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# Estonia: health care reserves and long-term sustainability

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## Topics

**Health Care reserves and their purpose**

**Use of the Reserves**

**Initiatives under consideration**

**Long-term sustainability: health care, reserves and other issues**

## Estonian Health Insurance Fund has three types of reserves (1):

### Legal reserve

- Objective is reduction of risks which might arise from potential macroeconomic changes.
- Constitutes 6% of health insurance fund`s budget, (created by transferring at least 2% of the budget every year).
- Can be used only in exceptional circumstances, requires government`s permission.

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## Estonian Health Insurance Fund has three types of reserves (2):

### Risk reserve

- The objective is reducing the risks arising from the obligations assumed for the health insurance system.
- Formed of health insurance fund`s budget, constitutes 2% of health care budget.
- Can be used after approval of the supervisory board of health insurance fund.

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## Estonian Health Insurance Fund has three types of reserves (3):

### Cash reserve

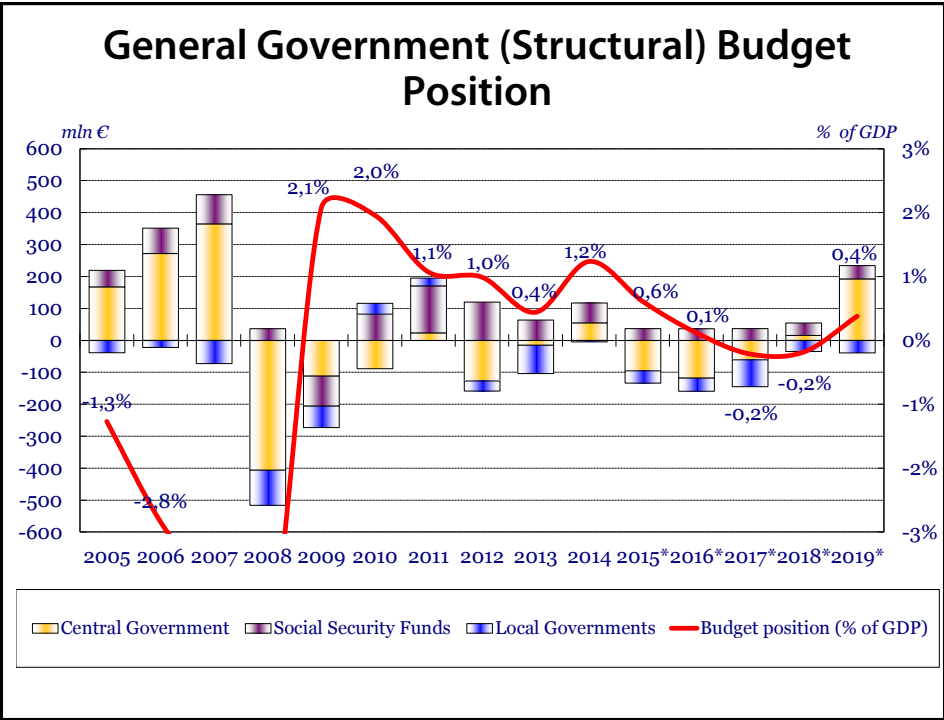
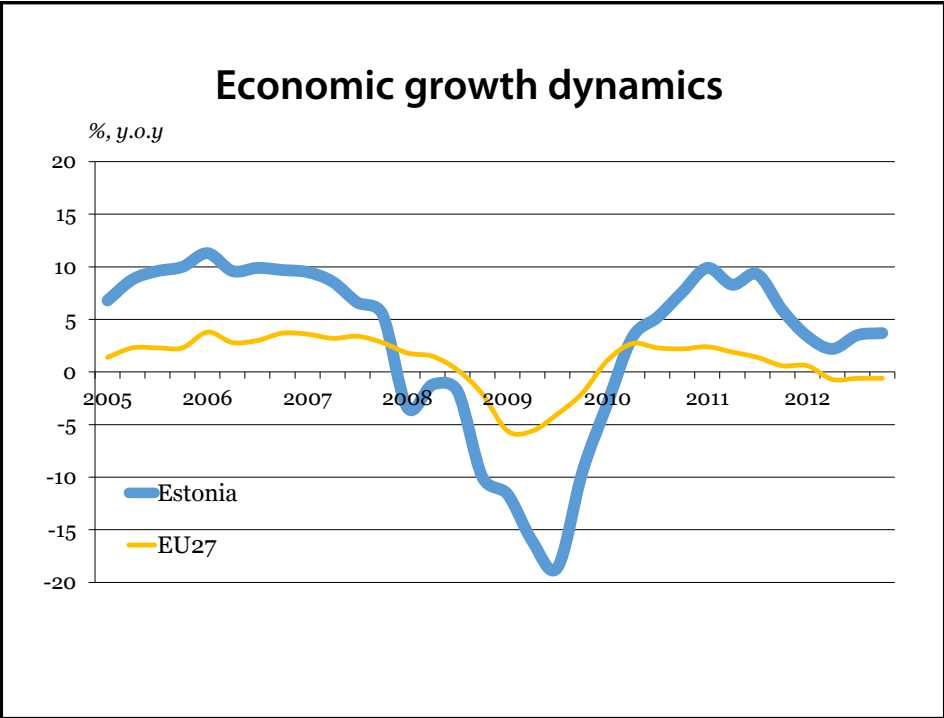
- Constitutes of revenues brought forward from previous years (surplus from larger tax revenues than forecasted in budget).
- The use of revenues brought forward shall be decided by the supervisory board and prescribed in annual budget. Minister of Finance (as a member of supervisory board) follows that healthcare expenditure plan and use of reserves are in line with state budget strategy.

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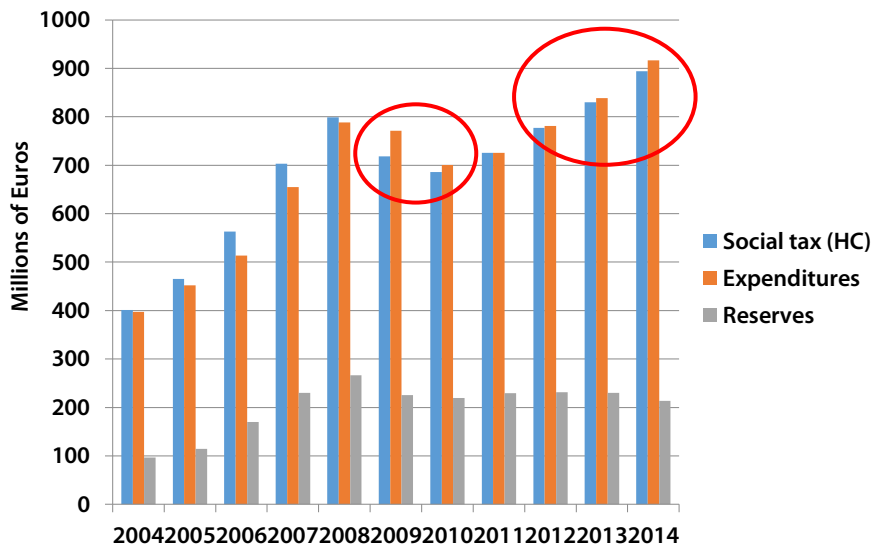
## Current situation:

- ✓ Estonian health insurance fund has reserve funds which form approximately 25% of annual expenditures.
- ✓ Health service prices have been restored to pre-crisis levels
- ✓ Pressure for higher salaries has increased the pressures on expenditure

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## Social tax and EHIF expenditures, 2001 – 2014



**Actual need to use health expenditure reserves was during economic crisis in 2009 when tax revenues fell down (1)**

➤ Health care revenues decreased 10%-15% until recovery in 2011.

➤ Possible measures that were considered to retain budget balance:

- Spending reserves and earnings brought forward from previous years;

- Reducing access to health care services;

- Reducing health services prices;

- Reducing patients cash benefits.

## **Actual need to use health expenditure reserves was during economic crisis in 2009 when tax revenues fell down (2)**

- Hospitals forced to use reserves.
- Government position was that spending reserves for financing deficit is not sustainable in long-term and solved the situation by budget cutting.

Health Insurance Fund reduced expenditure by:

- Reducing health services prices 6%;
- Allowing longer waiting list for specialised health care;
- Reducing temporary sick leave benefits and dental care benefits.

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## **Lessons learned**

Consolidation pays off even in a relatively short term, at least in a small, open and flexible economy

Assess your risks and prepare by having reserves ready for crisis before the crisis hits

During crisis – use the time available to choose reasonable solutions and avoid delays in action

Buffers are needed for the future: that gave a breathing space when it was most needed and the market conditions for lending were in the heights

When you need to make cuts, try to retain balance of burden on providers and the insured public

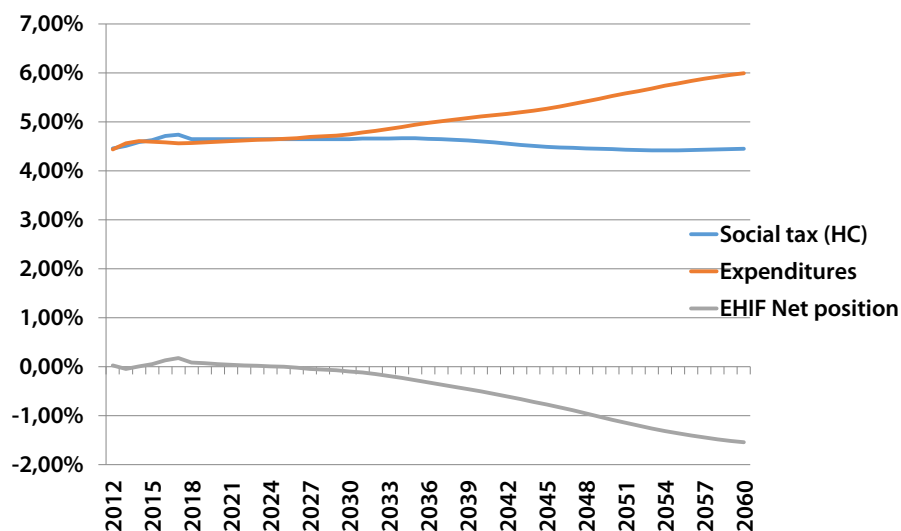
Retain long-term sustainability of health system

## After the Crisis:

- ✓ Implemented legally of EU minimum fiscal requirements from 2014.
- ✓ In order to fulfil budget balance aim, fiscal rules are set for each institution of general government.
- ✓ Budget position of Health Insurance Fund must be in line with state budget strategy and will be stipulated in State Budget Law.
- ✓ Fund reserves are managed by State Treasury who guarantees Funds primary activity related payments in any time.

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## Health Insurance Fund (% GDP)





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# Thank You for Your attention!

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