RECONSIDERING THE FUNDING SOURCES FOR THE HEALTH SYSTEM IN ROMANIA

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An optimal health system must ensure that all citizens have free access to medical services, and to determine the effective use of funds. We therefore reach the conclusion that the health financing system that best meets the optimal criteria is the public one. We believe that a system of public health funding should be based not only on contributions, but also on funding from the state budget; therefore it should combine the two public sources. If it were based solely on contributions, then the earnings should be volatile towards the economic cyclicality, and would not ensure the fiscal sustainability of the system. The private health financing system should be based on private insurances, and not on direct payments as it is in the current case, private insurances should have a predominantly complementary nature (covering the co-payments for those that are forced to bear them), and only in the case of rich people it can be substituted.

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The sources of financing the health expenditures are divided into two main categories: the public sources and the private sources (direct payments from patients to health providers ; immersive for drugs and certain medical services; the procured funds by non-governmental organizations that can carry out charitable activities in health care domain; private health insurances; direct payments made by private companies), these sources combine together in order to finance health in proportions that vary from country to country.

According to the data published by the World Health Organization in the paper "The World Health Statistics 2009", the average health expenditure worldwide in the year 2006 accounted for 8.7% of GDP. Extremes occurred in the U.S., with 15.3% of GDP, and in Southeast Asia, of only 3.4% of GDP. In absolute size, the health spending per capita averaged about $ 716, the highest level being in the U.S. of $ 6,719, and the lowest in Southeast Asia, of $ 31. The European average is 8.4% of GDP to health, funded at a rate of 75.6% from public funds, 24.4% from private sources, the private health insurances amount on average to 22.1% from the total of all the private sources of funding and expenditure per capita on health is $ 1,756[325].

Romania granted to health in 2006, a rate of 4.5% of GDP, going down from the levels in the year 2000 by 5.3%. In a rate of approximately 77%, the health expenditures are covered by public funds, from which 85% come from the health insurance contributions, while 23% from private funds, the external funds in 2006 were being invalid. The private funds come at a rate of 96.8% from direct payments of the beneficiaries of health services (out-of-pocket payments); the private health insurances own only 1.7% of all private funds.

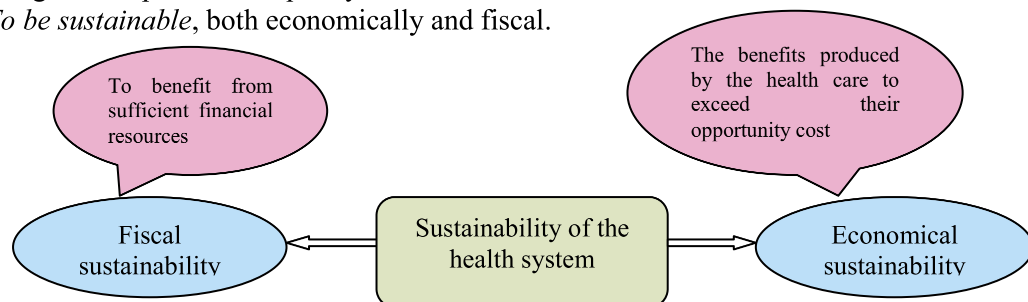
The health expenditure per capita in Romania is of $ 256, hovering well below the world average of $ 716, and to the European average of $ 1,756. Denmark, for example, gives a rate of 10.8% of

[325] Date preluate din lucrarea World Health Statistics 2009, publicată de World Health Organization, pag. 107-117.

GDP, financed at a rate of 86% from the public funds, and the expenditure per capita is of $ 5,447; Luxembourg allocates 7.3% of GDP, the public funding is 91%, the private one of 9% is based on a proportion of 18.7% on the private health insurances and the expense per capita is of $ 6,506. *It is noticed that Romania is still far from these values, so the definite conclusion is that the level of health financing must be increased, both on public resources and on the expense of the private sources, this can be done by increasing the private health insurances, which in Romania own an insignificant share.*

An effective system of financing needs to be found, that would meet the actual needs and that would ensure that no citizen makes a considerable financial effort that significantly reduces its standard of living when they get sick[326], so, the system ***should respect the following principles[327]:***

- *The ability to generate sufficient resources*, through which comprehensive and quality services will be provided to the citizens.
- - *To ensure fairness*, both in terms of establishing a system of financial resources (equity in financing) and also providing health services to the population (with equity access) so that each person should contribute according to his income and anyone would have free access to the health services.
- *Risk pooling[328],* this means aggregating risks over time and between citizens, criterion based on the premise that no individual may predict the time and severity of his illness, so he cannot individually manage this risk of illness, that is why it is appropriate to be centrally managed in an institutional setting. Arguments in favor of the healthcare risk aggregation are based on considerations of fairness and efficiency.
- *To ensure efficiency,* both in collecting resources (administrative costs low) and in the distribution phase (maximum effect on unit cost).
- *To help ensure quality of service,* this criterion is closely related to the adequacy of funding and its sustainability. Through a lack of funding it will not be able to acquire the latest technology, the skilled personnel cannot be adequately motivated and all these have a negative impact on the quality of healthcare.
- *To be sustainable*, both economically and fiscal.



In building an optimal system of financing health we must start from identifying the ***beneficiaries*** of the health services, namely:

- A first direct beneficiary from the health services is the ***individual***, because the quality and longevity of his life is determined by his health.

- ***Private enterprises*** because they are benefiting from the intellectual and physical capabilities of employees and a healthy person will have a higher yield from an illnessed one, which eventually

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[326] ***The European Health Report 2009***- Health and Health System, elaborat de World Health Organization Regional Office for Europe.

[327] Murgea Mihaela Narcisa - ***Modalități de finanțare a sistemelor de sănătate*** , pag.322-324.

[328] Peter C. Smith şi Sopie N. Witter - ***Risk Pooling in Health Care Financing: The Implications for Health System Performance,*** The World Bank, 2004.

translates into higher profit. And the enterprises using labor to operate bring damage to the health of employees, and therefore their involvement is needed in the health financing system.

- ***The society as a whole***, because a healthy population has an increased productivity, a greater innovation capacity, which stimulates growth and technological progress, with direct impact on enhancing national competitiveness.

Starting from the health service users there can be identified ***sources of financing*** the health system, namely:

- The public funds due to the benefits enjoyed by the society. In Romania, the state funds these services, both on account of taxes, general taxes, special purpose health fees collected from the state budget and local budgets and on account of the contributions paid by employees and employers to the national health insurance fund. Note that over 85% of public funds come from the national fund for health insurance; the actual financing from the state budget is reduced to 15% from the public funds, meaning 0.67% of GDP. The question is whether these funds are sufficient to ensure the funding system, under which the private finance is only 23% of the total funding, and relies on direct payments to individuals. The reality provides the answer to this so-called dilemma. Funds are by far not enough. On one hand because the percentage of GDP is much lower compared to the developed countries of the Union, on the other hand the GDP in Romania is lower than in other countries, except Bulgaria. What can be done to improve the situation? ***A first proposal*** is to undertake measures to reduce the undeclared work. If this is successful, than the revenue from the health insurance contributions will automatically increase. ***A second proposal*** is to apply the health insurance contributions to the pensions that are above the minimum wage, not just to those over 1,000 lei, as all employees, regardless of their income level and age and health state pay contributions and it would be fair that pensioners with pensions above the minimum wage to help, given the fact that they consume a large portion of these services. ***A third proposal*** is that the state recognizes the importance of a viable system of health and welfare that ensures the citizens welfare and the country's economic and social progress, to recognize health, along with education as a national priority, and to act accordingly, increasing the proportion allocated to the health budget because funding should support new medical equipment and the construction of new hospitals, to create a quality infrastructure; and the current rate, of less than 1% of GDP allocated from the state budget is very low. To attract new financial resources to health domain, the government introduced the levy of vice, on alcohol and tobacco, and the clawback system. It remains to be seen whether these mechanisms will give the expected results. But I believe that the vice tax (for cigarettes the sum of 10 Euros/1.000 cigarettes; for cigars with € 10 euro/1.000 pieces; for smoking tobacco the sum of 13 Euros / kg; for beverages drinks 2 Euros / per liter of pure alcohol[329]) will do nothing but increase tax evasion and the smuggling of such products, leading to lower revenue from excise duties. ***Applying the clawback system*** starting with October 1 2009, in order to collect additional funds necessary to fund the health system in view of its under-funding in Romania to the EU average, but this system is poorly understood, and applied in its current form, will generate adverse effects. As it is understood in Romania and how is implemented this clawback system requires that all medicinal products manufacturers which unfold once Romanian market to help fund the public health system by 5% to 11% from the revenues from the sale of medicines . Applying the clawback system in its current form will lead to both reducing the number of pharmaceutical companies and the number of products available on the Romanian market, which will affect the industry, and especially the patients. In the developed countries this clawback system is used, but is seen as a safety mechanism in case of exceeding the budgets approved by producers and financiers and it

[329] Legea 95/2006 actualizată.

applies "only to what exceeds the initial budget and is funded through the reimbursement system"[330].

- ***From the private sources of health financing***, which should come from both individuals and legal entities that must be involved in the process of health financing. A solution for this conclusion would be to boost the private health insurance by individuals and / or employers, as benefits offered to employees, but that would not come to the detriment of the social insurances. The private health insurances are very poorly developed in Romania, compared to the other EU countries, or with the U.S. ones, where these insurances represent the peak in this area, the U.S. health insurances are largely private, the state funds this service only for disadvantaged people and for people over 65 years, but the U.S. is not the model that we should follow, because although it has the highest allocation to health per capita, many citizens are not caught in any health insurance scheme, a fact that has serious consequences, which shows the disadvantages of this system.

The private health insurances in Romania, in the year 2008 represented only 1% of the total insurance market in Romania, but this is a market that has potential in the future. Such insurances are relatively new on the Romanian market, they entered our market only in 2005, and the number of companies offering this product was low. Analyzing the situation of the private insurances in the European countries, it notes that they are contracted by people with a higher education, and a high financial strength, rising barriers for the elderly and the sick, because the private health insurance companies follow a risk selection, regardless of fairness, of freedom of access to services, their purpose being to obtain the highest profit possible. It is however necessary to develop the private health insurance sector, which will increase the quality of the services provided, but will also have a role that will reduce the out of pocket payments made by individuals, and the informal ones, that affects the living standards especially for the poor and their access to such services. The private health insurances can be complementary, meaning they provide financing for public services of health and medicines, or can be auxiliary, meaning they cover medical services not offered by the public health system, or in some cases (eg Germany) foster the social ones.

The potential benefits to determine the need for private health insurance concerns: limiting the public spending for health, increasing the choice among consumers of such services, stimulating private initiative in providing health services, stimulating competition between the public and the private sector involved in increasing the quality of services, increasing choices for people with a good financial standing[331].

The co-payments *should be set carefully so that they would achieve its desire "to give value for money", but do not to impede the access to the medical services for disadvantaged people.* In this respect it should be maintained some exceptions from the payment of the co-payments, which will be borne by the state budget for the poor people, whether or not they are retired, and for the chronic patients.

Another form of health financing from private sources, involving citizens and economic agents are the ***subscriptions to private health clinics***, that recorded a higher rising than the private health insurance system in Romania. In 2008, the subscriptions to private clinics value in Romania were about 3.6 times higher than the private insurances. These subscriptions are purchased by individuals, but as practice has shown, these were purchased in proportion of over 70% by legal entities because of the obligation to ensure the occupational health services for

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[330]http://www.capital.ro/articol/sistemul-clawback-poate-duce-la-disparitia-a-30-din-medicamente-26490.html.

[331]Sarah Thomson, Thomas Foubister, Elias Mossialos - ***Financing Health Care in the EU. Challenges and Policy Responses,*** European Observatory on Health Systems and Policies, 2009, pag. 57.

employees. Gradually, however, given that employers want to give employees other benefits in addition to those included in the mandatory occupational medicine, that have extended the service plan, this was also due to the fact that these subscriptions are fully deductible for the employer. The private health insurances are not so attractive for employers towards their subscriptions due to their limited deductibility (250 Euros per year per employee, what exceeds is considered a non-deductible expense). However, the range of health services offered by subscription is smaller than those offered by the private health insurance, and are subject to a single clinic, while the insurance gives the customer the liberty to choose from several medical clinics.

Conclusions

An optimal health system must ensure that all citizens have free access to medical services, and to determine the effective use of funds. A comparative analysis of the situation from various countries concluded that this goal can be achieved only through a system of public financing. For example, if the U.S. health financing is largely private, but even with the highest health expenditure per capita in the world, has the highest rate of people who do not receive any form of health insurance: nor from the private insurance because they don't have enough money, nor from the public one because they are not poor enough.

It is advisable to increase the interest in the private health insurance, particularly among people with a good financial situation, and should be viewed as a mean of raising necessary revenue for funding health, especially in Romania where we notice that the sector suffers from acute underfunding. However, so that it is not understood that I support the disengagement of the states involvement in financing the health system because it is entirely appropriate for the state to involve itself in order to ensure the fairness of the system, because the private health insurance companies, which are profit driven, will be interested to attract healthy persons, meaning with low risks and a high income.

Related to the clawback system, the Romanian government should stop this tax applied in its current form, as it does nothing but harm the private initiative. This system should be applied, as it was originally conceived, and as it is used in other countries, as a safety mechanism, in exceptional cases.

The direct payments used in sizeable proportion in Romania for funding health from private sources, whether represented by the full payment of the service, or by co-payments, affect the people's free access to these services. The poor or the elderly could reduce the consumption of such necessary care due to the inability to pay, and the reality in the countries applying these co-payments as forms of financing has proven that this lead to no considerable increase in funds for health, nor enhanced the quality of the services, that's why we must maintain some exceptions from their payment, or they must be even eliminated.

France can be considered as a model in terms of health financing system, the state covers between 70-80% of health expenditures, the rest being covered from private sources, mainly from private health insurances. Thus it succeeds to take care of the health of the middle class and poor people, allowing the rich to pay for high quality health services. This should be the objective of Romania also. The German system is similar to this one, in Germany all persons are obliged to a health insurance, but health insurance is mandatory only for those with an annual income under 48 000 Euros. People who have an annual income above this limit (less than 20% of total population) may choose to end a private health insurance, that takes the place of the public one, about 75% of them decide to remain in the public system, and only 10% of the population have private insurance.

We therefore reach the conclusion that the health financing system that best meets the optimal criteria is the public one, but here a problem arises, namely, the structure of the public financing system, should rely on the social health insurance contributions, or on the funding from the state budget from general taxes. I believe that a system of public health funding should be based not

only on contributions, but also on funding from the state budget; therefore it should combine the two public sources. If it were based solely on contributions, then the earnings should be volatile towards the economic cyclicality, and would not ensure the fiscal sustainability of the system. The contribution revenues are sharply reduced in periods of recession, when the unemployment increases, also, the underground economy and the illegal employment also affect these samplings. In the current case of Romania, it is appropriate to extend the funding from the state budget, which is currently very low, approximately 15% of the total public funding for health system relies too much on the contributions to the social health insurance borne by employers, employees and by some retirees. The state must bear to ensure the people that do not participate to the contributory system and also the capital expenditures and investments in the Romanian health system should be a priority for the government because it is obvious the lack of modern equipment, inadequate hospital beds, and these real problems cannot be solved in the absence of adequate financial support from the state. In a funding system based primarily on social security contributions, strengthening the states involvement through funding from the state budget contributes to increase the financial protection of the health system but also increases the equity in terms of populations access to health services[332].

The private health financing system should be based on private insurances, and not on direct payments as it is in the current case, private insurances should have a predominantly complementary nature (covering the co-payments for those that are forced to bear them), and only in the case of rich people it can be substituted, but in this case the mandatory health insurance should be imposed, so that there are no persons that would not receive any form of health insurance.

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[332]Sarah Thomson, Thomas Foubister, Elias Mossialos - ***Financing Health Care in the EU. Challenges and Policy Responses,*** European Observatory on Health Systems and Policies, 2009, pag. 54.