

## FUNCTIONAL ANALYSIS OF THE HEALTH SECTOR IN ROMANIA

**Tatiana Bogdan**

"Lucian Blaga" University, Sibiu, Romania

[Bogdan\\_tatiana@yahoo.com](mailto:Bogdan_tatiana@yahoo.com)

### **Abstract**

*This paper comprises an assessment of the Romanian health financing policy and a detailed analysis of income and expenditure trends over the past seven years. The current situation of the health system is evaluated by reviewing the existing health legislation and documents on public health policies from Romania and from abroad, by analyzing the official statistics (the Romanian Yearbook of Health Statistics, Who database) and by performing a healthcare system financial analysis. Although the financial efforts of the Romanian state to support the health system have increased, almost all the incomes and expenditures of the health care system having recorded significant increases, the population perception on health services worsened. Financing the health system continues to be inadequate and used in an ineffective way. Health is an essential component of well-being with major socio-economic implications. The organization and functioning of the health system depends on ensuring adequate funding. Romania must develop its health strategy in the context of European Union policies. These policies are based on values and principles such as promoting universal protection against financial risk, promoting a more equitable distribution of the financing burden, promoting equitable provision and use of services relative to need, improving the transparency and accountability of the system to the public, promoting quality and efficiency in service delivery, improving administrative efficiency, while ensuring the financial sustainability of the health system.*

*In this context, in order to support a financially sustainable and high performing health system, the paper includes recommendations for increasing the public incomes in the health insurance system and options to streamline the healthcare services and expenses in the future.*

**Keywords:** health system, income, expenditure, health care reform, funding, budget.

**JEL Codes:** I13, I15, I18, G28

### **Introduction**

The incomes and expenditures of the Romanian public health sector have recorded a continued upward trend. Currently, the public health resources are the state budget, the budget of the National Health Insurance (UNSHIF), local budgets, own incomes, external credits, external subsidies, donations and sponsorships. In Romania, as much as 80% of the overall resources assigned to the healthcare, are public resources, while 20% are private. Most of the public resources - 85% are managed by the Unique National Social Health Insurance Fund (UNSHIF). A large portion of the public income assigned to healthcare consists of employers / employees / pensioners / freelancers sponsored insurances. Romania has lowered the health insurance contribution levels - from 12.5% to 11% - right before the economic crisis set off in 2008, subsequently to 10.7% since 2009. The effects of the reduction have cumulated with those of the economy decline and they resulted in the nominal decrease of the revenues from the healthcare contributions. At the same time, it should be noted that certain population categories have been excluded from the payment of contributions, without allocating in the same time equivalent funds to compensate for these exemptions from paying the contribution to health. The current situation, in which about 6 million tax payers pay for 19 million insured persons is not sustainable in the long run.

The public health system benefits of incomes from the excise imposed on tobacco

and alcoholic beverages (informally called "vice tax") and the tax on incomes from selling totally or partially UNSHIF subsidized drugs imposed to manufacturers, importers and commercialization licenses holders (known as "claw back").

Another important resource of the health sector is represented by the private expenditure of the population achieved through private health insurances or direct payments (i.e., co-payment and service fees). The private health insurances are insignificant as a percentage of the total private spending and so the proportion of people who pay directly out of pocket for the health services is increasing. The consequence is a reduced access to the necessary health services, especially for the low-income population.

Currently the Romanian health system does not guaranty performance in exchange for used resources. The patient dissatisfaction is high and waste is generalized. The health system is experiencing an arbitrary, inefficient and inequitable use of resources, the cost - efficiency studies are missing or are not used for resource allocation, the allocation process is not transparent and clear criteria are missing or not constantly used. It is necessary that the limited resources of the health system to provide the health services performance and quality and be used more efficiently.

In this context, the system of care needs a real reform to ensure all citizens equal access to health care quality and cost effective.

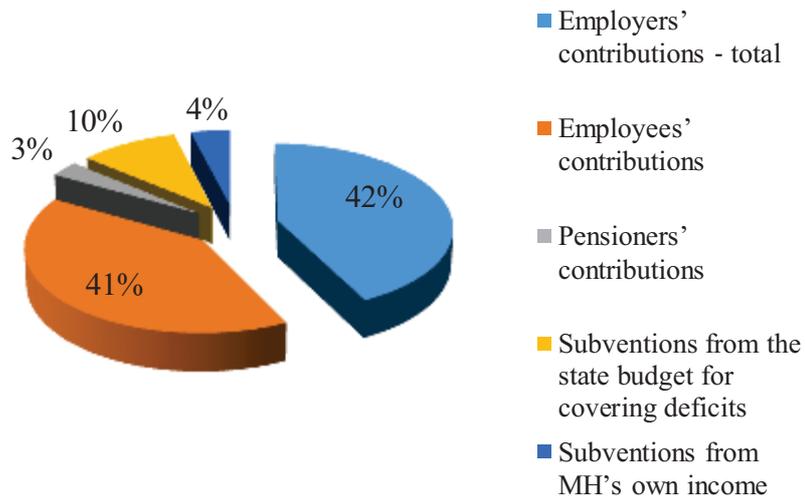
#### **The resources of the healthcare system**

In an economy, the level of expenditure on healthcare is indicative of the development level. Economically advanced countries allocate significant resources to finance the health sector as a prerequisite for a long-term sustainable development. In contrast, in some developing countries in Europe, including Romania, the health expenditure level as a percentage of GDP stands at a level well below the European average. According to WHO in Romania, the total health expenditure is less than 5% of GDP compared to an EU average of 9.6%. (WHO European Health for All Database, Updated April 2014)

Given the current financial situation, it is necessary a continued and predictable growth of the financial resources allocated to the health system. This situation requires a change of paradigm by which to agree that health is an investment that produces benefits and also increases of the costs. Investing in health contributes to economic development and ultimately, increases the country's national budget.

In our country, of the total resources allocated to health, 80% are public and 20% private. Most of the public resources - 85% are managed by the Unique National Social Health Insurance Fund (UNSHIF). The vast majority of private resources come from direct payments, co-payments or payments for services.

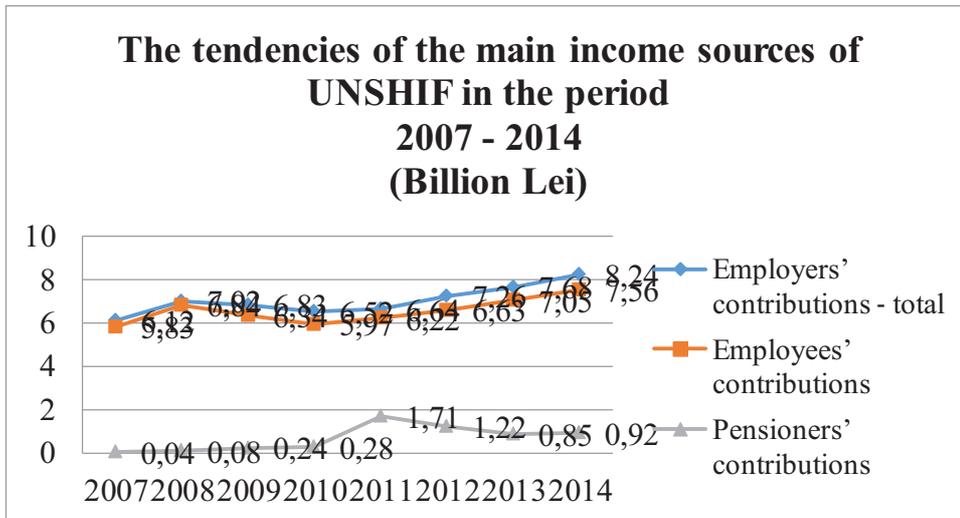
**The average structure of UNSHIF incomes  
2007 -2014**



Source: Compiled by the author based on National Health Insurance House database

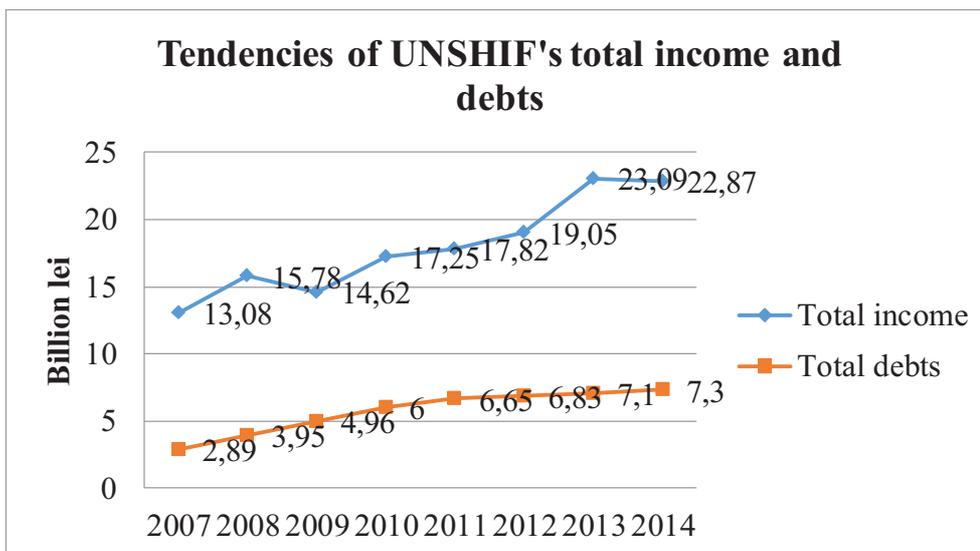
The UNSHIF revenues consist of the health insurance contributions and subsidies from the state budget and from the own revenues of the Ministry of Health.

Nominally, the total revenues of the Fund were close to 23 billion lei in 2014, by almost 75% more than in 2007. The evolution has not been continuous all this time. The reduction of the contribution quotas to the health insurance and the economic decline in 2008 resulted in the nominal decrease of the revenues from the health contributions in 2009 and 2010. In 2011, the total revenues from contributions were higher than in 2008, due to the health insurances paid by pensioners.



Source: Compiled by the author based on National Health Insurance House database

Because of the unfavorable economic climate, the UNSHIF debts increased from 3 billion lei at the end of 2007, to more than 7 billion at the end of 2014. According to the Ministry of Public Finance databases, the state companies accounted for about 70% of the total outstanding debts.



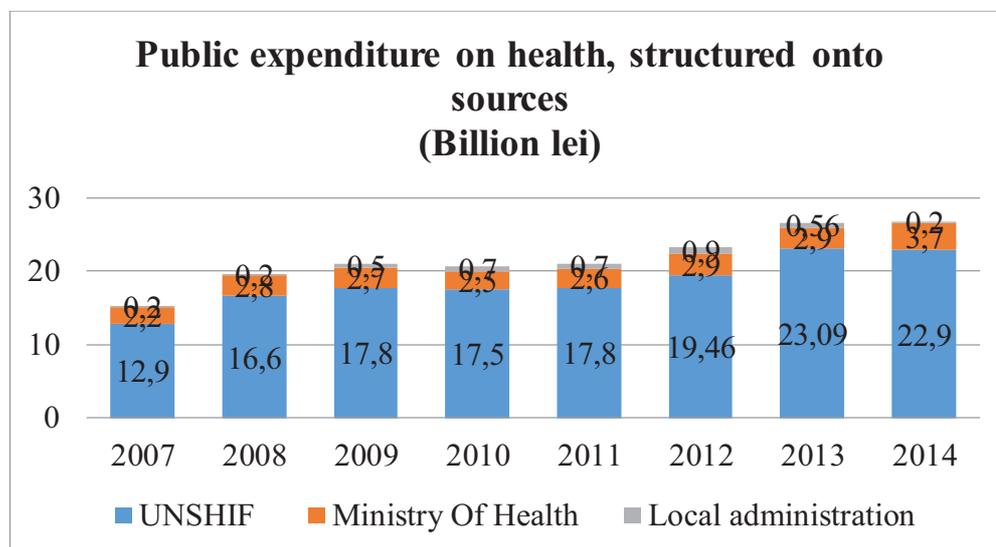
Source: Compiled by the author based on National Health Insurance House database

#### Utilization of the healthcare system resources

Of the more than 26 billion lei public expenditures for health in 2014, 22.9 billion lei were made by UNSHIF within the health insurance system, 3.7 billion lei by the Ministry of Health and 0.2 billion lei by the local administrations.

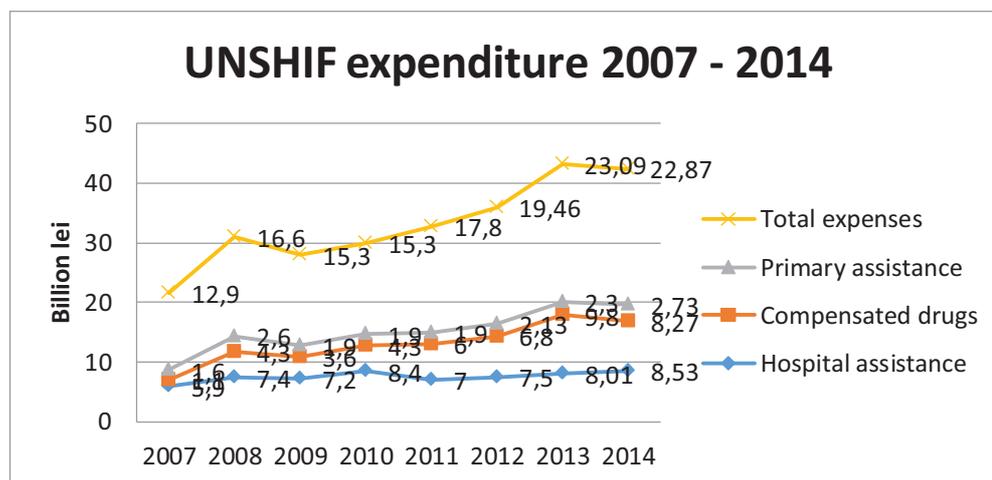
The Ministry of Health allocates sums for some national health programs, medical care in the emergency facilities, the payment of the salaries for the residential doctors and for the doctors in the medical school cabinets for the operation of the medical and social

units through endowments with equipment and investments in the public sanitary facilities. The local administrations allocate their own funds for their expenses related to goods and services, endowments with equipments and investments. (Efor-Mind Research & Rating Report, Income and Expenditure of the Healthcare System, May 2012)



Source: Compiled by the author based on National Health Insurance House database

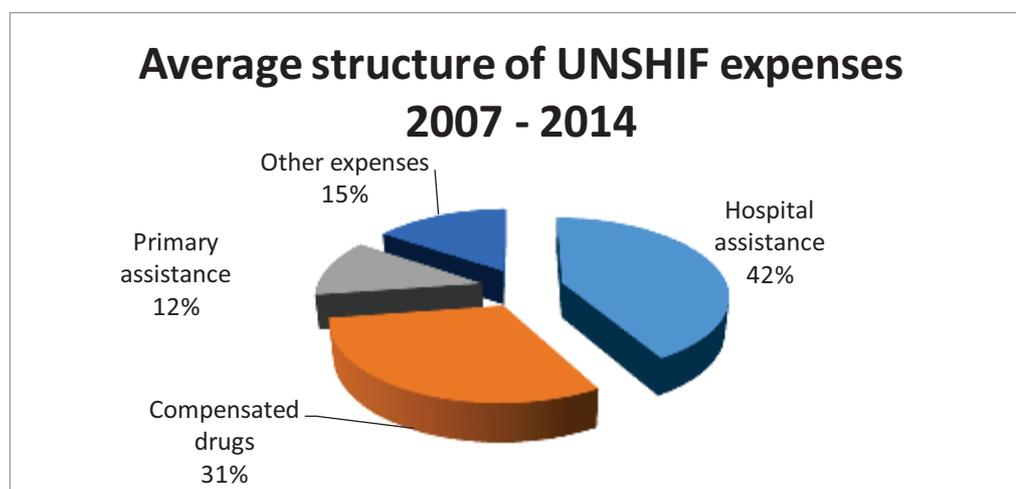
In the structure, the highest expenditures of UNSHIF are made for hospitals. The following subchapter of expenses is the one with compensated drugs, whose average share in the last 7 years was 31%. The primary medical care has limited resources, 12% of the UNSHIF. This situation is the consequence of the unbalanced development of the health system, when the focus was on the hospital care.



Source: Compiled by the author based on National Health Insurance House database

Clear criteria used to allocate resources between different types of health services (such as primary care vs. hospital care or curative care versus health promotion) between different areas of the country and between different healths institutions are vital to ensure fairness in the health system functioning, and to provide the development of the health

system. (A health system focused on the needs of citizens, Report of the Presidential Commission for review and public health policy of Romania, Bucharest 2008)



Source: Compiled by the author based on National Health Insurance House database

#### **Recommendations for strengthening the financing policy of the Romanian healthcare system**

This part of the paper presents a series of proposals for the increase of public resources allocated to healthcare system and options to streamline the healthcare services and expenses in the future, based on the national experience and the EU legislation and also taking into account the Romanian political, economic, institutional and cultural context.

One simple option of increasing the government revenue for health would be to raise the health contribution quotas once the economy has restarted to grow. The extension to 10.7% of the health insurance contribution of the self-employed and of those with incomes from independent activities and the extension of the health contributions to a larger number of incomes from pensions would also increase resources in the health system. In addition, with a define scope of improving the health of the population and thus to reduce the need of medical services, it is necessary to establish a tax on food and drinks with potential negative effect on health. Another important recommendation indicates the co-payment as an instrument necessary in order to temper the appetite of the Romanians for healthcare services and their reorientation towards primary care.

Moreover, the private sector must gradually acquire a significant role in the Romanian health system. The participation of the private sector in the health insurances market is necessary for several reasons: (1) it would provide additional income to the system, for covering certain services beside the basic package; (2) it would force the private and public suppliers to comply with superior quality standards and (3) it could lead to a decrease in the prices of the medical services. (Efor-Mind Research & Rating, Income and Expenditure of the Healthcare System, May 2012)

The options that streamline the healthcare services and expenses in the future should take into consideration the following aspects: the basic package should include only essential services that can be funded with income realized by UNSHIF; the privatization of the hospitals with major consequences for the quality of services and use of resources; the investment in the primary medical assistance in order to control the health expenditure on long end medium term; measures which could increase the national health programmes' efficiency, respectively: the acquisition of certain drugs by public tender at national level or considering the profilactic programmes as priorities by the Ministry of Health.

In conclusion, all these proposals for reforms of the healthcare system are necessary in order to put in line the public financing of health in Romania with the practices in the European Union.

### **Conclusions**

The analysis of the Romanian health system has emphasized major dysfunctions of the system that directly impact the health status of the population. The Romanian healthcare system has been growing rapidly and constantly since the beginning of the 90's and has identified as one of the National Key Economic Areas under the National Plan of Development 2014-2020. Healthcare in Romania has undergone radical transformations. However, today's healthcare system is continuously facing poor achievement of system function, lack of comprehensive long term strategy, low levels of public investment in health, inefficient used of resources, improper health infrastructure.

In this context, the organization and financing of the health system must be made so it can ensure that the funds are used in the most efficient way to provide the elementary patient rights: the right to quality care and medical treatment in accordance to their needs. In other words, the health financing policy should focus on identifying solutions for rising sufficient resources for health while ensuring efficiency in resource use.

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