State Insureds in the Czech Republic as a Ball and Chain of Future Public Budgets

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Abstract

Czech healthcare is financed through a system of universal and compulsory health insurance based on solidarity. In last years, due to the covid-19 pandemic, there has been an unprecedented expansion of fiscal space for health services through increased payments for state-insured individuals. The article aims to highlight this increasingly important part of the Czech health insurance companies' revenues and the possible implications for the shape of the Czech health system and for 'he country's future budgets. The significant increase in financing health services through tax redistribution is gradually shifting the Czech health system back toward a national health system model. The existence of (several) health insurance companies is thus slowly but surely losing its key importance thanks to the described mechanism of constant increase of direct payments to the state.

Keywords*: health, health care, health insurance companies, state insured, state budget expenditures*

Introduction

Across the world, ensuring accessible and needs-based healthcare stands as a fundamental objective within health policy. Remarkably, this objective is universally embraced by developed countries, each having incorporated it in some form or another. We can assert that access to high-quality healthcare has evolved into a complex and universal issue over time. In fact, access to health services is now widely recognized as a fundamental human right (Morgan, 2008). Health protection is enshrined as a guaranteed and protected right also for inhabitants of the Czech Republic. The Czech constitution explicitly places the right to health protection among economic, social, and cultural rights. Consequently, the task of public administration is unequivocally to ensure equitable access to quality healthcare for all Czech citizens. The concept of solidarity is paramount in contemporary Czech health policy. However, the actual content of health policy extends beyond mere rhetoric. Health policy encompasses a range of activities that impact the health of diverse social groups and the overall state. Health policy is essentially an ongoing quest to identify the most effective methods for providing and financing healthcare services (Gladkij & Strnad,2002, Walt, 1994).

The crux of any effective health policy revolves around three key questions:

- What health services should be provided?
- How should these services be delivered?
- What financing mechanisms should be employed?

The specific design of individual health policies and health systems varies significantly from country to country. Factors such as historical context, geography, economic opportunities, and other contextual elements play a pivotal role. However, at its core, each health system represents a blend of responses to the questions above. These responses are intricately woven into the structure of health systems, which, in turn, are shaped by various elements, relationships, and management schemes (de Looper & Lafortune, 2009). This article focuses on the third question.

Fiscal Space and Sustainability in Government Budgets

Fiscal space, in its broadest sense, refers to the availability of budgetary resources that allow governments to allocate funds for desired purposes without compromising the overall financial stability. Creating fiscal space involves making additional resources accessible for government spending or potential tax reductions. The motivation behind expanding fiscal space lies in the potential for such spending to support medium-term growth and, ideally, yield future fiscal revenues.

Key Assumptions for Fiscal Sustainability (Heller, 2005):

- **Short-Term and Future Expenditure:** Any increase in short-term expenditure and related future spending must be financed from current and future revenues. If debt is used, the government must ensure sufficient revenues for repayment.
- **Medium-Term Implications:** Consider the medium-term impact of spending programs. Determine whether expanded fiscal space will primarily address near-term needs or if it will also accommodate future requirements. For sustainable programs, fiscal space should be consistently created over subsequent years.
- **Holistic View of Spending Priorities:** Fiscal space decisions should align with a comprehensive medium-term expenditure framework. If today's additional spending cannot be replicated in the future, governments may face underfunding of new initiatives or cuts in other areas. Fiscal space transcends sector-specific issues, even though debates often focus on perceived value, such as health spending. Balancing spending across sectors is essential to avoid crowding-out effects.

1. Health expenditures

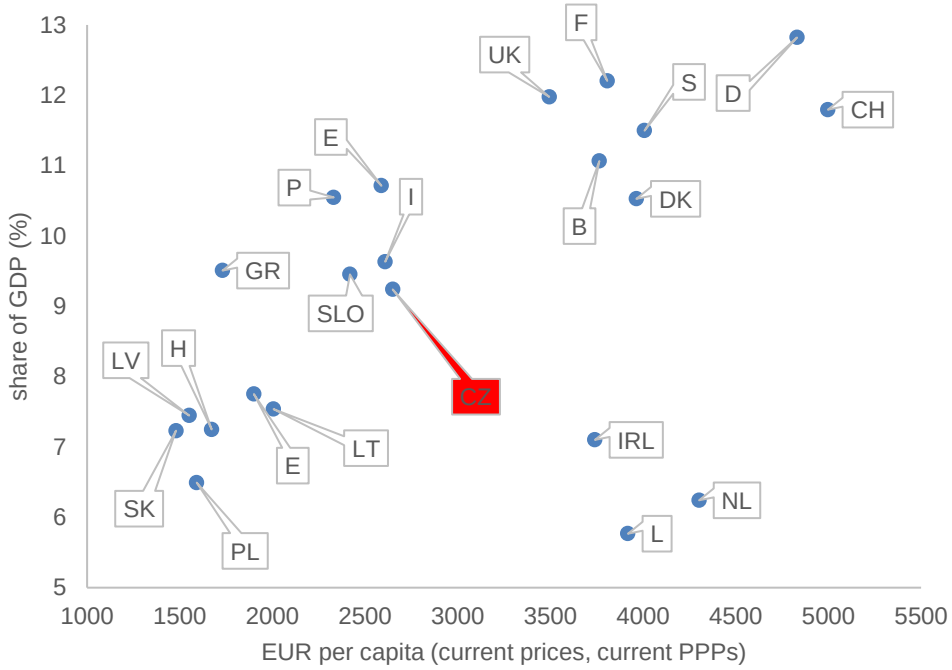

Figure 1: Healthcare expenditures in selected OECD countries in 2020
Source: OECD, 2023

The average per capita expenditure in the Czech Republic in 2020 was EUR 2,648.9. This figure was nearly doubled in Switzerland and Germany, where it exceeded almost EUR 5,000, while in the Slovak Republic, the average expenditure did not reach EUR 1,500 per capita. Therefore, within the EU, the Czech healthcare system can be considered less costly. Another method of assessing the level of health service provision in countries is to express total health expenditure as a percentage of GDP. As shown in the chart above, according to the OECD, health expenditure accounted for the largest share of GDP in Germany (11.82%) and France (12.21%), while it contributed the least to GDP in Luxembourg (5.77%). With health expenditure accounting for 9.24% of GDP, the Czech Republic aligns with the average of the selected countries.

Eurostat's 2022 data reveals that from 2015-2019, healthcare expenditure per individual rose across all current European Union countries. The Czech Republic saw a 42% increase, marking the fourth highest per capita spending rise in the EU, while Romania experienced an even greater surge of over 65%. Countries with a healthcare GDP share around 10% (France, Finland, Italy, Denmark) saw slower growth of up to 10%, and Greece, despite its 2009-2018 debt crisis, saw a 2% increase.

Generally, health spending escalates with a country's population income but is also influenced by other factors like technological advancements and an aging population. Public health expenditure is not only steadily rising in absolute terms but also as a GDP share across

all European countries. Concurrently, public healthcare spending is among the largest and fastest-growing government expenditure items.

When comparing health service provision approaches across different countries, merely comparing total expenditure relative to a country's population or GDP is insufficient. A detailed analysis would be required to determine the effectiveness or ineffectiveness of individual policies, which is beyond this paper's scope. The focus here is to highlight the importance and significant growth rate of health spending. This spending growth appears symptomatic and sustained for this sector. Given healthcare's importance, it's evident that securing adequate healthcare resources will become an increasingly pressing issue for every country's economic policy, including the Czech Republic. The chart below, affirming the above statement, displays the structure of health spending in EU countries by funding source.

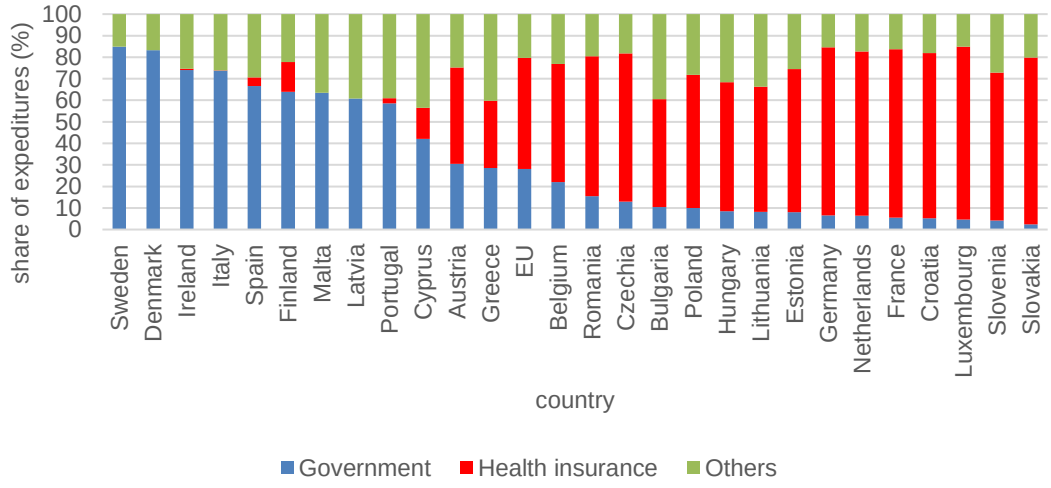

Figure 2: Healthcare expenditures in EU countries in 2019 by the type of financing
Source: Eurostat, 2022

The chart above is divided into two sections. The left section represents countries where healthcare is primarily funded directly from the state budget. The right section, on the other hand, illustrates countries where healthcare expenditure is predominantly financed through health insurance.

Healthcare financing in the EU is largely covered by public sources, either directly from state budgets or compulsory insurance funds. Countries with the lowest public healthcare financing include Cyprus (55.51%), Latvia (60.12%), and Bulgaria (60.59%). Conversely, Sweden (85.12%), the Czech Republic (84.99%), and Luxembourg (84.96%) have the highest levels of health financing through taxes and quasi-taxes.

2. Healthcare in the Czech Republic

Healthcare in the Czech Republic is primarily financed through universal and compulsory health insurance. This Bismarck model of financing, a shift from the previous state healthcare (Semashko model), was implemented in 1992. The Czech Republic, along with Austria, Greece, and Luxembourg, relies on public basic insurance coverage while also using market mechanisms at the provider level (Joumard et al., 2010). Private care providers play a significant role, offering users a wide choice of providers. However, limited information on quality and pricing results in little competitive pressure on providers. State supervision and regulation are characteristic of the Czech healthcare system, including setting insurance premiums based on individual income. The collection of premiums, fund distribution, and efficiency control of healthcare facilities are entrusted to non-governmental organizations, i.e., health insurance companies. The network of health service providers comprises state hospitals in Prague and regional cities, hospitals established by regions, municipalities, private entities, or churches, and general practitioners and specialist practices spread across the country.

Currently, seven health insurance companies participate in the Czech Republic's public health insurance system. These public corporations finance healthcare by collecting premiums and distributing them to providers. The insurance is universal, covering any Czech Republic citizen or permanent resident. The insurance and premium collection are regulated by legal norms.

Public health insurance premiums are paid to the health insurance company with which the insured person is insured. The payers of health insurance premiums are employees, employers, self-employed persons, persons without taxable income and the state. Insurance premiums for employees is paid one-third by the employee and two-thirds by the employer, who pays the total amount of premiums for himself and his employees to the individual insurance companies. The premiums collected for public health insurance are the source of the insurance company's basic fund, which is used to pay for health services, to make allocations to the operating fund and to cover the costs of the health insurance company's activities, to make allocations to other funds and to cover other payments provided for by law. Very illustrative is the relationship reported by Mertl (2021):

$HR = E + G_T$

The total health insurance revenue (HR) corresponds to the sum of the revenue from compulsory insurance (E) and the government payment (G_T), which is covered by general taxes. The E component is cyclical in terms of the level of economic activity and depends on the tax base (the volume of wages or taxable income). In contrast, the G_T component depends on political decisions.

The total revenue from state payments ($G_{T)}$ can be expressed as a multiple of the administratively determined rate of the total number of state insured persons.

Health insurance companies are responsible for ensuring their insured have access to health services, including local and timely availability. They contract with health service providers to offer these services to the insureds and reimburse the providers from the collected premiums.

As per the Ministry of Health (2022), the public health insurance system in 2021 reported revenues of CZK 407.1 billion against expenditures of CZK 419.6 billion, resulting in a deficit of about CZK 12.5 billion. The total cost of health services in 2021 saw an increase of CZK 46 billion from 2020, indicating a rise in health service costs for all health insurance companies.

3. State insured persons

Public health insurance premiums for individuals, for whom the State is the payer, are paid through the Ministry of Finance. These individuals are explicitly listed in the Public Health Insurance Act (included are pensioners, children, job seekers, recipients of parental allowance, incarcerated individuals, and others). The funds for these premiums are in the State budget chapter 398 - General Treasury Administration, under the indicator Transfers to central government budgets and the heading Health insurance premium appropriations - payment to the State. The assessment base or the insurance premium amount for each State insured person from 1993 to the present is detailed in the subsequent table.

Table 1: Assessment base and calculation of premiums (VZP, 2023)

Period	Calculation basis (CZK)	Insurance premiums (CZK)
from January 2023	14,074	1,900
September 2022–December 2022	11,014	1,487
January–August 2022	14,570	1,967
January–December 2021	13,088	1,767
June–December 2020	11,607	1,567
January–May 2020	7,903	1,067
January–December 2019	7,540	1,018
January–December 2018	7,177	969
January–December 2017	6,814	920
January–December 2016	6,444	870
July 2014–December 2015	6,259	845
November 2013– June 2014	5,829	787
January 2010–October 2013	5,355	723
January 2008–December 2009	5,013	677
January–December 2007	5,035	680
April 2006–December 2006	4,709	636
February 2006–March 2006	4,144	560
January 2006	3,798	513
January–December 2005	3,556	481
January–December 2004	3,520	476
January–December 2003	3,458	467
July 2001–December 2002	3,250	439
July 1998–June 2001	2,900	392
January–June 1998	2,120	287
July 1996–December 1997	2,000	270
January–June 1996	1,625	220

January 1994–December 1995	1,430	194
January–December 1993	1,694	229

From 2020, there was a significant rise in state insurance payments. However, this increase was less due to the pandemic and more due to the prioritization of the health sector, driven by public health concerns and the need to motivate healthcare staff. This period saw a sharp decline in health sector output as many scheduled procedures were postponed. The surge in total health spending was primarily due to increased salaries for doctors and nurses. Doctors' wages rose by 10.6% between 2019 and 2020, and by an additional 12.9% between 2020 and 2021. Similarly, wages for general nurses and midwives increased by 16.5% between 2019 and 2020, and by another 15.6% between 2020 and 2021 (ČSÚ, 2022).

It is almost certain that payment for the state insured will not return to pre-pandemic covid-19 levels, nor can such a return be expected in the future (Mertl, 2022). Hence, it is essential to point out that such an expanded fiscal space for health care can no longer be eliminated. In expanding it, all the principles of fiscal sustainability set out by Heller (2005) as described above have been violated:

- The financing of higher health expenditure (allegedly related to the covid 19 pandemic) has not been financed by current or future revenues, but exclusively through debt, and the state has not yet secured any of the necessary revenues to repay it.
- The (expanded) fiscal space created in the health sector has been directly petrified by the change in the law, and certainly no one today is contemplating a retroactive reduction in the payment for the state insured to pre-pandemic covid-19 levels. Future governments will very soon find that they will be forced by the swelling size of the payment for the state insured to either underfund their initiatives or cut other areas of spending in the future.
- The medium-term expenditure framework did not play a significant role in this case (especially in view of the ongoing pandemic). The expansion of fiscal space in this case was conceived strictly as a sector-specific issue. The initiative may thus ultimately have a crowding-out effect on other spheres.

Another important point that is forgotten when discussing the increased payment for the state insured is that such a drastic increase in the share of the state budget in the financing of the Czech health care system moves country (back) to the model of state health care.

At first glance, it might seem that there is no fundamental problem, since public spending on health care is increasing everywhere, regardless of the health care model being applied. Unfortunately, this would be a very simplistic view. Shifting the responsibility for ensuring that

health services are sufficiently funded from health insurance companies to the state undermines the very reason for the existence of health insurance companies in the first place, and at the same time does not benefit the state for the funds provided a corresponding share of the responsibility for the availability of health care, which still rests on the shoulders of the health insurance companies. This raises the question of whether the existence of (seven) health insurance companies is justified at all.

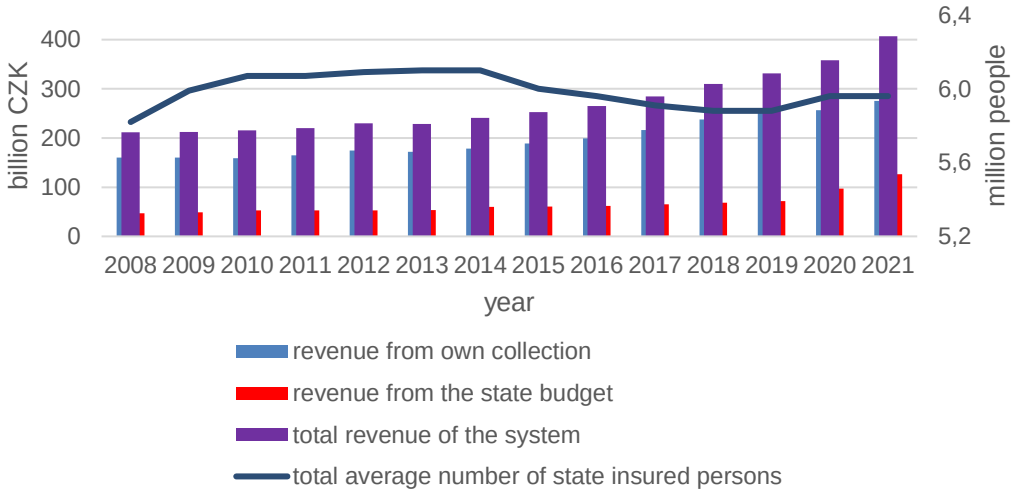

Figure 3: Revenues of Czech public health insurance system 2008–2021
Source: Ministerstvo zdravotnictví, 2022

In general, the payment for state insured persons within the financing of the Czech health care system should be only supplementary and should not violate the principle of self-sufficiency of this system. Its purpose lies only in a certain counter-cyclical function. If there is a significant increase in the number of unemployed persons who (in the short term) lose their income, A jump in the rate of premiums paid in this way while the number of state insured persons does not fall has exactly the opposite effect. In the past, only cosmetic adjustments to this rate (in the order of units and later tens of CZK) were made. However, at present, this part of the Czech healthcare system's income is becoming an increasingly important source, even though the number of state insured is not growing and has remained very stable in the long term, as can be seen in the chart above. On its main axis, it is possible to distinguish between growing revenues in CZK billion and on the secondary axis the number of state insured persons, which is not growing.

There is nothing in the constitution about the state being obliged to pay premiums for (some) citizens. Rather, the wording of Article 31 of the Charter of Fundamental Rights and Freedoms quoted above suggests that the system itself should be able to provide care for all persons. However, there will always be a certain group of people who will not be able to pay the premiums. However, for the functioning of the system, based on solidarity, it is not possible

for the income for these persons to represent an ever-increasing proportion of the total income collected in premiums. This share should be very stable over time and ideally minimal. If the share of premiums paid by the state were to exceed, for example, 50% of the Czech health system's income, the Bismarck model as we have described it above could no longer be discussed at all. In such a case, a complete overhaul of the system would necessarily be necessary, which would not be beneficial to the Czech healthcare system or to Czech citizens. The necessary changes (legislative, social and economic) would have far-reaching consequences and such destabilization is certainly not to be recommended.

Now let us take a closer look at the actual spending of the state budget under the relevant heading for the so-called state insured. According to the State Final Account for 2020 (2021), this item of expenditure was used in 2020 as follows: the budgeted amount – CZK 99,149.608 mil., the budgeted amount after amendments – CZK 98,099.608 mil., the real sum of payments – CZK 97,262.133 mil. The use of appropriations for this purpose in 2020 was significantly affected by the unclear situation related to the development of the COVID-19 pandemic and unpredictable macroeconomic conditions. Overall, however, the conditions were more favorable than expected and the number of jobseekers on the labor office's register was lower.

As of 1 January 2020, the amount of the assessment base increased from CZK 7,540 to CZK 7,903 per calendar month (Act No. 297/2017 Coll.). This represents an increase in the monthly payment per person of CZK 49 from CZK 1,018 to CZK 1,067. Furthermore, Act No 231/2020 Coll., which amended the Act No. 592/1992 Coll., on public health insurance premiums, this assessment base was significantly increased from CZK 7,903 to CZK 11,607 per calendar month as of 1 June 2020. This represented an increase in the monthly payment per person of CZK 500 from CZK 1,067 to CZK 1 567. From 1 January 2021, the amount of the assessment base was increased from CZK 11,607 to CZK 13,088 per calendar month. This represented a further increase in the monthly payment per person of CZK 200 from CZK 1,567 to CZK 1,767. The amount of the payment from the state budget to the health insurance system in relation to GDP is shown in the following graph.

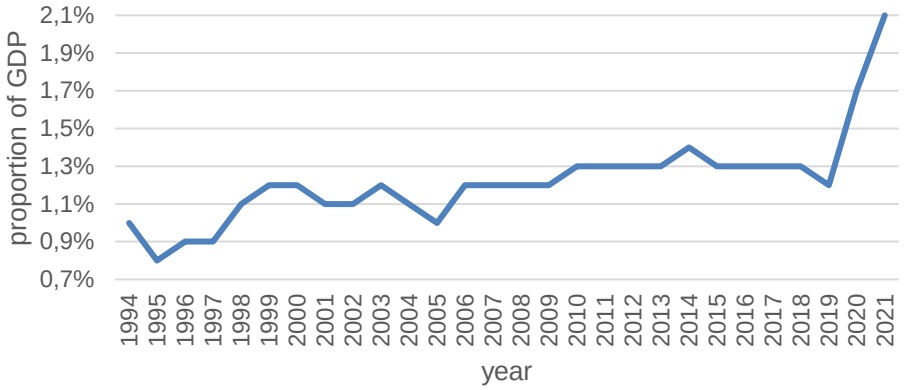

Figure 4: Payment from the state budget to the insurance system as a proportion of GDP

Souce: Ministerstvo zdravotnictví, 2022

The significant growth of this ratio in 2020 and 2021 is influenced by an unprecedented increase in the state payment and, on the other hand, by a decrease in the denominator of the share (GDP). In this context, it should be noted that each increase in the payment by CZK 100 per person per month represents approximately CZK 7.15 billion, which the state must subsequently spend from the state budget, given the current 5.96 million state insured persons.

The average total revenue of the insurance system per insured person in 2021 was CZK 38 578 (a year-on-year increase of 13.7%). On the other hand, the total expenditure per insured person amounted to CZK 39,765 (a year-on-year increase of 19.1%) (Ministerstvo zdravotnictví, 2022). It is clear from the above figures that even the ad hoc expanded fiscal space does not cover consumption. However, a more detailed analysis of the above costs would have been useful to assess which of the above costs were necessary and which were artificially created in the system to reward the sector for fighting the pandemic, as we have outlined above. Be that as it may, the idea of a significant reduction in costs in the health sector is hard to imagine, as we have said above, because the health sector is a segment with steadily rising costs. As we can demonstrate for the Czech environment in the following graph.

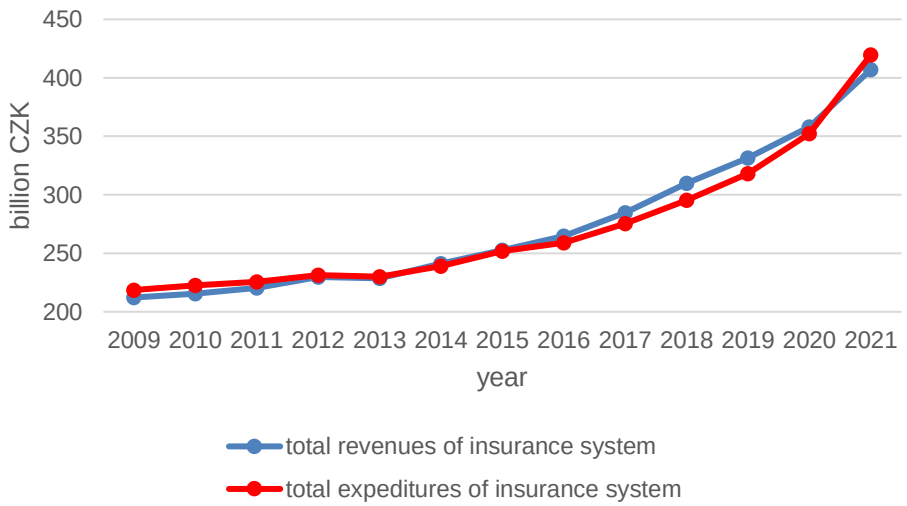

Figure 5: Development of revenues and expenditures of the public health insurance system 2009–2021
Source: Ministerstvo zdravotnictví, 2022

The chart above shows that the system is experiencing a steady increase in expenditure. However, as the next graph illustrates, the increase in premium income has not kept pace with this growth and the income has been increasingly saturated by direct payments to the State in recent years.

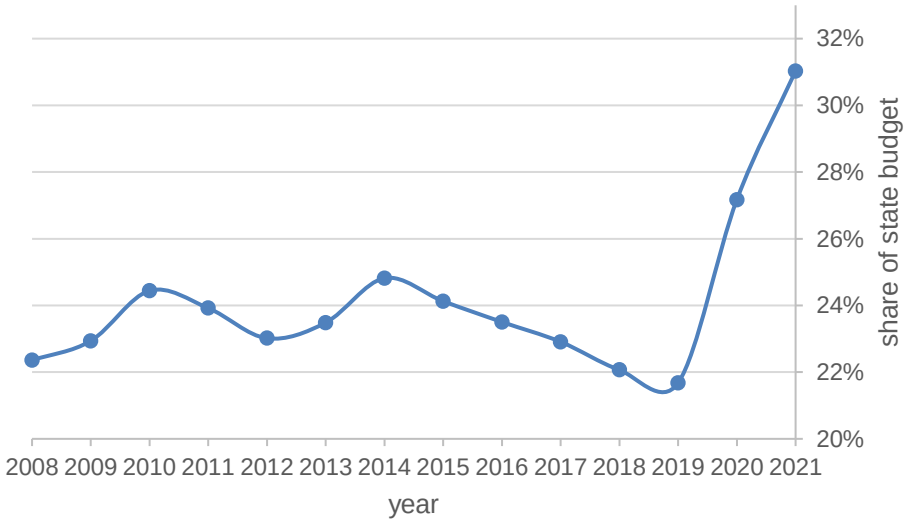

Figure 6: Share of the state budget in the financing of the Czech public health insurance system 2008–2021
Source: Ministerstvo zdravotnictví, 2022

Some authors (Bryndová & Šlegerová, 2021, Maaytová et al., 2018), argue that given the expected future increase in healthcare spending, it is necessary to seek additional sources of public health insurance to ensure its functioning, including opening the discussion on higher levies or further increases in state payments, even at the cost of compromising other priorities in the state budget. However, further increases in payments for the state insured, while their

number is not growing, are not an appropriate alternative for Czech healthcare system, although it is certainly the most politically feasible way.

Discussion and conclusions

This pandemic in the Czech environment has highlighted the problem of health care financing, or rather the problem of its sustainability. In the Czech Republic, where healthcare is largely financed through the system of general and compulsory health insurance, there has been an unprecedented increase in payments for the state insured in recent years in connection with the covid-19 pandemic, which will break out in 2020.

To reward the health sector, Czech government has expanded fiscal space, violating all the principles theoretically necessary for its creation. This expanded fiscal space has not only been given no consideration in the medium term and has been covered only by deepening the national debt without any prospect of additional resources. At the same time, its creation has grossly affected the distribution of the Czech health sector's revenue sources with long-term consequences.

At any shortfall on the revenue side of public health insurance system, the political representation immediately comes up with a solution to increase the payment for the state insured. However, it must be remembered that every 100 CZK increase in the rate will trigger a mandated expenditure of more than CZK 7 billion. Generally, increasing the payment for state insurers is accepted as an alternative to increasing the premium rate paid by the economically active population, which is politically very unpopular. Unfortunately, however, these considerations do not consider all the consequences of this relatively simple and politically certainly the most viable solution to the alleged lack of finances in the Czech healthcare system.

It’s almost certain that payments for state-insured individuals won’t return to pre-covid-19 levels. This expansion of fiscal space for healthcare, financed through debt, violates all theoretical principles of fiscal sustainability. The law has solidified this expanded fiscal space, and future governments may face budgetary constraints due to these increased payments.

This shift towards state healthcare financing in the Czech Republic raises questions about the role and necessity of health insurance companies. While public healthcare spending is increasing globally, the responsibility shift from health insurance companies to the state undermines the purpose of these companies. They still bear the responsibility for healthcare availability, but without a corresponding share of the funds provided by the state. This situation prompts the question of whether the existence of seven health insurance companies is justified.

Thanks to these ad hoc political decisions, a discrepancy is slowly but surely emerging in the Czech Republic between the model of financing health care, which was introduced in

the Czech Republic soon after the fall of the Iron Curtain and has been applied in practice up to the present day, and the fact that the state already covers almost a third of the revenues of the general health insurance system by paying for state insured persons. Paying for these people thus becomes an imaginary iron ball and chain for future governments to drag along with every future budget.

For Czech health insurance companies, this could be a warning signal that their days are beginning to shorten and that national or state health care is in sight in the Czech Republic again.

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