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Spending on Health: Latest Trends

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Health spending back on a growth path after the slowdown following the financial crisis

Health expenditure in 2016 grew by its fastest rate in seven years with further growth expected in 2017. OECD spending on health care increased by 3.4%, on average, in 2016, the highest rate since 2009 although still below pre-crisis levels. Preliminary estimates for 2017 expect spending to have grown again by around 2.5% with a number of countries including Canada, the Netherlands and New Zealand, projecting reduced growth rates compared to 2016.

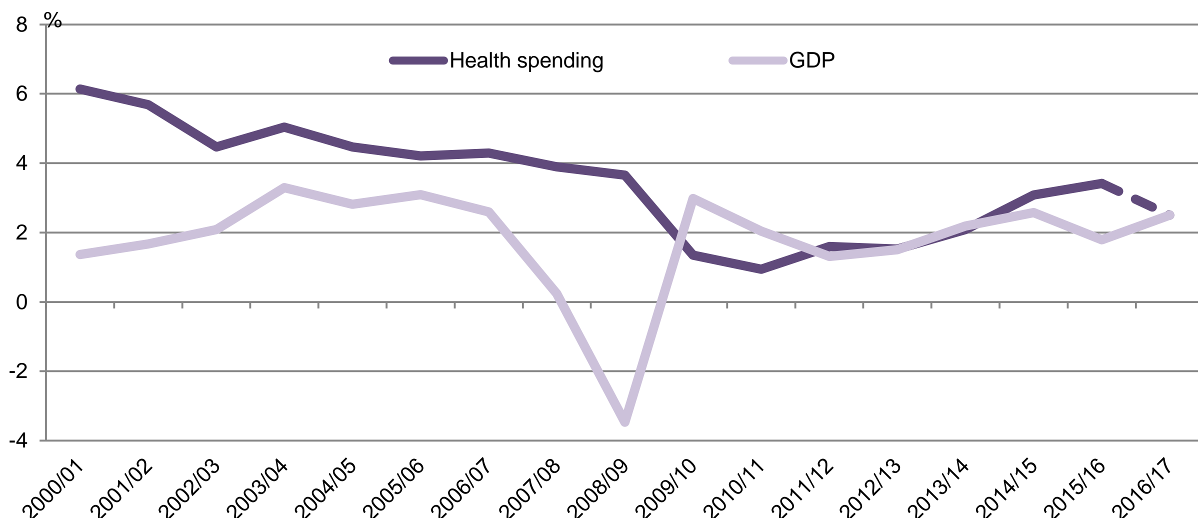
The recent increases in health spending are still below those seen in pre-crisis years. Before 2009, average health expenditure rose by around 4-6% per year (in real terms), outstripping economic growth, as a result of rising prices in the health sector, increased demand for services or policies to expand health care coverage. Since 2012, health spending has tended to follow economic growth much more closely (Figure 1).

During the financial crisis, many countries that were severely affected by the economic downturn, in particular in Europe, aimed to reduce health spending to rein in public budgets – health spending being funded for three-fourths from public sources. Policies to reduce spending growth included controls on public health worker salaries, halting recruitment as well as actual reductions in the health workforce, cuts in fees payable to health providers, and the containment of spending on pharmaceuticals.

As a consequence, health spending per capita in Greece in 2017 (in 2010 prices) was still nearly 30% below the level of 2009. Per capita spending in Portugal, Italy and Spain is only now back to pre-crisis levels. Health spending in Latvia and Estonia also fell sharply in the early crisis years but strong growth in health spending resumed quickly after this period: for these two countries, spending on health care in 2017 was nearly 40% above the level of 2009.

Outside of Europe, health spending growth also slowed during the crisis but remained positive throughout. In Korea, health spending has continued to increase by over 6% per year on average since 2009, meaning that per capita spending in 2017 was 55% higher than in 2009. Australia, Canada and the United States have also experienced continuous growth throughout this period - their per capita spending levels are now 10-20% higher than in 2009.

Figure 1. Annual growth of health expenditure and GDP, in real terms, 2000-17



Source: OECD Health Statistics 2018.

Health spending accounts for close to a tenth of total economic activity, having stabilised in recent years

The consumption of health care goods and services represented 8.9% of gross domestic product (GDP) in 2016. Preliminary estimates expect this ratio to remain at this level in 2017, albeit hiding a wide variation across OECD countries (Figure 2). At 17.2% of GDP, health care consumption represented a much larger share of the economy in the United States, and significantly more than Switzerland (12.3%) and France (11.5%), the second and third highest spenders. At the other end of the scale, Turkey (4.2%) and Mexico (5.4%) each spent less than 6% of their GDP on health.

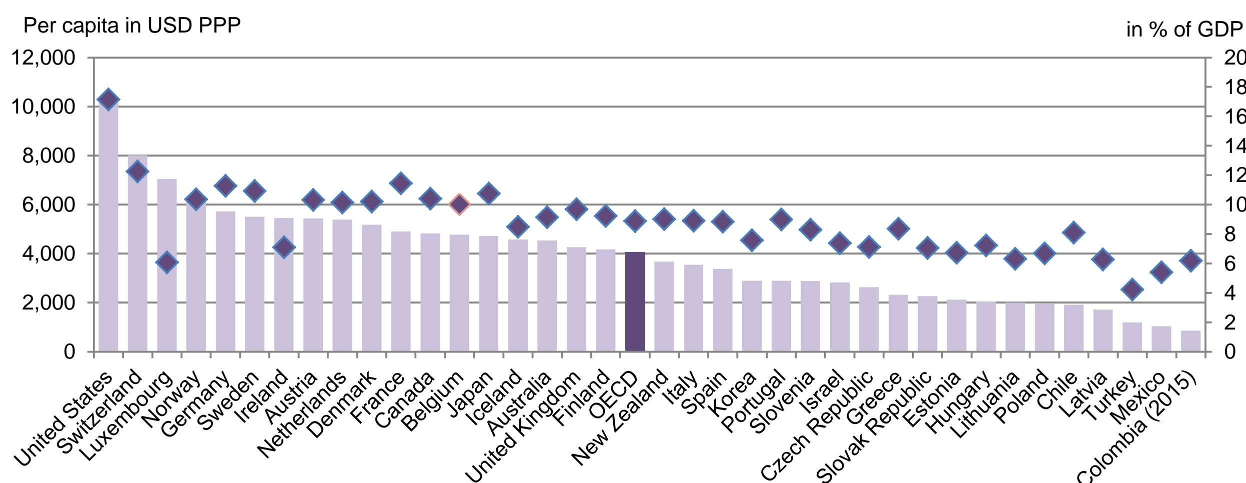
In per capita terms, health spending in 2017 is estimated to have reached USD 4 069 (adjusted for differences in price levels) on average across the OECD. This is roughly 70% more than OECD countries spend on education for each citizen. In the United States, the average spend is expected to have risen above USD 10 000 for the first time in 2017 with health being the biggest item of final household consumption. Per capita spending was also significantly above the OECD average in Switzerland (USD 8 009), Luxembourg (USD 7 049) and Norway (USD 6 351). By contrast, Mexico, Turkey and Colombia each spent around a tenth of the level of the United States on health care, at around USD 1 000 per person.

In nearly all countries the vast majority of health services are obtained either via government schemes or some form of compulsory health insurance. In the United Kingdom, Iceland, Denmark and Sweden, around 80% of all spending is financed by national or regional government schemes, such as the National Health Service (NHS). In the Czech Republic, Germany, France, Japan, Luxembourg and the Slovak Republic on the other hand, 70% or more of health care costs are covered by social health insurance.

Out-of-pocket payments, which represent direct payments by households, represent around a fifth of all health spending across OECD countries. As a regressive form of health financing, dependent on the ability to pay, these typically weigh more heavily on poorer households. In Latvia and Mexico, households directly shoulder more than 40% of all health spending suggesting challenges to achieve effective universal health coverage in those countries. On the other hand, patients are much better protected against the financial burden of health care costs in France, where out-of-pocket spending is only around 10% of total health spending and in the Netherlands (11%).

A number of countries have implemented policies to significantly reduce out-of-pocket payments in recent years. Chile and Mexico, for example, have reduced the share of out-of-pocket spending by more than a tenth since 2000 by increasing public coverage.

Figure 2. Health spending per capita and as share of GDP, 2017



Note: Data for 2017 was estimated by the Secretariat for those countries that were not able to provide this information. PPP stands for Purchasing Power Parities and adjusts health expenditure for differences in price levels between countries.

Source: OECD Health Statistics 2018.

On the other hand, the out-of-pocket spending share is now around 3-5 percentage points higher than in 2009 in Greece, Portugal and Spain, as these countries took certain measures to contain public budgets, including higher cost-sharing and adjusting entitlements to public benefits.

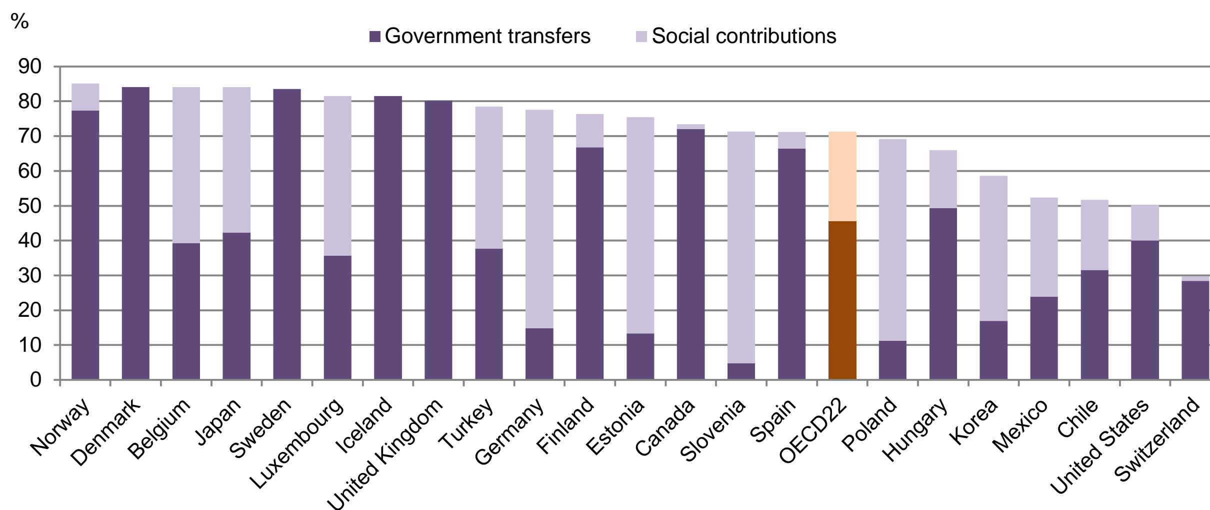
Taxes and social security contributions fund more than two-thirds of health spending across the OECD

For 22 OECD countries for which data is available, government transfers (primarily from taxes) and social security contributions combined, fund on average 71% of all health spending (Figure 3). The proportion of these "public" sources is highest in Scandinavia, Belgium and Japan, accounting for 84% or more of all health spending. On the other hand, government revenues and social contributions fund only around half of all health care costs in Mexico, Chile and the United States, and as little as 30% in Switzerland. The relatively low share of public funding in Mexico is related to the high levels of out-of-pocket payments by households. Conversely, compulsory health insurance through private insurers plays an important role in Chile, Switzerland and the United States.

Spending on outpatient care grew the fastest

Overall health spending growth in 2016 was mainly triggered by increases in outpatient care (+4.4%) with long-term care (+3.0%), retail pharmaceuticals (+2.8%) and inpatient care (+2.2%) recording more moderate growth. For these key health care services, the pattern of spending growth has been less than uniform over the last decade (Figure 4). In the years preceding the crisis (2004-08), spending on outpatient care was typically growing at around twice the rate of inpatient care (5% vs. 2.8%). There was a drastic slowdown in both inpatient and outpatient spending during the crisis years (2008-12) due to salary freezes and reductions in service payments. Since the crisis, outpatient spending has once again outpaced inpatient spending – albeit with annual increases below pre-crisis levels.

Figure 3. Public financing as a share of total health spending, by funding source, 2016 or nearest year



Note: Contributions to compulsory private health insurance schemes (and not Social Health Insurance) are usually considered as funded from private sources.

Source: OECD Health Statistics 2018.

Specific policies to strengthen primary care and avoid costly hospitalisations, as well as wider use of same-day and ambulatory procedures have contributed to this development. At the same time, increased demand, the inclusion of new services in the public benefit basket and the extension of coverage to previously uninsured individuals also led to increased spending in the outpatient sector. Outpatient spending growth was significantly above average in recent years in Iceland, Estonia and Latvia.

Long-term care was the fastest growing area of health spending prior to the crisis, averaging nearly 7% annually. While growth slowed, it remained relatively strong (4.3%). Yet, unlike

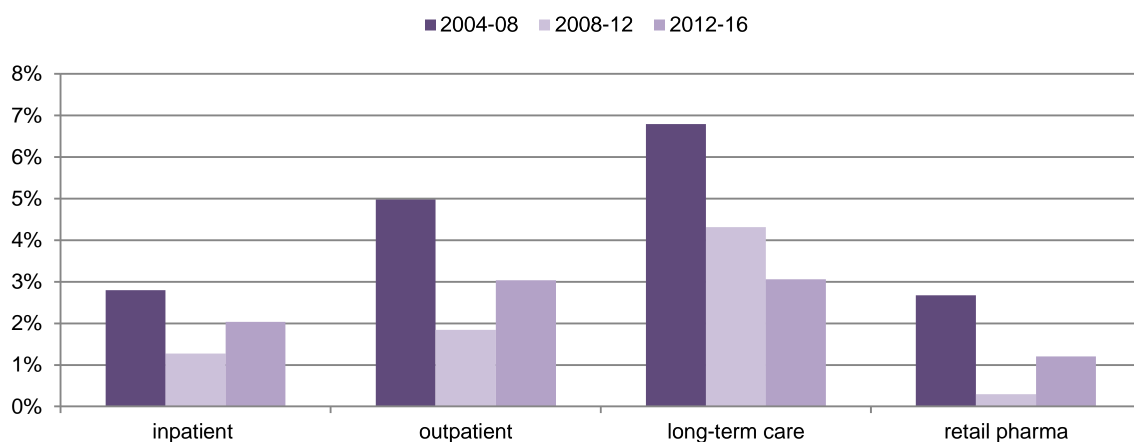
other sectors, growth of long-term care has decreased further, currently standing at around 3% per year. The exceptionally high pre-crisis levels can be explained by long-term care policies in some countries; for example, Korea introduced a population-wide Long-term Care Insurance programme. Long-term care expenditure has also increased strongly in more recent years in some countries. In Germany, a number of reforms extended the group of people entitled to public long-term care services and improved financial coverage, resulting in growth nearly twice as fast as other health spending.

Spending on retail pharmaceuticals is growing again after years of stagnation

After a number of years of flat or even negative growth, retail pharmaceutical spending has resumed stronger growth: 3.1% in 2015 and 2.8% in 2016. Several countries took measures to reduce pharmaceutical spending during the crisis – such as cutting manufacturer prices and margins for pharmacists and wholesalers, introducing compulsory rebates, de-listing of some pharmaceuticals and incentivising the use of generics. Patent expiries for a number of blockbuster drugs also contributed to the fall in spending over this period. However, new high-cost treatments such as for Hepatitis C and some oncological drugs help explain a return to positive growth rates. In 2016, pharmaceutical spending in Latvia and Estonia increased by 10% or more, while Korea, Switzerland and Spain saw rises of more than 5%.

The retail pharmaceutical sector only tells part of the story since spending on pharmaceuticals used during hospital care can typically add another 30% to a country's pharmaceutical bill. Available data are currently limited to be able to fully analyse the overall trend in pharmaceutical spending (combining retail and inpatient) but data from around a third of OECD countries suggests that pharmaceutical spending growth in the hospital setting has outpaced that of retail pharmaceuticals.

Figure 4. Average annual growth of selected health care services, OECD average, 2004-16



Note: Retail pharmaceuticals exclude the costs of pharmaceuticals used as part of an inpatient treatment episode.

Source: OECD Health Statistics 2018.

Further reading

Belloni, A., D. Morgan and V. Paris (2016), "Pharmaceutical Expenditure And Policies: Past Trends And Future Challenges", *OECD Health Working Papers*, No. 87, OECD Publishing, Paris, https://doi.org/10.1787/5jm0q1f4cdq7-en.

OECD (2017), *Health at a Glance: OECD Indicators*, OECD Publishing, Paris, http://doi.org/10.1787/health_glance-2017-en.

Useful Links

OECD Health Statistics 2018:
http://www.oecd.org/health/health-data.htm

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