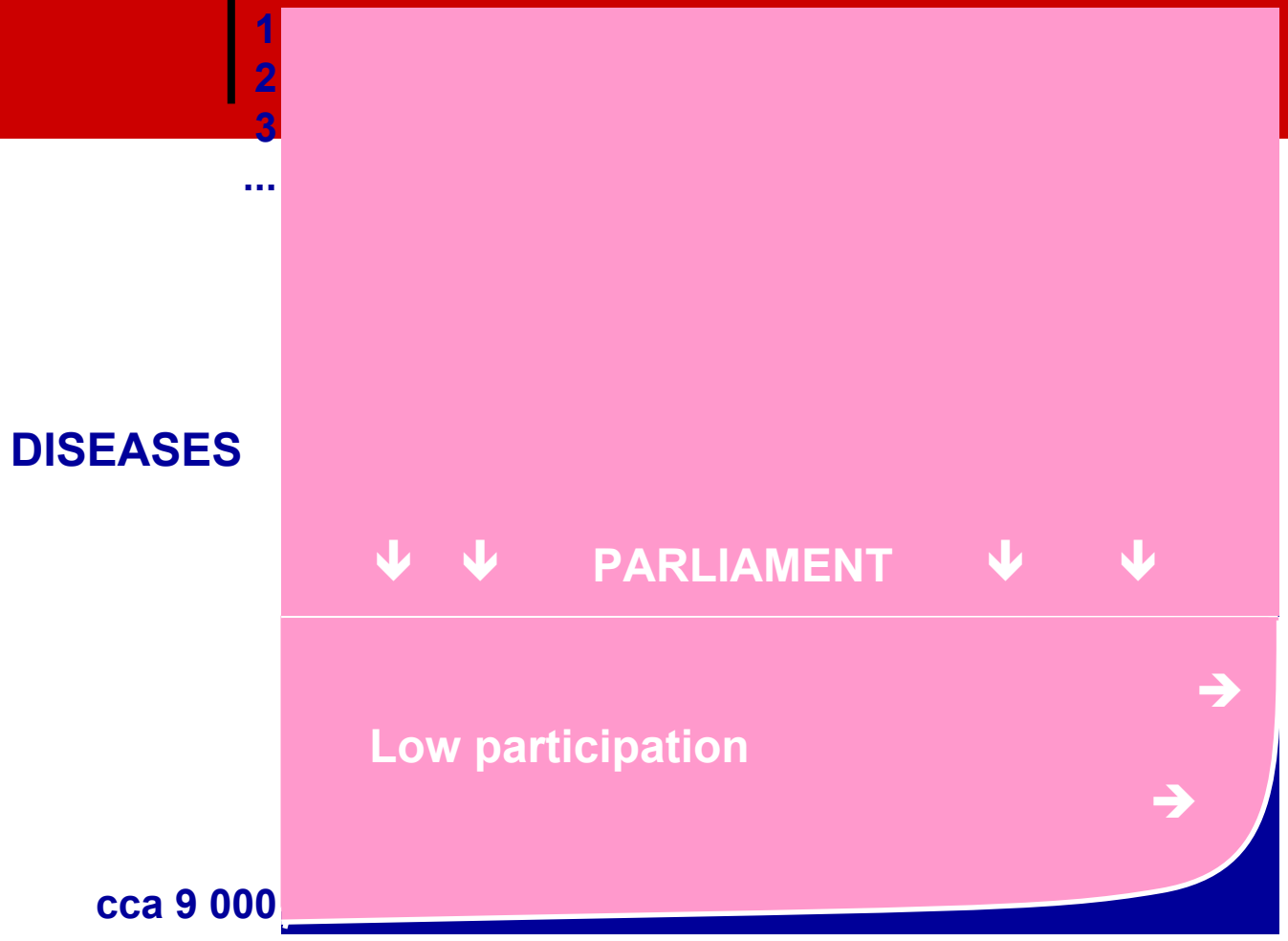
1. Only excessive demand felt down
2. The access to care was not decreased
3. The perception of corruption decreased (from 32% to 10%)

List of Citizens' Priorities

Disease	%
Cardiovascular diseases	74.2
Cancer	68.8
Diabetes, metabolic disorders	26.2
Orthopaedic diseases	16.6
Mental, psychiatric, nerve disorders and stress	16.1
Influenza	12.1
Allergies	10.9
Respiratory diseases	8.6
Infection diseases, hepatitis, TBC and AIDS	6.3
Incorrect diet, obesity	6.2
Alcoholism, smoking, drug addictions	4.6
Dental problem	1.4
Skin diseases	0.9
Gynaecological diseases	0.8

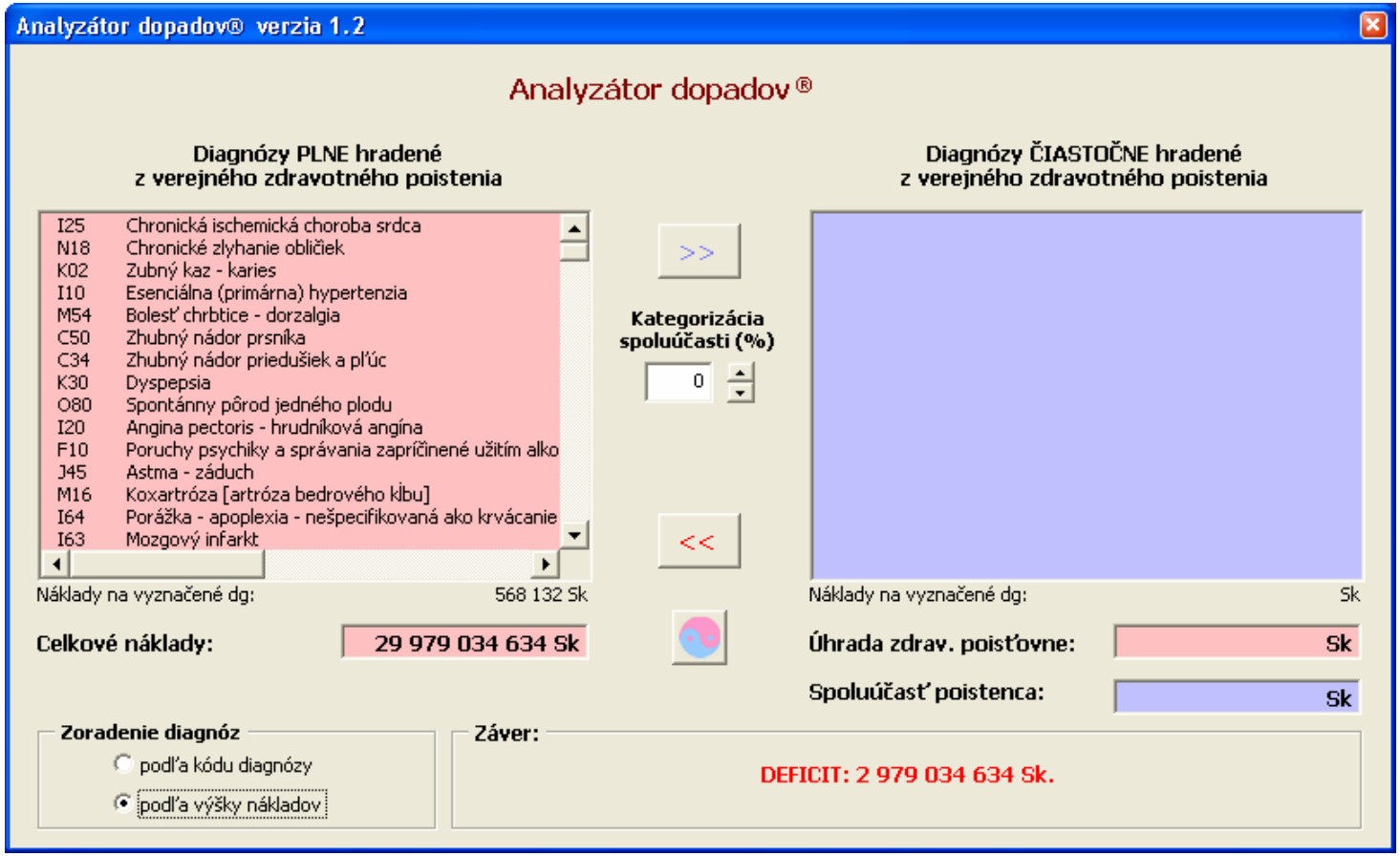
Source: FOCUS, January 2004

National Priority List

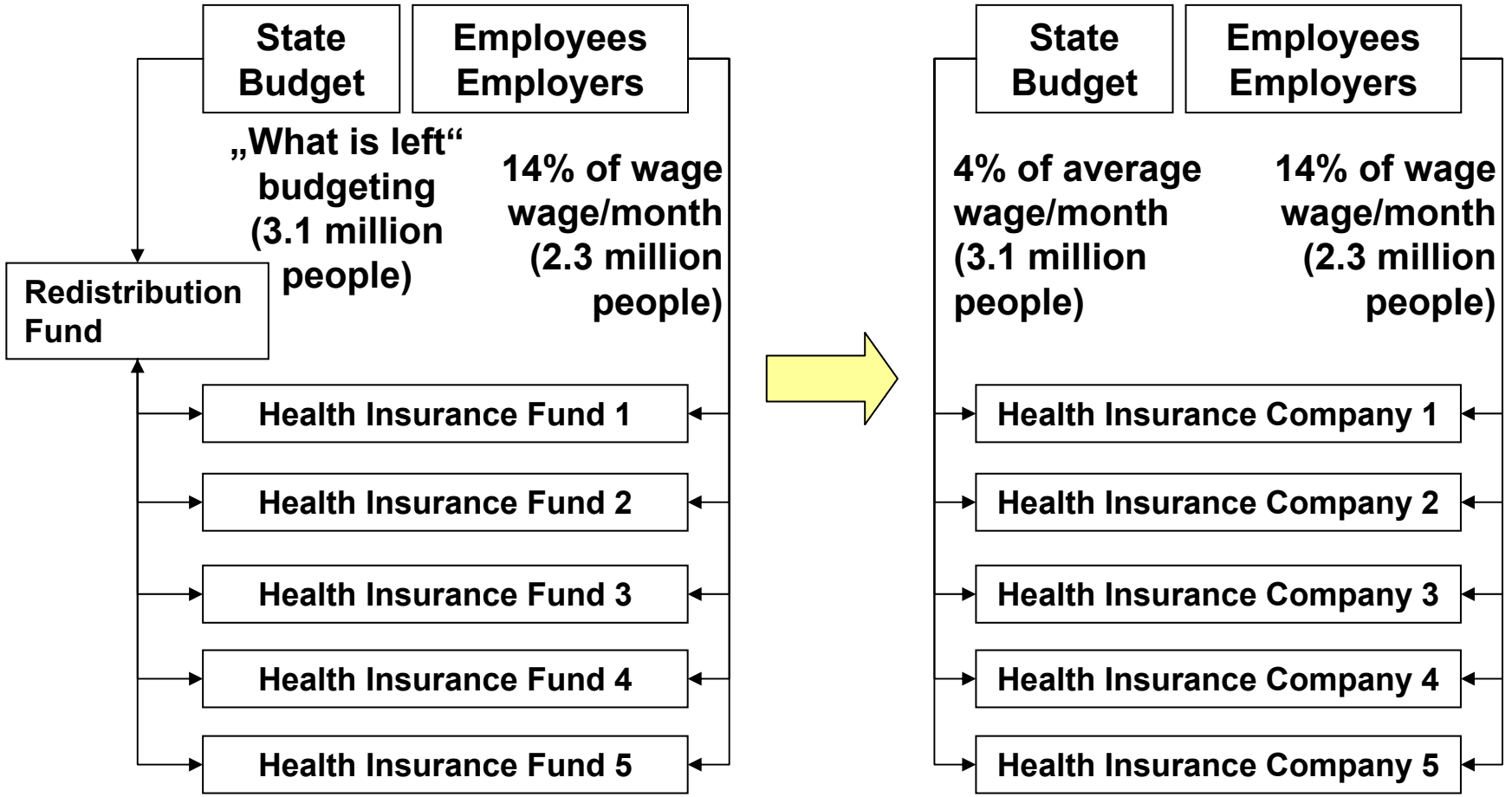


- **Critical Risks:**
  - financial protection of patients against the risk of excessive costs
  - urgent care
  - chronic diseases

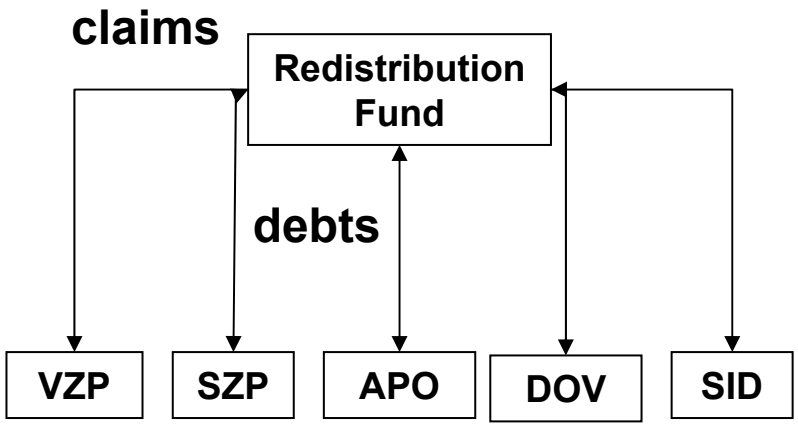
Analyzer Tool



Financing


State Budget
Employees Employers
„What is left“ budgeting (3.1 million people)
14% of wage wage/month (2.3 million people)
Redistribution Fund
Health Insurance Fund 1
Health Insurance Fund 2
Health Insurance Fund 3
Health Insurance Fund 4
Health Insurance Fund 5
State Budget
Employees Employers
4% of average wage/month (3.1 million people)
14% of wage wage/month (2.3 million people)
Health Insurance Company 1
Health Insurance Company 2
Health Insurance Company 3
Health Insurance Company 4
Health Insurance Company 5

Redistribution

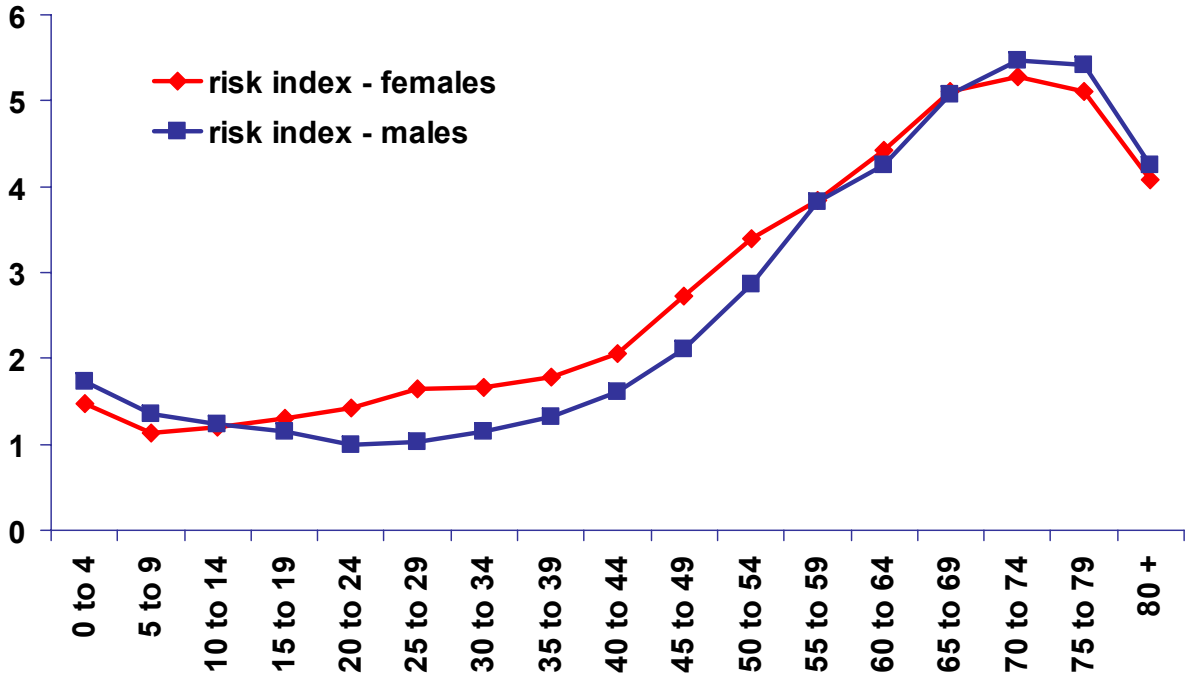


	VZP	SZP	APO	DOV	SID	∑
VZP		3,4	1,2	0,5	0,1	5,2
SZP	-3,4					-3,4
APO	-1,2					-1,2
DOV	-0,5					-0,5
SID	-0,1					-0,1
∑	-5,2	3,4	1,2	0,5	0,1	0,0

- No legal subjectivity of the Redistributoin Fund
- Classified Claims and Debts
- Untransparent System

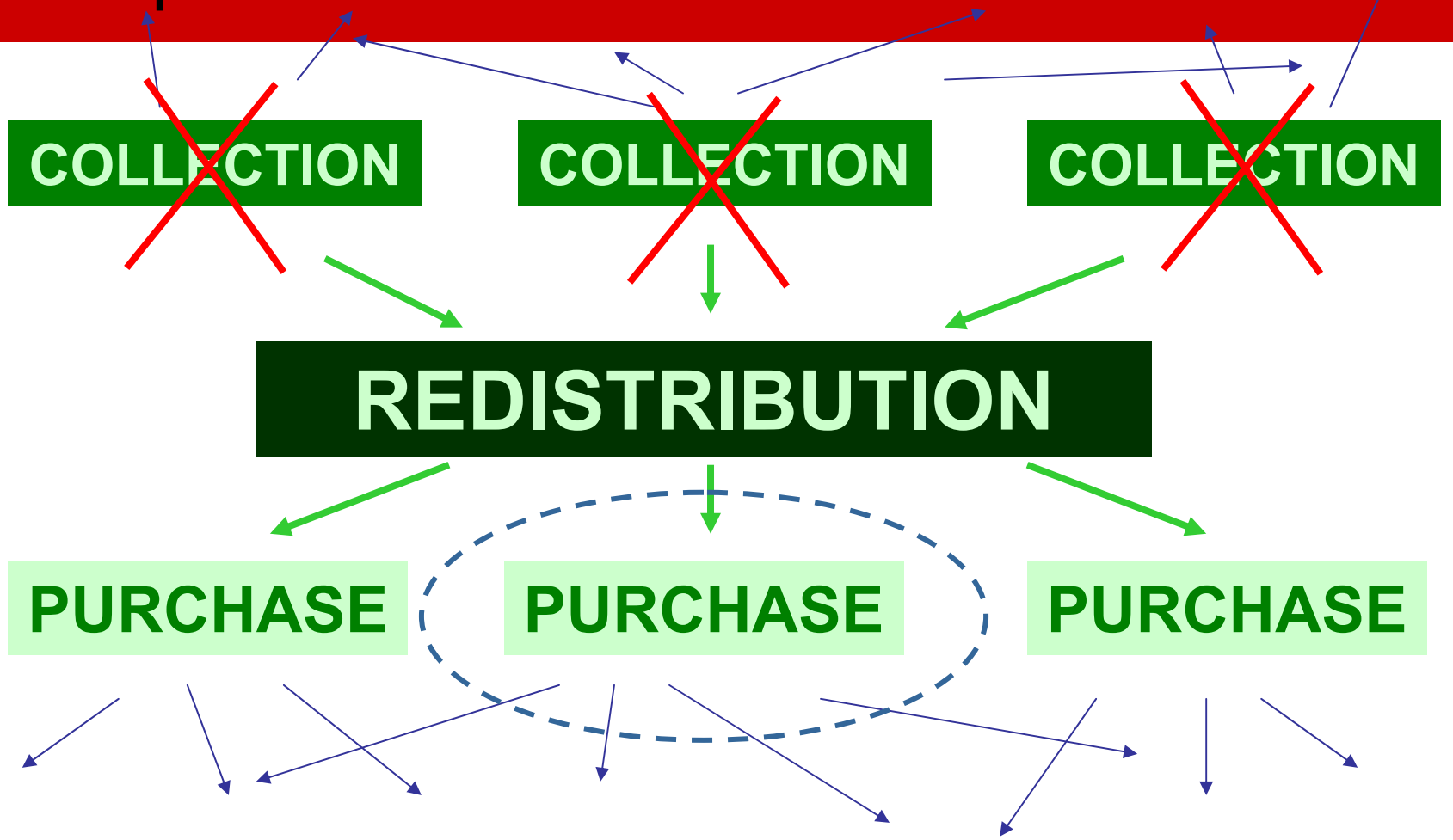
Redistribution Cost (Risk) Index

Goal: Ensure equal volume of disposable resources for every insured, corresponding to his/her risk index



HIC	Before RED	After RED	NET Gain
VZP	30,5	35,6	+ 5,2
SZP	9,6	6,1	-3,4
APO	5,3	4,2	-1,2
DOV	3,4	2,8	-0,5
SID	3,6	3,5	-0,1
∑	**52,3**	**52,3**	**0,0**

Competition between Health Insurance Companies



Payment mechanisms

Provider	Payment mechanism	Price Regulation
Emergency	Fixed price per car + variable per km	Fixed Price
Primary care	Capitation + Fee for service (vaccination and prevention)	None
Secondary care	Capped fee for service Reduced price after certain limit	None
Tertiary care	„Broadband DRG“	None
Long-term care	Beddays	None

Regulation

Subject of regulation	Method of regulation
Access to care	Minimal network requirement
Quality of Care	Systems of quality Protocols Health Market Authority
Solvency of HIC	Solvency ratio > 3% Health Market Authority
Drug Policy	Categorization

Increasing efficiency in drug policy

- **Stabilization**, up to decreasing the expenditures in favor of other areas of health system
- **Increasing efficiency** – more efficient redistribution of expenditures among drugs
  - evidence on irrational and non-effective use of drugs,
  - drugs without EBM,
  - polypragmasia,
  - money abuse,
  - preference of expensive drugs

Drug Policy

- Marginal fees (20 SKK 20 per presription)
- Fixed proportion between reimbursement (HIC) and co-payment (patient)
- Changes in reimbursement committe
- Price bids published on internet
- Decreasing margins for financially expensive drugs
- Higher frequency of reimbursement committee sessions
- „Fast track“ – fast market entry when price is significantly decreased (at least by 10%)
- Generic substitution

Price for DDD risperidon

Categorization	Price/DDD	Price decrease
15.11.2003	**180,0**	
1.2.2004	160,0	-11,1%
15.3.2004	144,0	-10,0%
1.5.2004	80,0	-44,4%
1.7.2004	68,4	-14,5%
1.10.2004	44,1	-35,5%
1.1.2005	35,0	-20,6%
1.4.2005	**25,5**	-27,1%

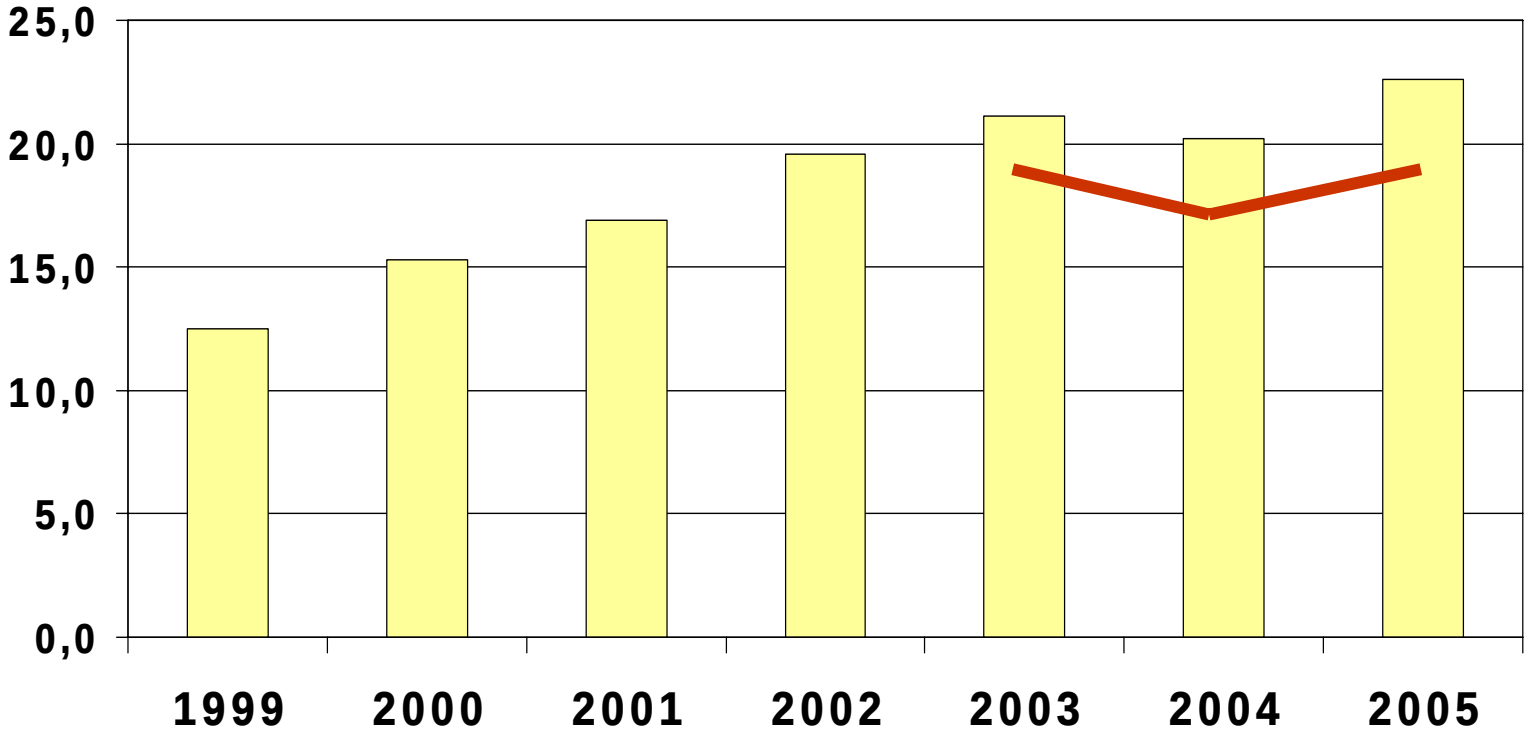
1. genericum

2. genericum

- 85,8%

Drug expenditures

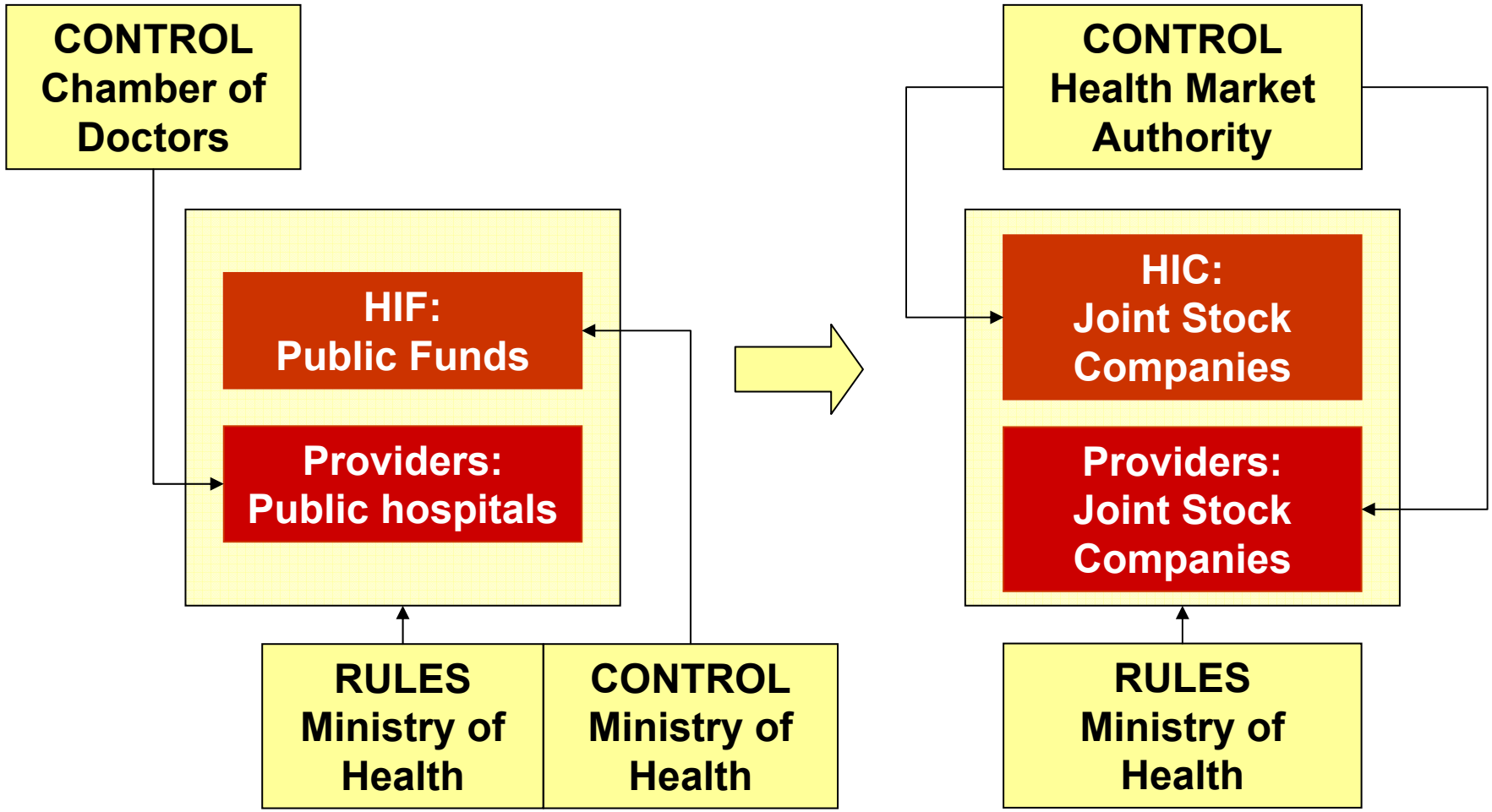
(SKK billion)



** Without VAT increase in 2004 and 2005*

Average growth 1999-2002	19,2%
Average growth 2002-2005	5,1%

Rules / Control Split



Health Market Authority

- Issues licences to health insurance companies
- Updates the risk index
- Checks the solvency of health insurance companies
- Inspects the quality of healthcare services
- Monitors and ensures "*lege artis*"

The Role of Profit

- Only profit guarantees improvement and reproduction of assets, otherwise assets deteriorate
- When the profit is not allowed by law, negative motivations occur
  - Corruption
  - Rent seeking behaviour
  - Hiding of the profit – into costs (no benchmarking possible)
  - Deficits and debts
- Balancing the motivations

Why for-profit orientation in social health insurance

- Motivation
- Hard budgetary constraints
- Sustainibility of public finances
- Solvency criteria
- Efficient purchasing (market cleaning)
- Innovations
- No political pushes
- Corporate governance

Slovakia (2005)

- For-profit oriented Health Insurance Companies
- Initial capital SKK 100.0 million (EUR 2.8 million)
- Strong supervision by Health Market Authority
- Regular reporting
- Corporate governance (standard bodies)
- Solvency criteria (3% of prescribed premiums)
- External Audit
- Transformation of current 5 HIC from public funds to joint stock companies
- Open market for investors
- After 10 years of deficits as public funds, last year all HIC in Profit

Netherlands (2006)

- The Health insurance system will be operated by private health insuance companies
- They are allowed to make profits and pay dividends to shareholders
- HIC are regulated by Pensions and Insurance Supervisory Authority
- Both existing social health insurance funds and private insurance companies can operate health insurance policies under the Health Insurance Act
- New insurers can also enter the market

Poland (2007?)

- Decentralization of NFZ (National Health Fund)
- Into 5 independent national health funds
- Allow establishment of private health funds (permission from Health Insurance Supervision Commission and they have to be joint-stock companies)
- Initial capital PLN 15.0 million (EUR 3.8 million)

Why in many countries the share of private capital is low

- Cost and value of capital are ignored, thus removing any incentive to manage assets efficiently.
- Generally revenue and capital funding streams are separated
- Ignored opportunity cost of capital
- Payment mechanisms do not cover ammortization
- Direct discrimination of private hospitals

Slovakia - creating an investor friendly environment

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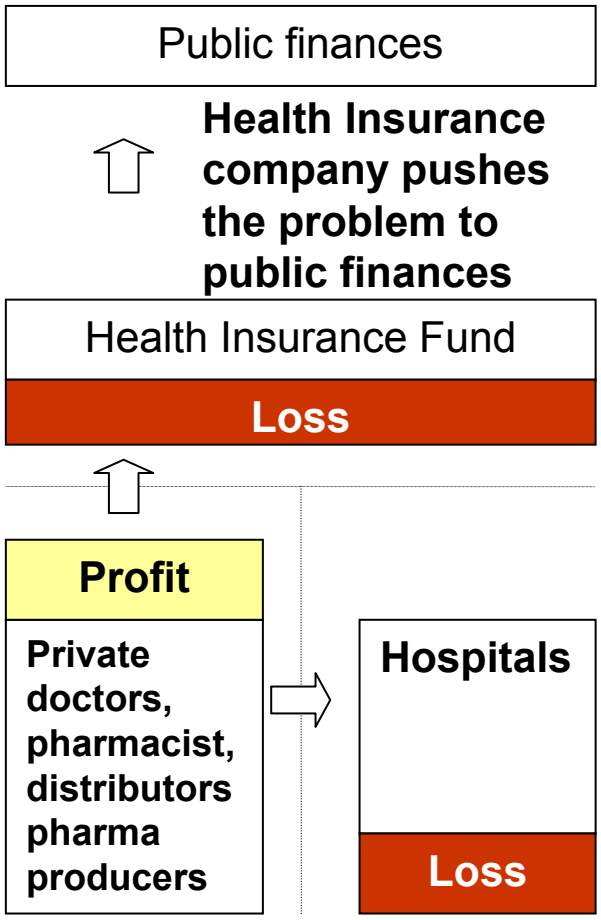
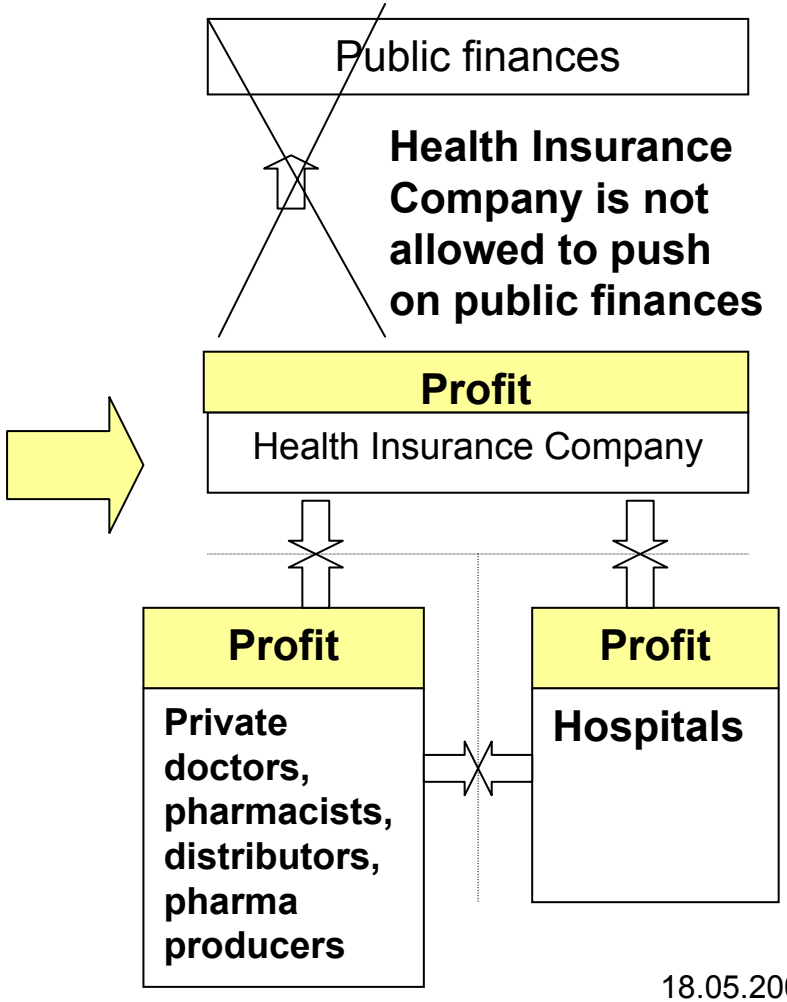
1994 - 2004



2005 -



No „Animal Farm“

- No equal and „more“ equal
- No soft budgetary constraints
- No double streaming of finances
- No discrimination
- No market barriers

Market friendly health policy should

- Abolish double streaming
- Include ammortization into the payment mechanisms
- Minimize political „alibism“ and allow private investors operate on the market
- Allow profit function in the whole health-care sector
- Prefer clear and transparent ownership and legal subjectivity
- Minimalize the creations of hybrids
- Prefer corporate governance also in publicly owned hospitals
- Create free market entry and standard economic environment
- Act as a **wise** regulator, not as an insurer or producer

Successes of SLovak Health Reform

- Marginal user fees
- Health Insurance Companies as for-profit Joint Stock Companies
- Hospitals as for-profit Joint Stock Companies (not all yet)
- Drug policy
- The Creditor Project
- Decrease of debt
- Market friendly environment
- Health Market Authority as market regulator
- Stabilization of public finances

RATING of Slovakia
(Standard and Poors)

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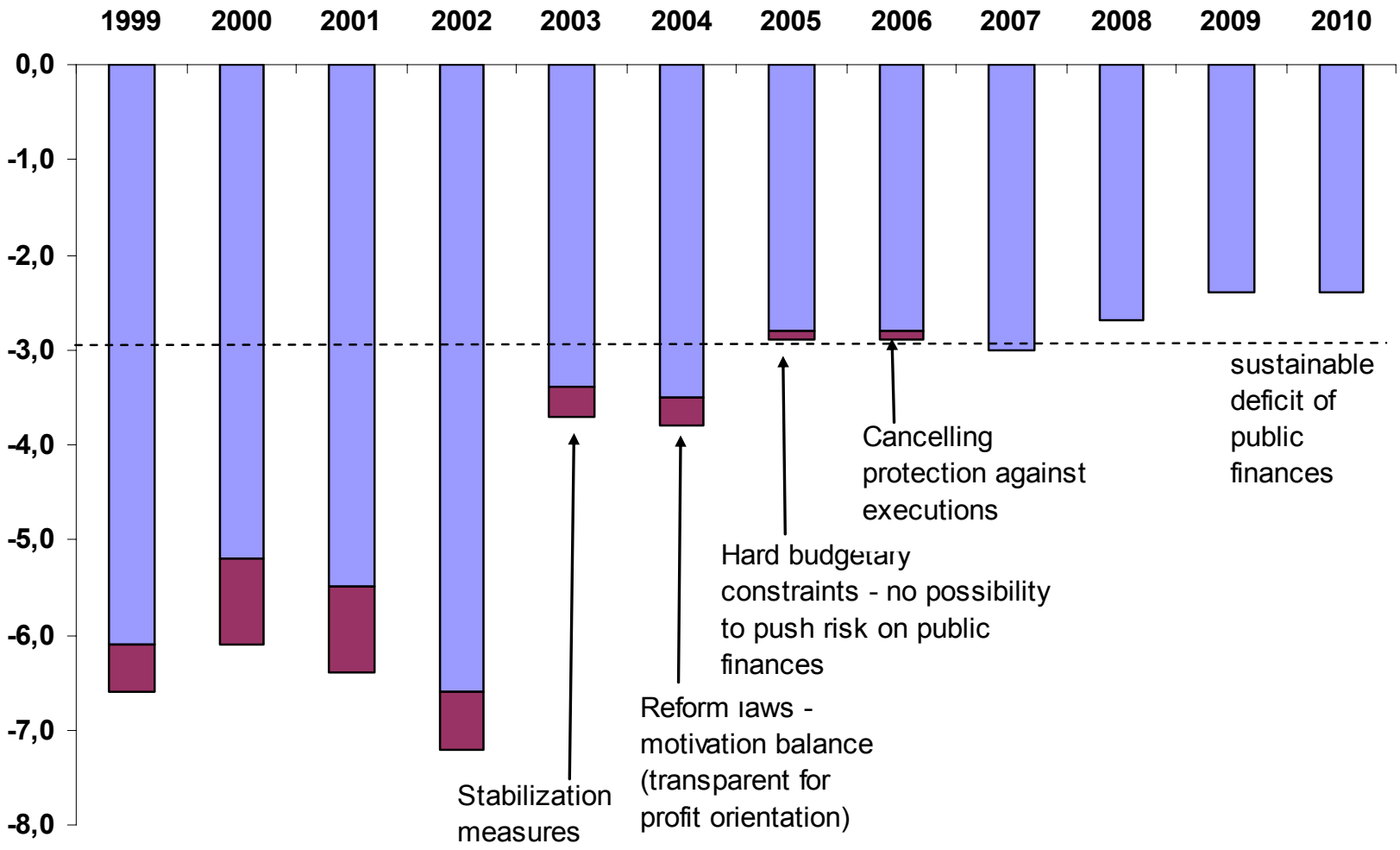
Rating	Date
A	19.12.2005
A -	13.12.2004
BBB+	2.3.2004
BBB	19.12.2002
BB+	17.9.1998
BBB-	11.4.1996
BB+	5.4.1995
BB-	15.2.1994

Health reform stabilizes public finances



Outlook

- Recession phase – elimination of ineffective investments
- Reduction of number of providers (respecting minimal network)
- Introducing new cost-effective protocols (respecting pacient safety and access to care)
- Corporate governance as key issue
- Sustainibility – capacity building

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