

## Opinion on Draft NHIF Budget Law 2020



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## Introduction

The draft law on the budget of the National Health Insurance Fund is part of the consolidated fiscal program of the Republic of Bulgaria, which is why the Fiscal Council should give an opinion on it. According to the Law on Fiscal Council and Automatic Corrective Mechanisms, the Fiscal Council of Bulgaria monitors compliance with the numerical fiscal rules and prepares reasoned opinions and recommendations on the draft laws and other strategic documents relevant to the compliance with the numerical fiscal rules.

## Health care expenditure

Expenditure on health care function in 2020 increase and will reach BGN 4 744 704, 9 thousand or 3.7% of projected GDP for 2020.

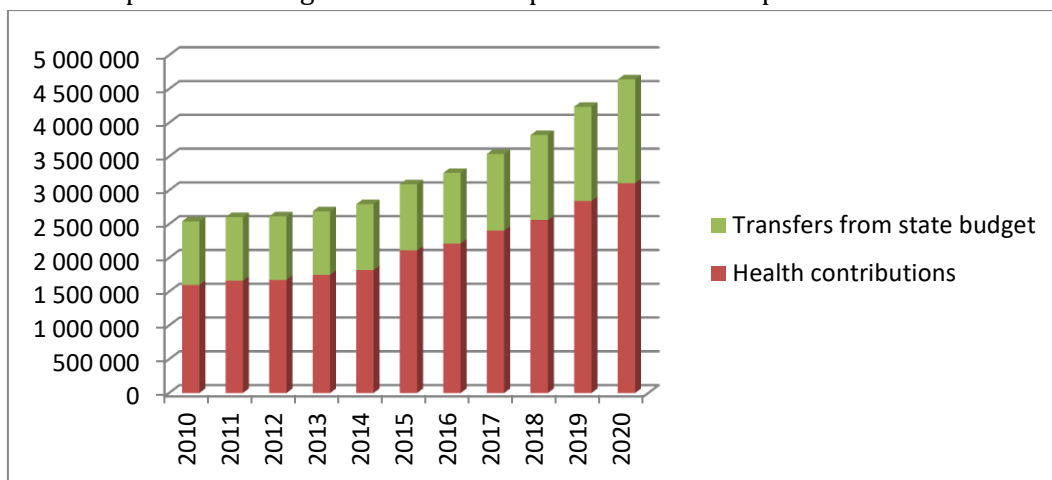
The increase underlines the priority of this area in public spending. However, higher costs do not necessarily mean better quality of public services. In terms of financial security, the sector has resources, but spending optimization is a must for better results.

Despite an increase in spending in 2020 amounting to BGN 445 million compared to the previous year, this increase remains lower than the increase in 2019, which amounted to BGN 490 million.

## Revenue analysis

The total amount of pledged income in nominal amount is BGN 4 744 704 thousand. It includes an increase of BGN 445 101 thousand compared to the NHIF Budget Law for 2019, which is a nominal growth of 10.4% on an annual basis. There is a steady trend of increase of the NHIF budget for the period 2010-2020 (Graph.1).

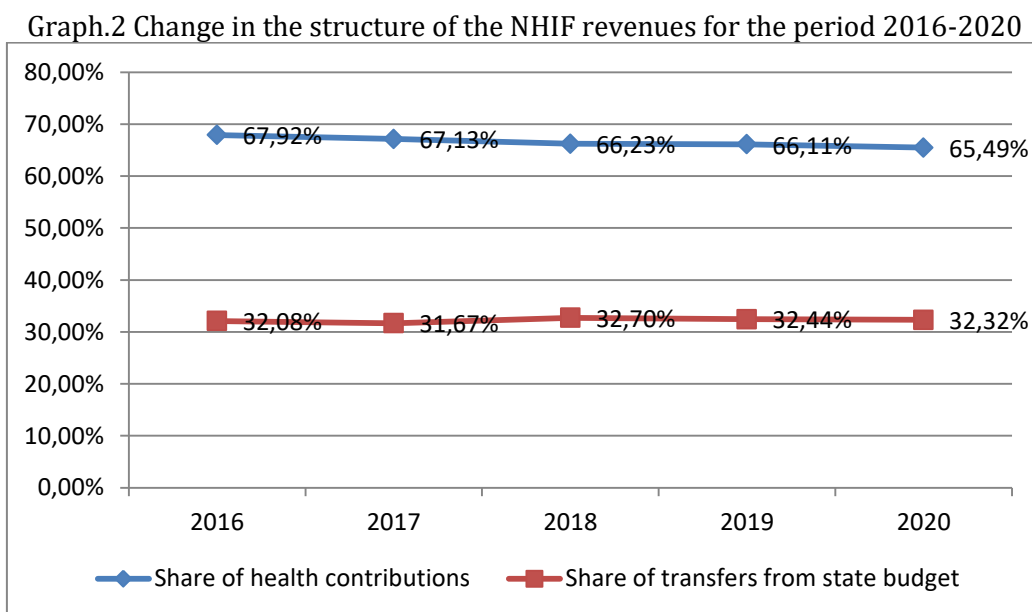
Graph.1 Nominal growth of NHIF expenditures for the period 2010-2020



Source: FC calculations

The main components of the budget revenues of the NHIF are health insurance contributions and transfers for health insurance from the central budget. The amount of health insurance contributions for 2020 is BGN 3 107 134,2 thousand and an increase of BGN 264 880 thousand, which is equal to 9.3% annual growth compared to the NHIF Budget Law 2019. Transfers from the central budget increase by BGN 139 010.5 thousand to BGN 1 533 599.5 thousand or an increase of 10%.

In the proposed revenue structure for 2020, the ratio of health contributions to transfers remains unchanged. Compared to the parameters set in the Budget Laws of the NHIF for 2019 and 2020, there is a positive tendency for faster growth of health insurance contribution revenues compared to transfers from the central budget. However, in 2018 there was a minimal over-execution of the income from health insurance contributions (BGN 2 622, 5 million compared to BGN 2 556, 3 million). As a result of this overfill, there is an opposite (negative) trend when comparing the NHIF Budget Law for 2019 with the expected implementation for 2018 - contribution revenue growth (8.4%) is lower than transfers (10.5%), i.e. the share of health contributions from total revenues is approximately 66.1% and transfers - 32.4%. This reinforces the trend of 2016 (Graph.2). The total share of non-tax revenues is insignificant, but they registered a nominal growth of BGN 2 259, 8 thousand or 12, 9%.



Source: FC calculations

The increase in income from health contributions is largely due to the increase in the minimum wage, the thresholds for social security, the maximum insurance income and the insurance income for farmers. However, some of these measures have a negative effect on tax revenue, as the cost of social security contributions reduces the tax base. It is not realistic to expect a significant increase in collection, as it has increased

significantly in recent years. There are no proposals for a package of measures (legislative, economic, socio-psychological, and informational) to change the approach to persons who are not covered by health insurance. From this perspective, it can be considered that the projected increase in contribution revenue is optimistic and likely to be overestimated.

A serious problem in the health insurance system is the inherent imbalance between the contributions the state makes to its insured persons and the cost of their health insurance. For 2019, the state contribution for one person is approximately BGN 24, for the average of employers and workers - BGN 77.8.

The budget of the Social Insurance Fund and the MLSP does not provide funds for medical care for persons who do not make health contributions. This forces the treatment of this large contingent at the expense of the insured persons and leads to the accumulation of deficits.

It is also not realistic to rely on additional income at the expense of the population, as health care costs at the expense of individuals are increasing. According to the World Bank, 50% of healthcare is paid for by patients, compared to an EU average of 18-20%. Despite public discussions regarding a change in the health insurance model for 2019, this is not foreseen. The contribution is maintained at a rate of 8% with the same distribution of its burden between the insurer (60%) and the insured (40%).

### Analysis of costs

Total expenses and transfers - all under the draft budget of the NHIF for 2020 amounted to BGN 4 744 704,9 thousand, which is an increase of BGN 394 701 million compared to the Law on Public Health Insurance for 2019 (or 9.07%). Of this increase, 96.9% is allocated to running costs, which is normal and the remainder generates staff costs.

The increase in staff costs is motivated by changes in the minimum wage and related insurance thresholds.

BGN 325 580, 6 thousand of the increase is for health insurance payments. The National Health Insurance Fund proposes the following allocation of funds for health insurance payments under the 2020 budget:

1. for medical activities, according to Art. 1, para. 2 of the draft of LBNHIF for 2020 - BGN 2 838 282,6 thousand, incl.:

- 1.1. primary outpatient medical care - BGN 244,000.0 thousand;
- 1.2. specialized outpatient medical care - BGN 264 700,0 thousand;
- 1.3. medical-diagnostic activity - BGN 94 300,0 thousand;
- 1.4. hospital medical care - BGN 2 235 282,6 thousand;

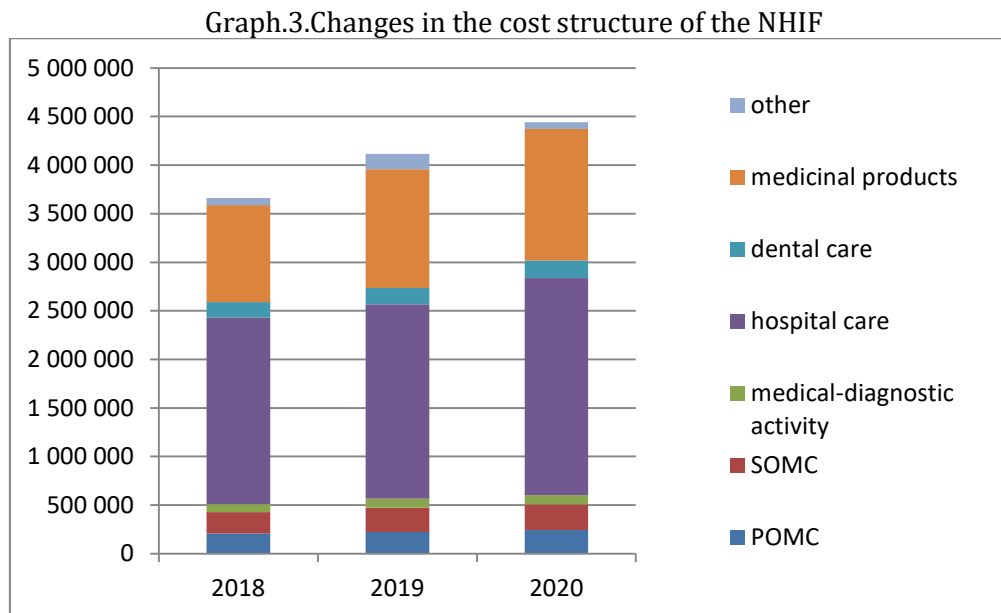
2. for dental activities, according to art. 1, para. 2 of the draft of LBNHIF for 2020 - BGN 179 000 thousand;

3. for medicinal products, medical devices and dietary foods for special medical purposes, according to art. 1, para. 2 of the draft of LBNHIF for 2020 - a total amount of

BGN 1 353 800,0 thousand;

4. Health insurance payments for medical assistance provided in accordance with the rules for coordination of social security systems under the project for 2020 are estimated at BGN 70 094,2 thousand.

The chart below shows the change in the structure of health insurance payment costs:



Source: FC calculations

The increase in hospital care expenditures was the largest - by 11.6%, followed by medicines - 10.8%, with an overall increase in costs of 7.9%.

There is no significant increase in the share of outpatient care costs. The share of disease prevention and prevention activities remains very low - around 12%, compared to an average of 20-25% for the EU.

Table 1.

	Hospital care	OMC	Medication
Belgium	29%	20%	13%
Denmark	31%	28%	4%
Czech Republic	33%	28%	16%
France	37%	14%	14%
Estonia	34%	25%	16%
Bulgaria*	50%	13%	28%

According to Eurostat

The share of hospital care remains around 49.8%, with the EU average at around 30%. Measures are foreseen to limit the opening of new hospitals and their expansion.

There are no radical solutions to curb the cost of medicines, which reach up to 30% of the budget, compared to the EU average of 15-18%. Again, malignancy medicines are projected to rise to BGN 466.6 million, which is about 9.8% of the treasury budget. The budget foresees another 11.2% increase in medicines. The expenses for medicines amount to BGN 1 243 800 thousand.

It is envisaged to gradually settle payments from the accumulated obligations for the treatment of insured persons abroad. More than BGN 260 million is owed.

The order and source for repayment of the liabilities of the hospitals - about BGN 500 million, which are mostly from state and municipal hospitals - have not been clarified. There is a real danger that the repayment will be at the expense of the 2019 budget for hospital care, which will further unbalance the budget of the system.

The condition of municipal hospitals, most of which are bankrupt, is alarming. Measures to preserve them as a system are lacking, and it directly serves more than 2 million people, mainly people with low income and opportunities.

### **Analysis of transitional and final provisions**

In the motives for the fund budget have been made proposals for changes in the legislative sphere. The proposed amendments in Art. 45 of the HCIA, there are two main areas:

- the financial relations between the NHIF and the holders of the marketing authorizations, in the case of the presence or absence of a result of the therapy with the medicinal products, for which a monitoring of the effect of the therapy is held in accordance with Art. 259, para. 1, item 10 of the Law on Medicinal Products in Humane Medicine (Art. 45, para. 23 of the Health Care Insurance Act);
- the mechanisms to ensure the predictability and sustainability of the NHIF budget.

In a thorough analysis of Article 45, paragraph 23 of the HCIA, a conclusion is drawn for its inapplicability, which is why it is proposed to amend it. According to the current version, the NHIF has the legal opportunity to negotiate a payment after taking into account the result of therapy for the medicinal products for which a follow-up of the effect of the therapy is held according to Art. 259, para. 1, item 10 of the Law on Medicinal Products in Humane Medicine, under the conditions and in the order determined in the ordinance under para. 9.

It is evident that the payment from the NHIF is presumed by the availability of a result of the therapy, i.e. until the result is available, the NHIF does not pay for the respective medicinal product, which is discharged by the pharmacies, respectively. is administered by hospital medical care providers. In a number of cases, certain treatments may result after a relatively long time. However, regardless of the duration, in all these cases there is a major problem - until they receive payment from the NHIF

for the granted, respectively administrated medicinal products, pharmacies and medical establishments - contractors of hospital medical care, cannot pay the same to the wholesalers who supply them with medicinal products. This, on the one hand, would jeopardize the commercial turnover and, on the other hand, would violate the whole legal order for reporting and payment of medicinal products reimbursed by the NHIF, which, as a final result, may limit all access of health insured persons to these products.

For these reasons, the Fiscal Council supports the proposed amendment of Article 45, paragraph 23 in three directions:

- to establish a new mechanism whereby the NHIF should pay regularly to pharmacies and hospitals the disbursed, respectively provided medicinal products, and in the absence of result (full or partial) of the holders of the marketing authorizations to recover the funds paid by the NHIF;
- The NHIF and the Marketing Authorization Holders/their authorized representatives to agree on specific criteria for monitoring the effect of therapy;
- negotiation of specific criteria and reimbursement of funds paid by the NHIF is obligatory for all medicines with a regimen for monitoring the effect of therapy, ie the norm should become imperative.

The Fiscal Council supports the proposal to abolish the fee for servicing the collection of health insurance contributions, which NHIF pays to the NRA in accordance to Art. 24, item 6 of the HCIA for the following reasons:

- The NRA is a state body whose task is to administer public claims, incl. social security contributions. According to Art. 3, para 1, item 2 of the NRA Act, it "establishes the public receivables for taxes and compulsory social security contributions on the grounds and by the amount" and "collects the voluntary payments of the public claims under item 2" (item 4);
- The NRA's support is borne by the state budget and it is not logical to place the NHIF in the role of a NRA client who should pay for the services provided.
- Contrary to tax revenue, social security revenue has earmarking intent. Funds from health insurance contributions should be used for health care and not for the maintenance of the tax administration.
- The NRA also administers social security contributions, but does not collect a fee. This puts the NHIF at a disadvantage.

## Conclusion

**The analysis made it possible for the FC to agree on the draft NHIF budget for 2020, expecting the acceleration of the activity for reforming the health sector.**

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