Financing of health care

Across all OECD countries, health care is financed by a mix of public and private spending. In some countries, public health spending is mostly confined to spending by the government using general revenues. In others, social insurance funds finance the bulk of health expenditure. Private financing of health care consists mainly of payments by households (either as standalone payments or as part of co-payment arrangements) as well as various forms of private health insurance.

In nearly all OECD countries, the public sector is the main source of health care financing. Around three-quarters of health care spending was publicly financed in 2013 (Figure 9.8). In Denmark, Sweden and the United Kingdom, central, regional or local governments financed more than 80% of all health spending. In the Czech Republic, France, Luxembourg, Japan and Germany, social health insurance financed 70% or more of all health expenditure. Only in Chile and the United States was the share of public spending on health below 50%. In these countries, a great proportion of health spending is financed either directly by households (Chile) or by private insurance (United States).

Health care is competing for public resources with different sectors such as education, defence and housing. The size of the public budget allocated to health is determined by a number of factors including the type of health and long-term care system, the demographic composition of the population and the relative budget priorities. On average, 15% of total government expenditure was dedicated to health care in 2013 (Figure 9.9). There are, however, important variations across OECD member states. Whereas a fifth of government spending is allocated to health care in countries such as New Zealand and Switzerland, this falls to around 10% in Hungary and Greece.

Developments in overall health spending are largely driven by the trends in public spending. Strong pre-crisis growth resulted in average public expenditure on health increasing at an annual rate of almost 4% (Figure 9.10). In 2010, growth in public health spending came to a halt with reductions in many countries. Since then spending growth has been very slow, often in line with overall economic growth.

After public financing, the main source of funding tends to be out-of-pocket payments. On average private households directly financed 19% of health spending in 2013. The share of out-of-pocket payments was above 30% in Mexico, Korea, Chile and Greece and 10% or lower in France and the United Kingdom. Out-of-pocket spending has continued to grow since 2009, albeit at a slower rate, partly as a result of cost-sharing measures introduced in a number of countries. Measures taken include increasing co-payments and raising reimbursement thresholds for pharmaceuticals, reducing benefits for dental treatment, increasing user charges for hospital care, introducing cost-sharing for certain activities in primary care and removing entitlements for public coverage for particular groups of the population.

Private health insurance (PHI) can play different roles in health systems. Whereas PHI provides primary health care coverage for large population groups in the United States and Chile, it complements or supplements public coverage for the vast majority of the population in countries such as France, Belgium and Slovenia. In other countries, such as Australia and Ireland, it serves as duplicate insurance providing access to a larger group of providers. Spending for PHI accounts for only 6% of overall health spending in the OECD, but it represents a sizeable share in a number of countries, particularly in the United States (35%) and Chile (20%). While health spending growth through private health insurance slowed down significantly in the period 2009-11, spending grew by 2.9% between 2011 and 2013 – also as a response to some cost-shifting and loss of coverage in some countries.

Definition and comparability

The financing of health care can be analysed from the point of view of the sources of funding (households, employers and the state), financing schemes (e.g. compulsory or voluntary insurance) and financing agents (organisations managing the financing schemes). Here "financing" is used in the sense of financing schemes as defined in the *System of Health Accounts* (OECD, 2000; OECD, Eurostat and WHO, 2011). Public financing includes expenditure by the general government and social security funds. Private financing covers households' out-of-pocket payments, private health insurance and other private funds (NGOs and private corporations). Out-of-pocket payments are expenditures borne directly by patients. They include cost-sharing and, in certain countries, estimations of informal payments to health care providers.

Total government expenditure is used as defined in the System of National Accounts and includes as major components intermediate consumption, compensation of employees, interest, social benefits, social transfers in kind, subsidies, other current expenditure and capital expenditure payable by central, regional and local governments as well as social security funds.

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OECD, Eurostat and WHO (2011), *A System of Health Accounts, 2011 Edition*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264116016-en*.

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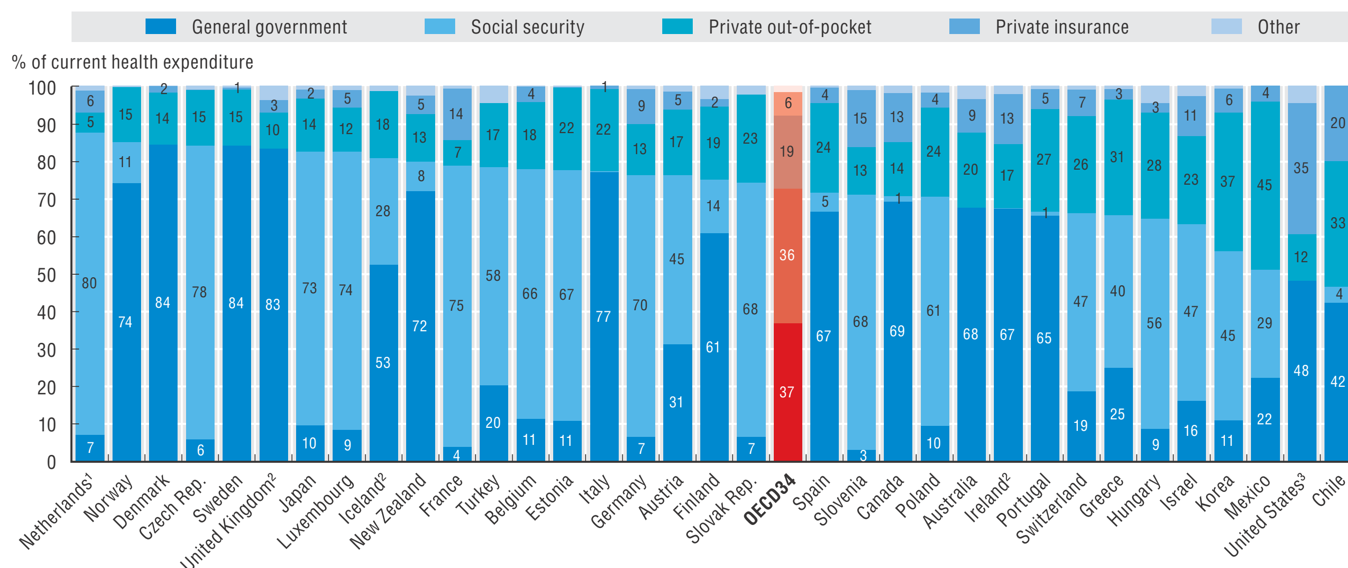
9.8. Expenditure on health by type of financing, 2013 (or nearest year)

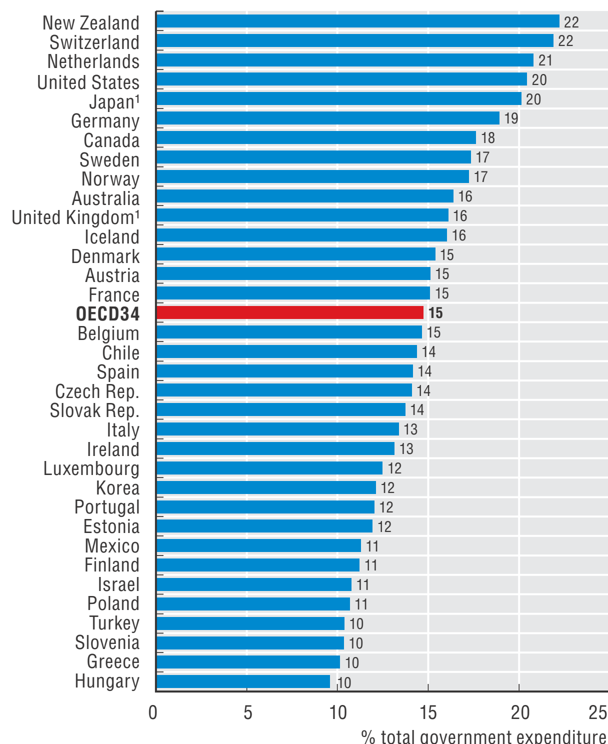


1. The Netherlands report compulsory cost-sharing in health care insurance and in Exceptional Medical Expenses Act under social security rather than under private out-of-pocket, resulting in an underestimation of the out-of-pocket share.
2. Data refer to total health expenditure (= current health expenditure plus capital formation).
3. Social security reported together with general government.

Source: *OECD Health Statistics 2015, http://dx.doi.org/10.1787/health-data-en.*

StatLink http://dx.doi.org/10.1787/888933281280

9.9. Health expenditure as share of total government expenditure, 2013 (or nearest year)



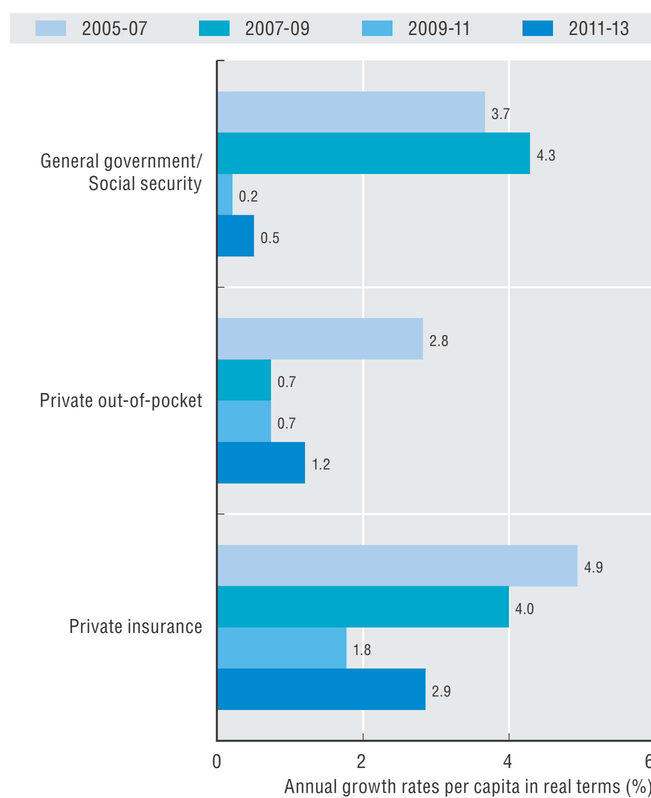
1. Data refer to total health expenditure (= current health expenditure plus capital formation).

Source: *OECD Health Statistics 2015, http://dx.doi.org/10.1787/health-data-en*; OECD National Accounts; Eurostat Statistics Database; IMF World Economic Outlook Database.

StatLink http://dx.doi.org/10.1787/888933281280

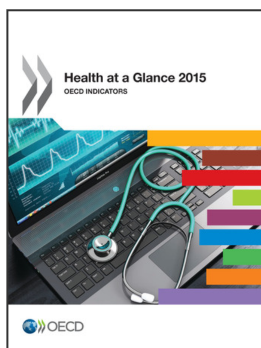
Information on data for Israel: *http://oe.cd/israel-disclaimer*

9.10. Growth of health spending by financing, OECD average, 2005-2013



Source: *OECD Health Statistics 2015, http://dx.doi.org/10.1787/health-data-en.*

StatLink http://dx.doi.org/10.1787/888933281280



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