Changing the funding of the Latvian compulsory healthcare system: For better or for worse?

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In 2016, the Latvian Government announced a plan to change the funding of the healthcare system in Latvia with a view to providing financial resources for healthcare while increasing the accessibility of healthcare services.

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Description

Accessibility (including affordability) of healthcare services is a topical policy issue in Latvia. The most important causes of the limited accessibility of healthcare services are: lack of funding, lack of human resources, high out-of-pocket payments, regional disparities in service provision and low solvency of patients. The cost of healthcare services is the main factor restricting the accessibility of healthcare services.

Latvia has the highest proportion of the population with unmet needs for medical examination or treatment due to costs, distance or waiting lists in the 28 EU Member States (in 2014, 12.5% as opposed to 3.7% for the EU-28 average; EUROSTAT, 2014). The ratio of public funding for healthcare in Latvia is among the lowest in EU countries, i.e. 63% of the total expenditure on healthcare (The World Bank Databank, 2014).

In order to address these structural issues, in 2016 the Ministry of Health started working on a review of the healthcare funding model, assessing the introduction of compulsory health insurance as one of the potential solutions.

The Latvian healthcare system is based on general tax-financed statutory healthcare provision, with a purchaser–provider split and a mix of public and private providers. Resources are raised mainly through general taxation by the central government but out-of-pocket payments are important as well.

Several proposals have been expressed in the public space concerning possible healthcare funding models: a) redistribution of funding from the national social insurance contribution payment (special budget); b) internal redistribution of taxes for healthcare; c) introduction of a new earmarked tax; and d) private and/or public compulsory health insurance.

At the end of 2015 and the first quarter of 2016, several working groups (at the Ministry of Health, the Ministry of Finance, and the Parliament) have been set up to address problems related to the insufficient funding of healthcare and to assess the effectiveness of the healthcare budget. These will, in particular, discuss issues related to the implementation of the compulsory healthcare insurance. Moreover, the parallel assessments of healthcare, the taxation system undertaken by the World Bank, and the application of their conclusions, are giving rise to concerns about the organisation and coordination of the process for formulating reform proposals. The results of the World Bank assessments have not been published nor discussed yet.

The Ministry of Health must submit proposals concerning possible healthcare funding models and possibilities of introducing a compulsory healthcare insurance to the Government on July 1 2016. The Prime Minister has stated in the media that in 2017 an additional 35 million EUR will be allocated to the state healthcare budget (770,767 million EUR

in 2016) for launching the healthcare reform. This will be paid for by increasing the budgetary deficit, submitting this to the European Commission for assessment as a proposal in the context of the Stability Programme. Latvia has been allowed to increase its budget deficit by 0.1% of GDP in 2017, or an estimated EUR 35 million. The allowed deviation makes up 0.5% of GDP, but Latvia is already using 0.4% of GDP in relation to the development of the second pillar of the pension system (European Commission, 2016 Latvia Country Specific Recommendation [CSR]).

Outlook & Commentary

The on-going discussions and opinions of various stakeholders and the general public presented in the media reveal significant differences in the understanding and interpretation of the proposal to introduce compulsory health insurance in Latvia. However, it is not clear what mechanisms will be established to encourage cooperation between the working groups involved in these concurrent processes and to allow work done elsewhere to have an impact on decisions taken in each working group.

Proposals expressed concerning a change to the healthcare financing model also involve certain risks. The proposal to redistribute funding from the national social insurance special budget may have a negative impact on the financial sustainability of the welfare systems and the adequacy of a wider range of social insurance benefits (for example, old age pensions, disability pensions, survival pensions, maternity and sickness benefits, unemployment benefits etc.). Thus, the European Commission has listed the low replacement rate and long-term adequacy of pensions as a risk to the pension system. The net replacement rate for an employee with average earnings having a 40-year service record is projected to decrease from 65 % in 2013 to 51 % in 2053. The situation for low-wage earners with short careers (30 years) is projected to be even more pessimistic: their replacement rate would fall from the current rate of 66.4 % to 39.4 % (Country report Latvia 2016).

The proposal to introduce a new healthcare tax is vague, given the political objective of reducing the tax burden for the working population.

At the present stage, the above uncertainties and absence of specific/clear proposals are generating tensions in different population groups (pensioners, people with low income, employees and employers) as well as among providers and specialists in healthcare services.

Further reading

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