

REFORMS IN THE ISRAELI SOCIAL SECURITY SYSTEM



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Presentation Highlights

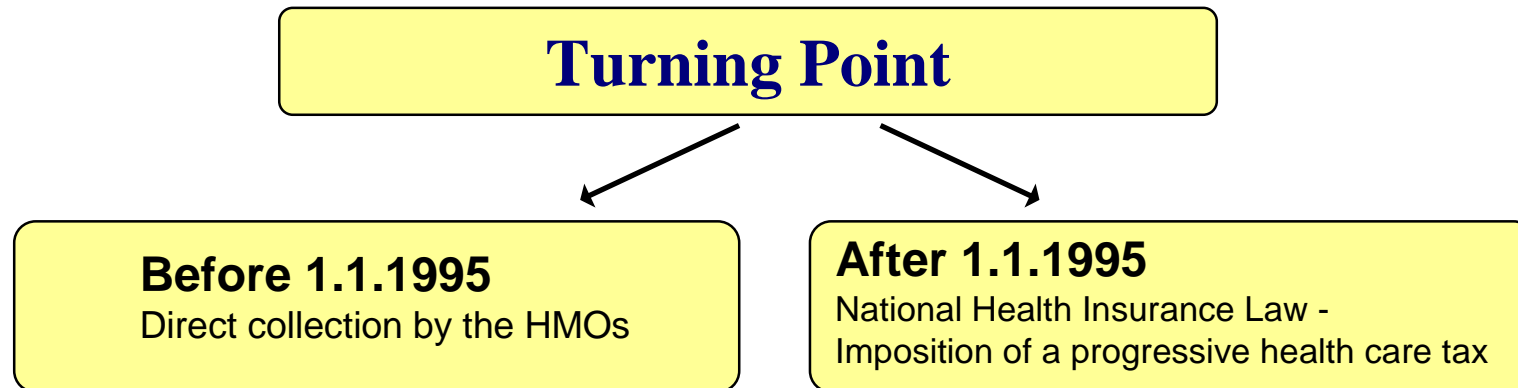
Reforms in the Israeli social security system - from collection by the HMOs to imposition of a health care tax:

- Description of the collection method that was changed in 1995
- Analysis of the problems inherent in the new collection method
- **Division of the Israeli market into sub-markets:**
 - Examining the impact of the change in the collection method on these markets
 - Parameters for comparing the market in Israel with other markets

Changing the Collection Method in Israel



National Health Insurance Law



- Institution of a uniform health care basket for all residents of the State of Israel
- A fixed equation for updating the health care basket - “automatic pilot”
- In addition, due to technological and demographic improvements, the basket is also updated by a public committee
- Collection of a progressive health care tax (by the National Insurance Institute)
- The difference in the public basket is offset by the government
- Basket allocation to the HMOs based on a capitation equation
- Additional services not covered by the basket provided directly by the government

Scope of the Israeli Health Market

2003

NIS 46 billion (\$10 billion)

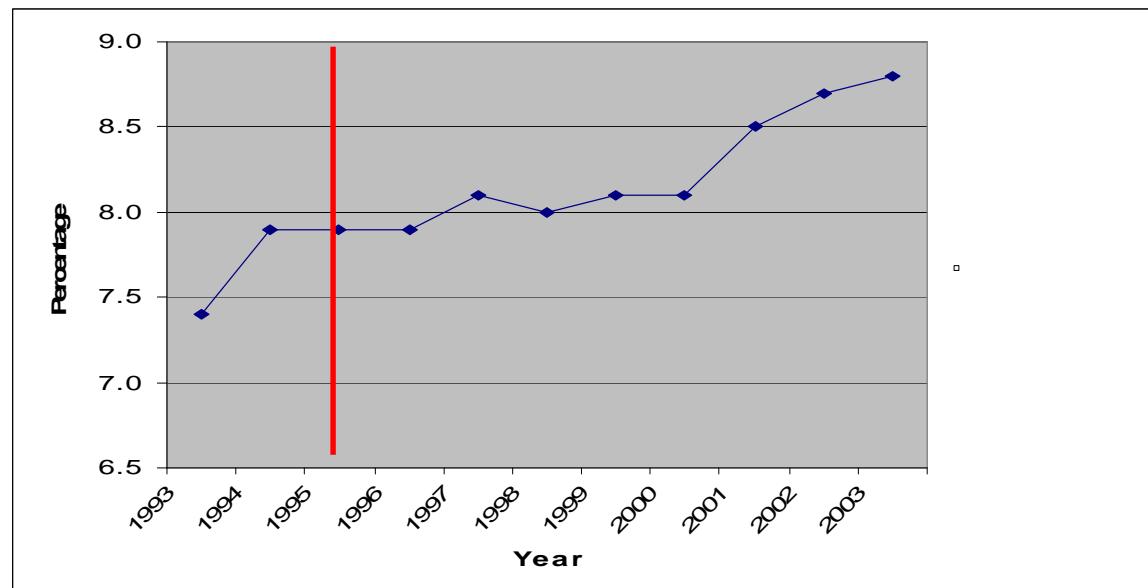
8.8% of GNP

6.4% of manpower - 152,000 employed persons

\$1,841 average annual per capita expenditure

The share of health care expenditure in total GNP has increased - a considerable rise when compared to OECD countries during the same period, namely:

The health care basket in Israel is satisfactory in view of the circumstances.





Update of the Public Health Care Basket in Israel

- Automatic update of the basket - “automatic pilot”:

		<u>%</u>
Wages in the health sector	-	35.96
Wages in the public sector	-	22.04
Consumer price index	-	23.00
Medication price index	-	17.00
Construction inputs index	-	<u>2.00</u>
TOTAL	-	100.00

- Demographic update - determined by the government (an average of 1.75% - 2.00% per annum)
- Technological update - the amount is set by the government and its components are determined by a public committee (an average of 1% per annum)

Incompatibility in the Current System

Update of the Health Care Basket Compared to Actual Inputs

	Basket Update Equation %	Inputs %
Health costs index	36	26
Public sector wage cost	22	-
Construction index	2	1
Cost of a day's hospitalization	-	50
Medication prices		13
Con		10

Incompatibility exists between the health care basket's update equation and the HMOs' actual inputs

Basket Computation in the Demographic Index According to the Number of Inhabitants
Based on calculations made by the National Insurance Institute, the demographic coefficient for inhabitants has in recent years ranged between 3%-4%, whereas the basket has accounted for a population growth coefficient of 2%.

Consideration of the cost of a day's hospitalization in the basket's index
The cost of a day's hospitalization that was determined by the regulatory authorities is not manifest in the computation of the health basket's index.



Public Health Care Basket: Members' Co-Payments

- Each HMO submits a plan for collecting co-payments from its members for physician office visits, medication and special tests
- Following its approval by the regulator, the plan is authorized and the co-payments are collected directly by the HMOs, as part of the public health care basket



Collection of the Health Care Tax by the National Insurance Institute

■ **Tax rate:**

- 3.1% of half the average monthly wage in Israel
- 4.8% up to a ceiling of 5 times the average monthly wage in Israel (the average monthly wage in Israel = \$1,639)

■ **Difference offset by the government:**

- The government transfers the difference between the public health care basket and the collected health care tax to the National Insurance Institute



Allocation of Public Basket Funds to the HMOs by the National Insurance Institute

■ Initial allocation -

Allocation according to a specific list of names, based on a report the HMOs prepare regarding their members who have any of the following 5 serious illnesses:

Allocation in 2003

Terminal renal failure	4.11%
Gaucher's disease	0.30%
Thalassemia	0.12%
Hemophilia	0.27%
AIDS	<u>0.50%</u>
Total share of the public basket	5.3%



Allocation of Public Basket Funds to the HMOs by the National Insurance Institute (continued)

■ Second allocation -

Allocation of the remaining funds is done according to a capitation system

Age Group	0-4	5-14	15-24	25-34	35-44	45-54	55-64	65-74	75+
Coefficient	1.26	0.48	0.42	0.58	0.74	1.21	1.86	2.90	3.64

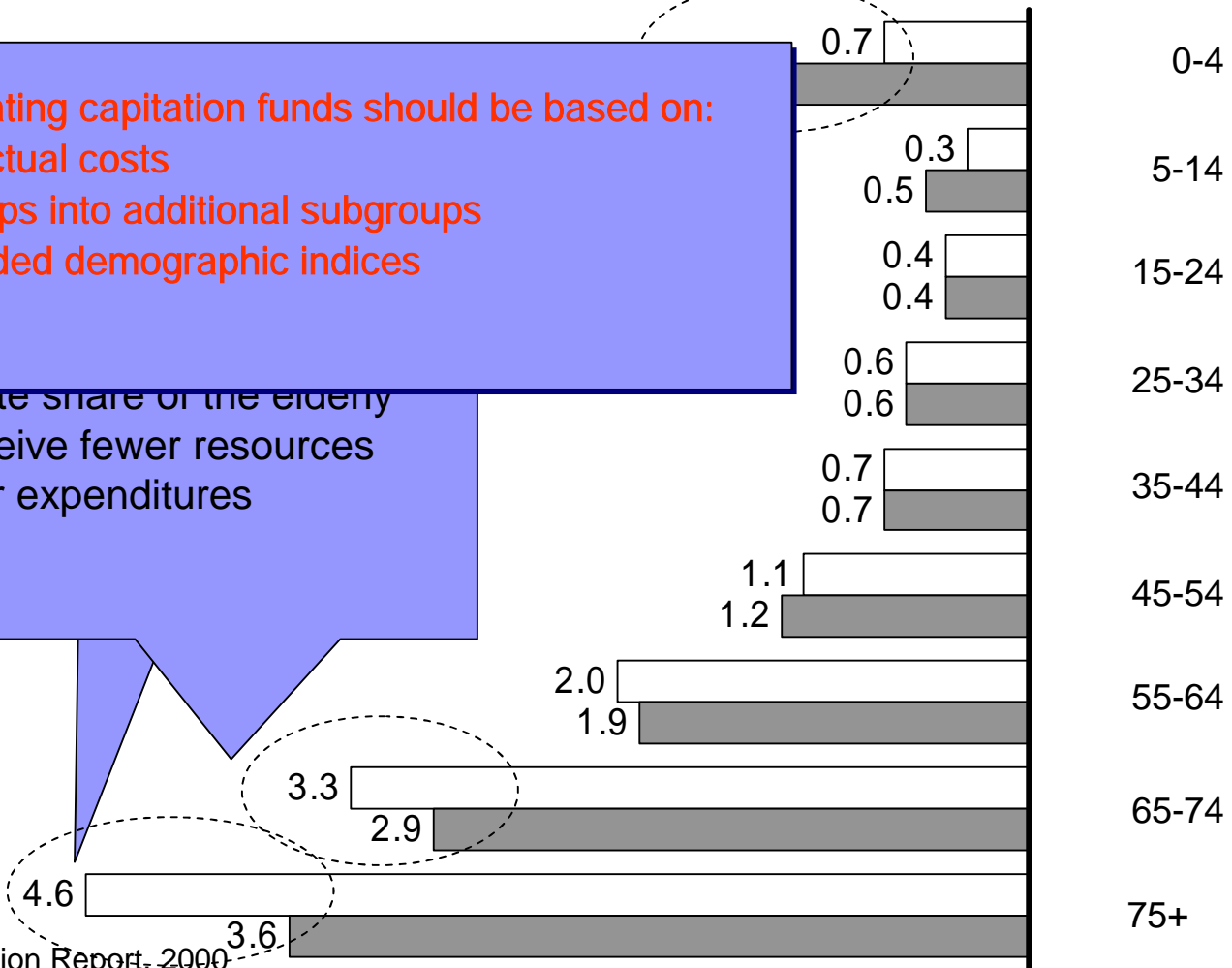
Capitation Coefficients Compared to Actual Expenditure According to Age Cross-sections

□ Expenditure
 ■ Capitation

Age groups

The equation for allocating capitation funds should be based on:
 a. Measurements of actual costs
 b. Division of age groups into additional subgroups
 c. Consideration of added demographic indices

disproportionate share of the elderly population receive fewer resources relative to their expenditures



Source: Amora Commission Report, 2000



AHCS - Additional Health Care Services

- Provided by the HMOs to citizens at an extra charge and due to their scope actually constitute part of the public health care basket (in total, 74% of all members consume AHCS)
- Rules governing AHCS:
 - Only services not covered by the basket
 - Financial break-even (no losses)
 - Every HMO member is unconditionally entitled to join
 - Uniform payment according to age group
 - Nursing care hospitalization insurance prohibited (actuarial problems)

AHCS - Additional Health Care Services (continued)

Regular basket	AHCS	Private	% of Total
V	<p><u>Conclusion:</u> a large percentage of Israelis consume additional health care services not included in the basket, which indicates a lack of trust in the existing basket on the part of the public</p>		21
V			47
V			26
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- Scope of AHCS in Israel - NIS 1.3 billion (\$280 million)
- Scope of private insurance premiums - NIS 3 billion (\$650 million)

Division of the Israeli Market into Sub-Markets

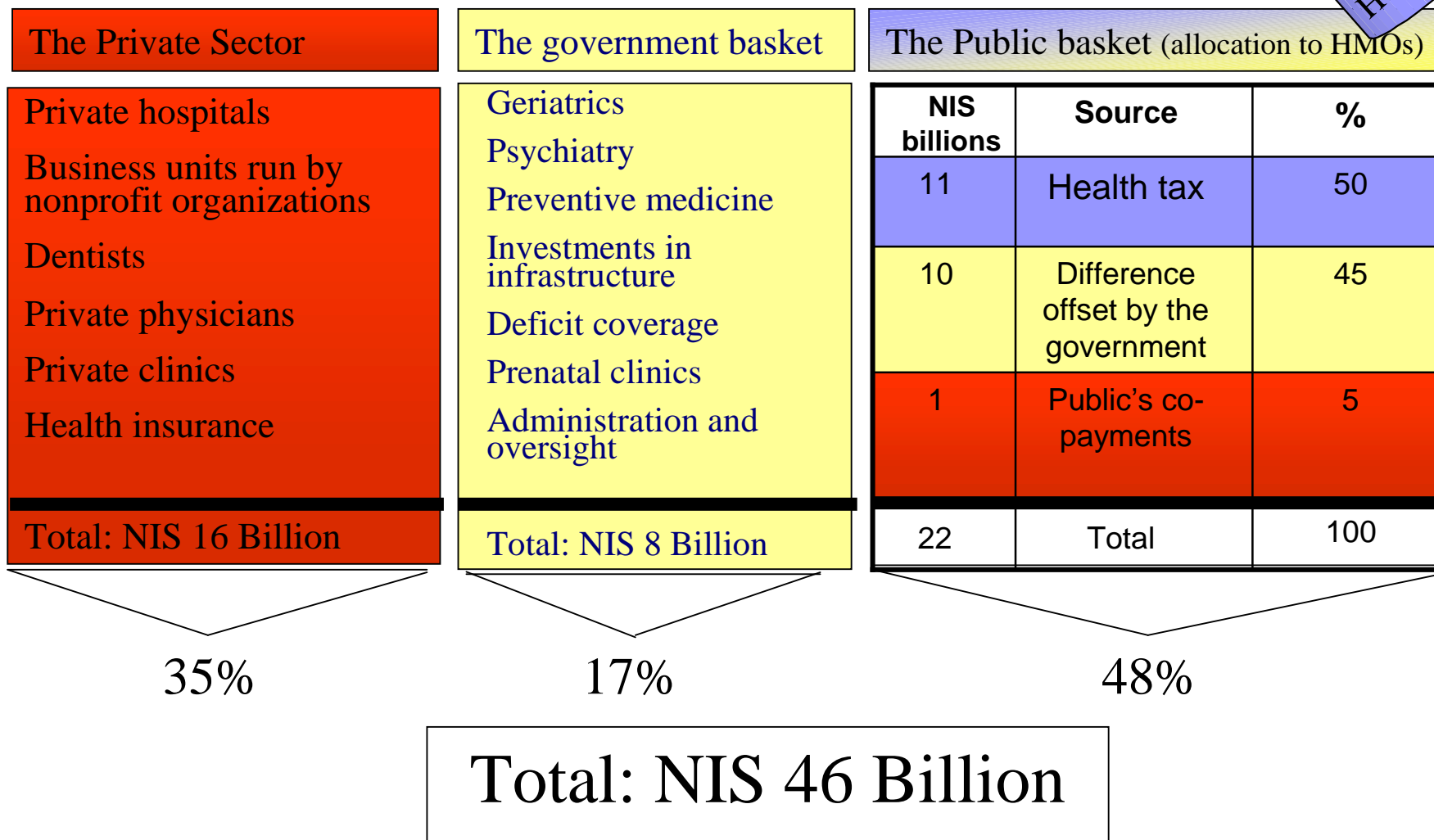
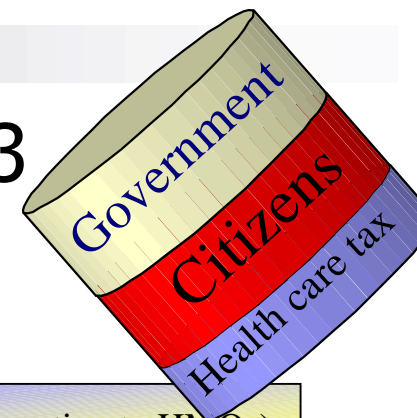




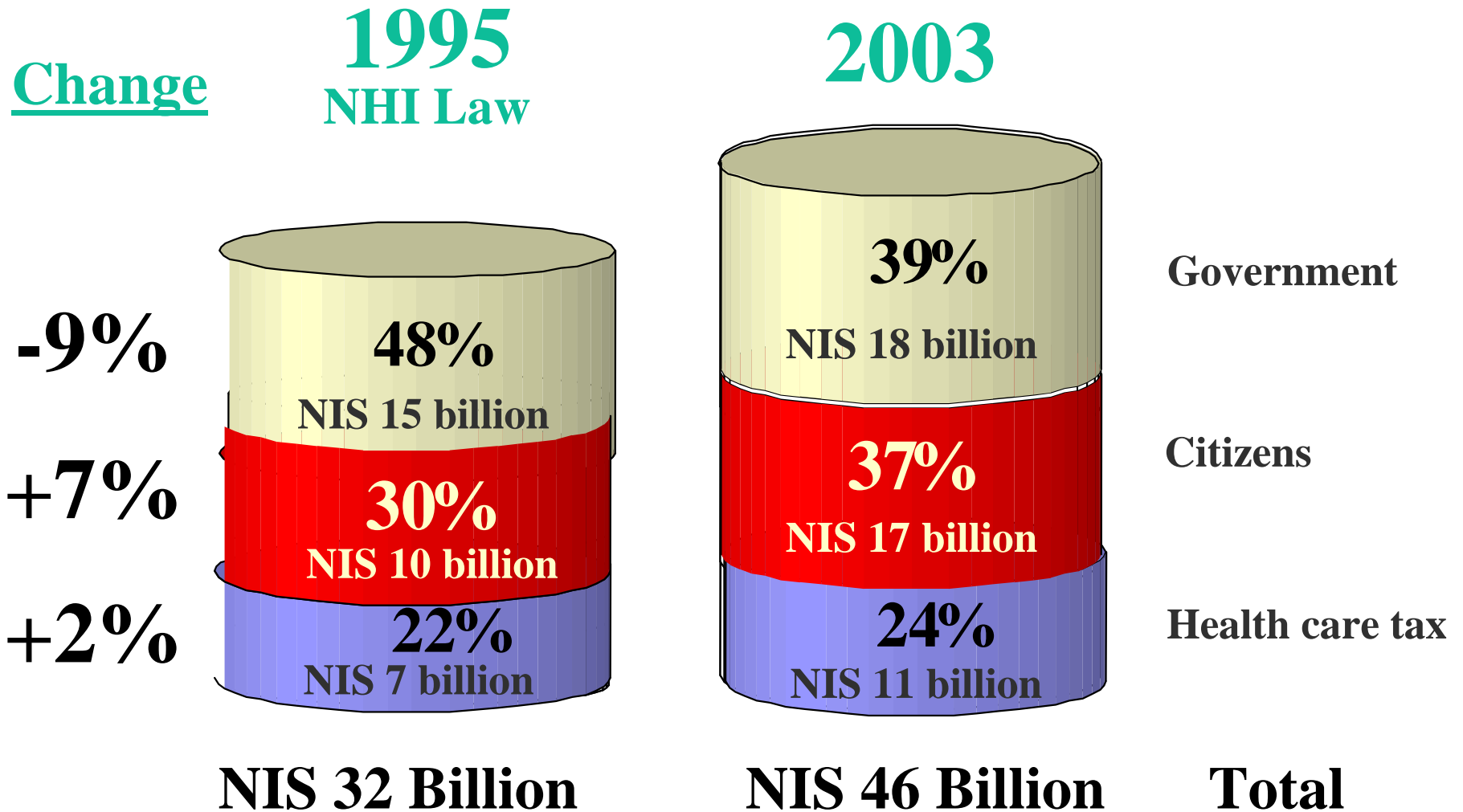
Division of the Market According to Different Funding Sources

- Public health care basket - under the responsibility of the HMOs
- Additional services not included in the basket, which by law are supplied by the government
- Private health care basket - offered by the private sector

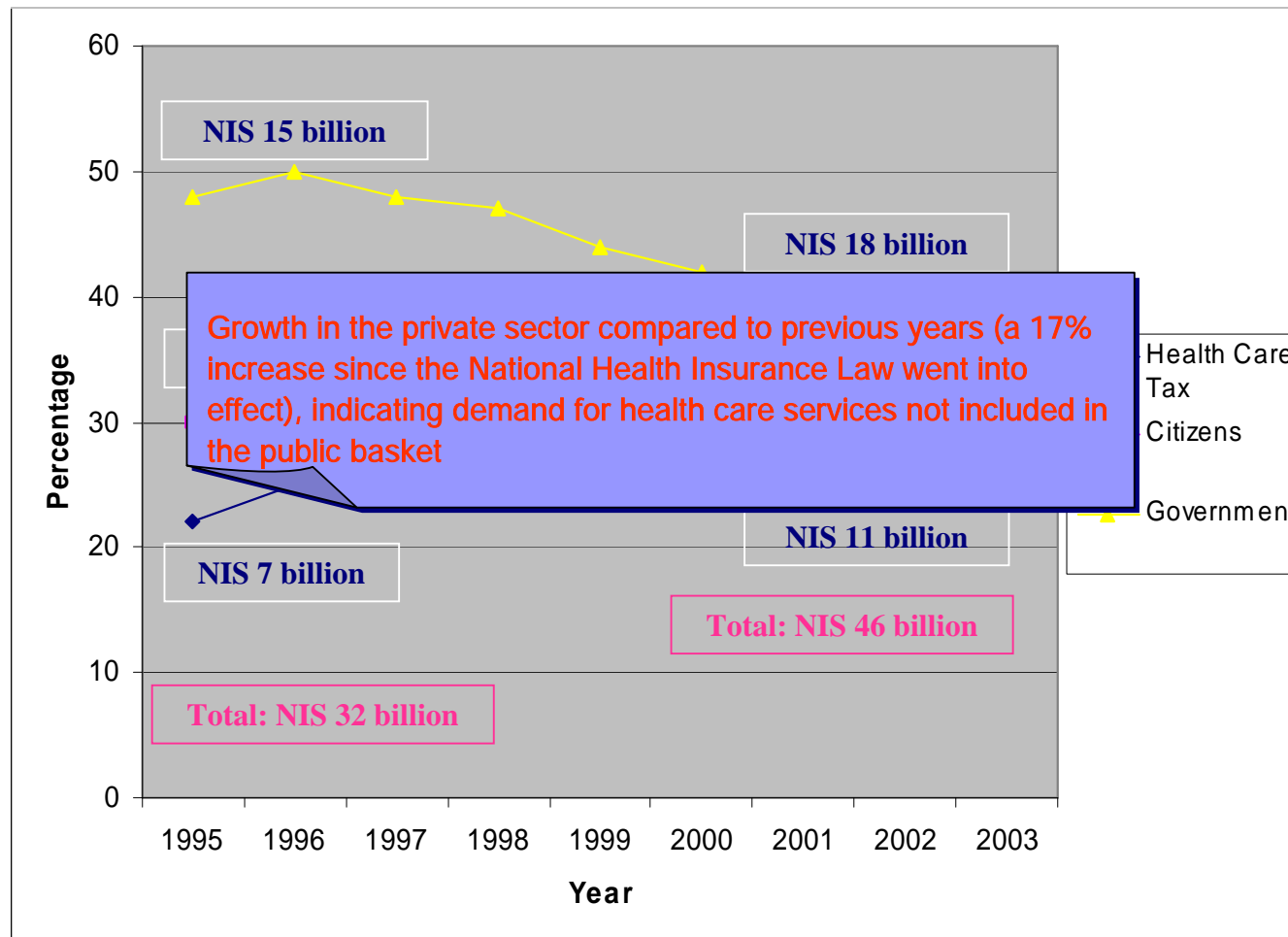
Market Division by Funding Source - 2003

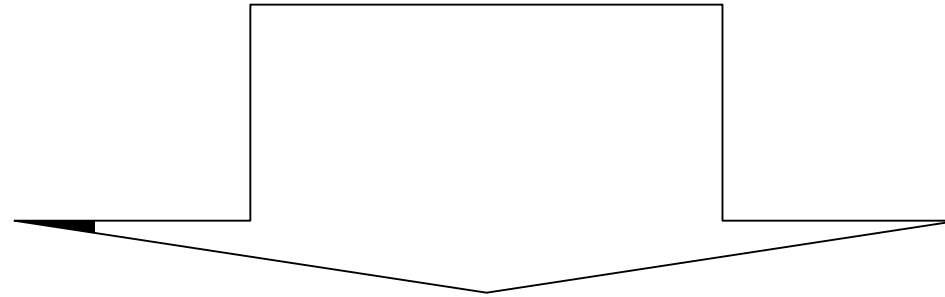


The Change in Basket Funding Sources in Israel



The Change in Basket Funding Sources in Israel (continued)



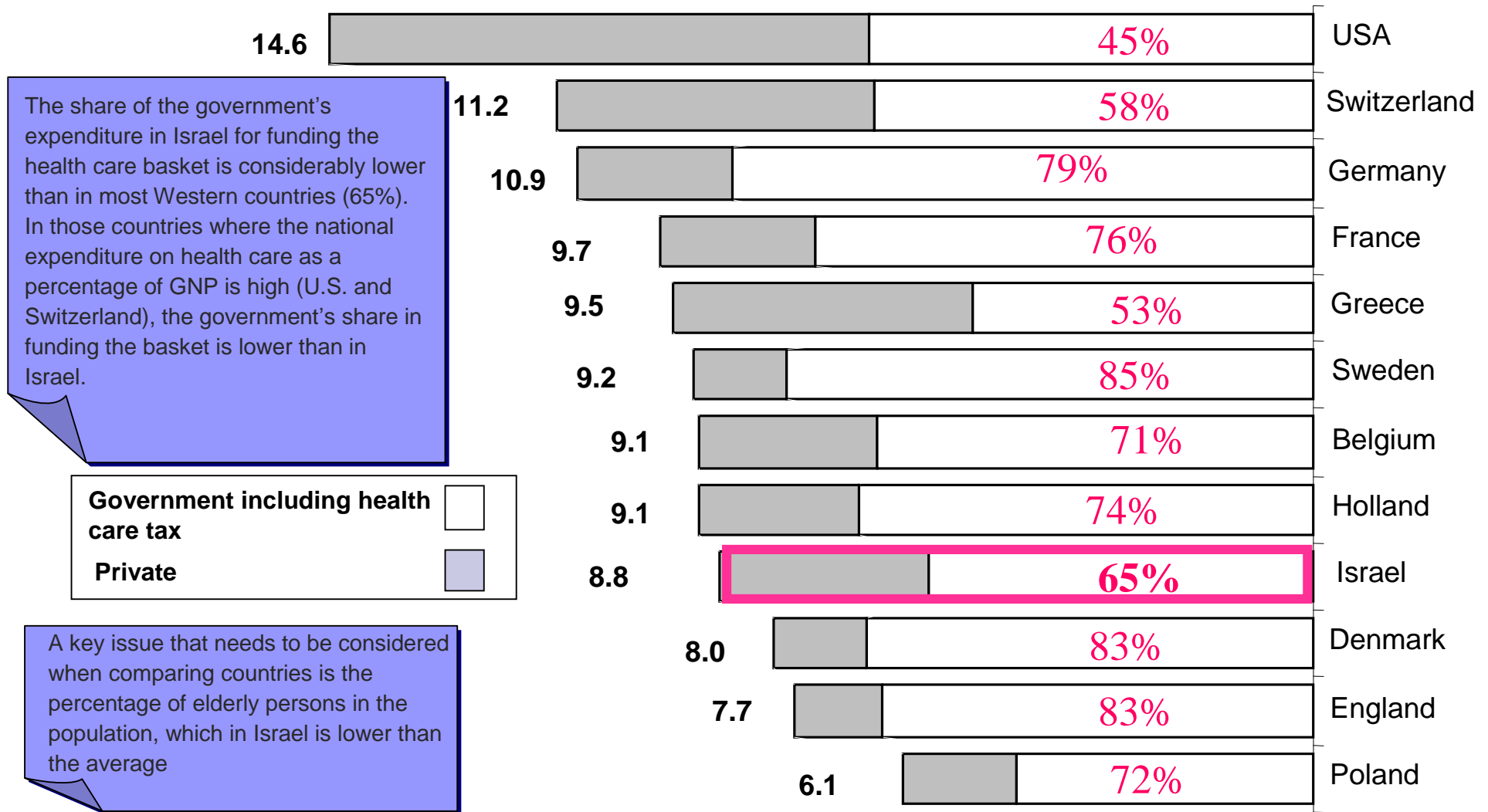


Funding Burden Distribution:

Changes Since the National Health Insurance Law
Went into Effect:

- The government's share in the funding burden **decreased by 9%**
- The citizens 'share in the funding burden **increased by 9%**

National Expenditure on Health Care as a Percentage of GNP and the Relative Share of Government Funding

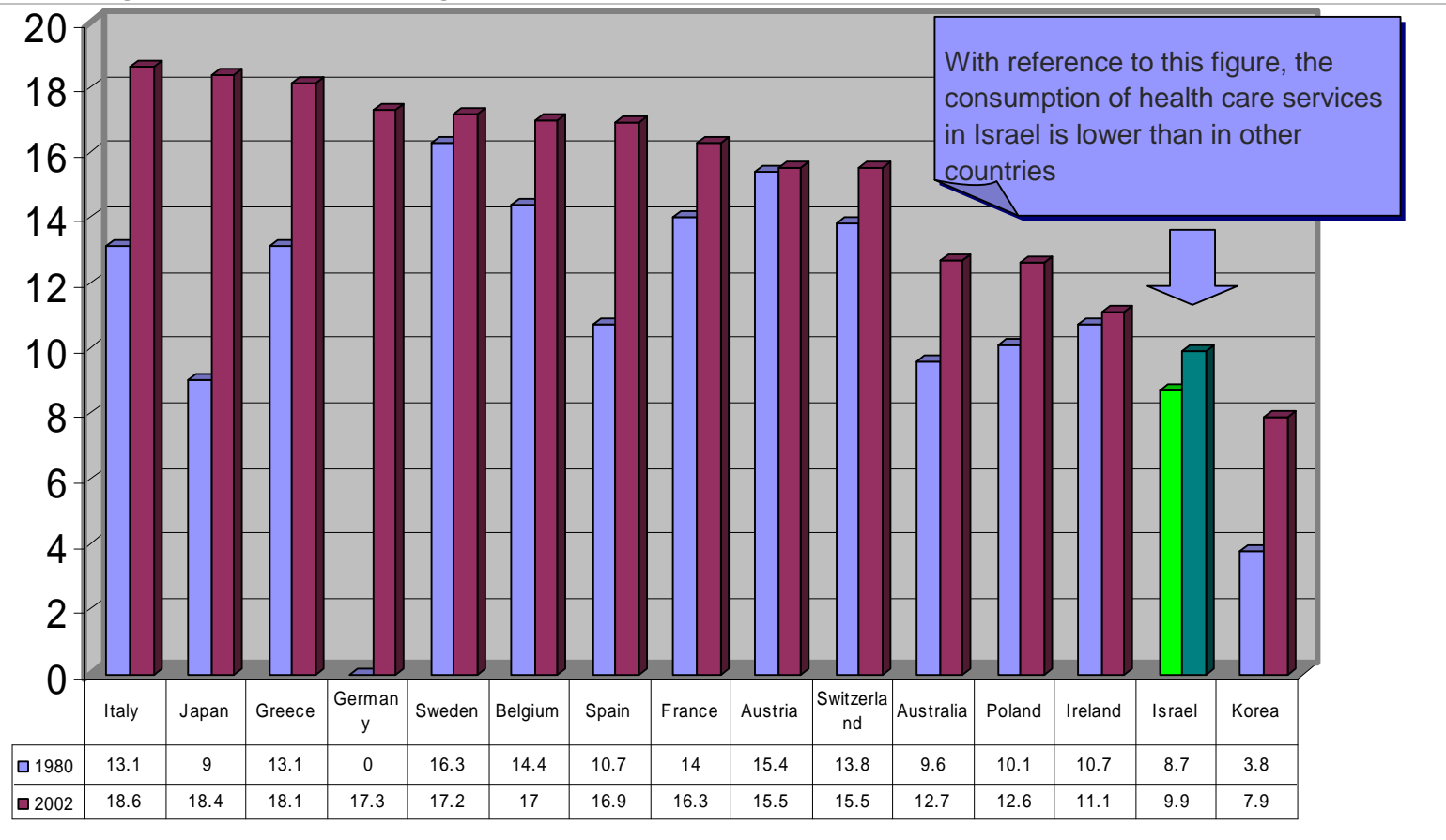


The share of the government's expenditure in Israel for funding the health care basket is considerably lower than in most Western countries (65%). In those countries where the national expenditure on health care as a percentage of GNP is high (U.S. and Switzerland), the government's share in funding the basket is lower than in Israel.

A key issue that needs to be considered when comparing countries is the percentage of elderly persons in the population, which in Israel is lower than the average

Example of a Parameter that Should be Considered When Comparing National Expenditure on Health Care:

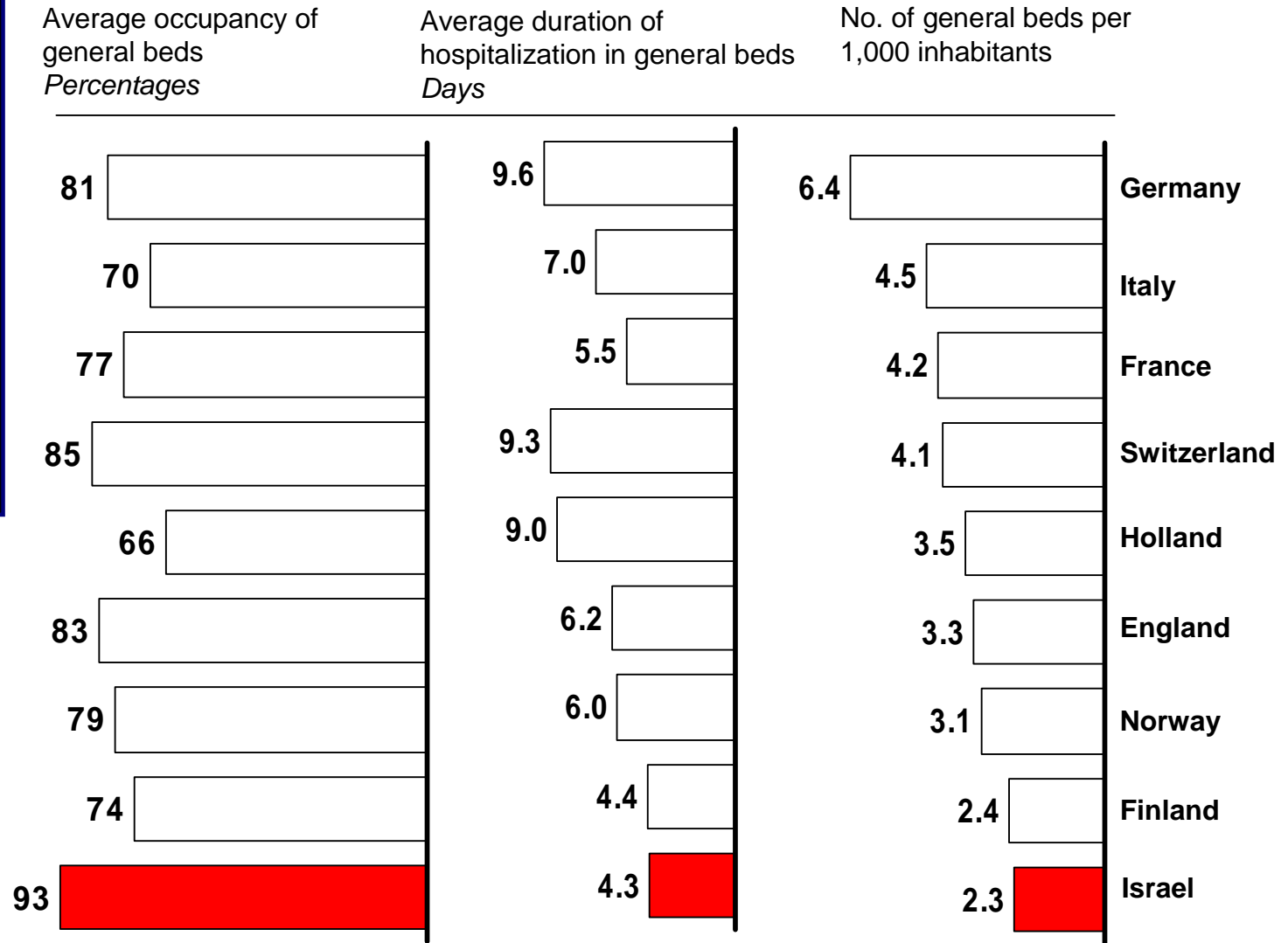
Percentage of Residents Aged 65 and Older in the Overall Population



Example of a Parameter Comparing the Quality of Health Care Services in Different Countries

There has been a persistent decline in the total number of general beds, ranking Israel at the bottom of the list. **Is it connected to the change in the collection method?**

In health care systems around the world where hospitalization periods are short, it was found that a high number of patients were rehospitalized for the same illness (within 28 days of their release) - which makes the expenditure on health care more costly



Source: The World Health Organization



Summary

- The change in the collection method that was instituted in Israel caused an increase in expenditure on health care compared to OECD countries during the same period, namely: the health care basket in Israel is satisfactory in view of the circumstances
- On the other hand, most Israeli residents are also covered by additional health insurance, a parameter indicative of the public's lack of trust in the existing basket
- Due to the absence of an appropriate updating mechanism, the health care basket in Israel has deteriorated with respect to a number of parameters
- Since the NHI law went into effect in Israel, there has been a substantial increase in the funding burden placed upon citizens, as opposed to a decrease in the government's payments



The End

