

# Intervention needed: the impact of future economic development and pandemic measures on social health insurance revenues and expenditures<sup>2</sup>

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## Summary

- In the Czech Republic, social health insurance (SHI) revenues are connected to the economic situation, particularly the state of the labour market. This study looks at the impacts of the Covid-19 epidemic and its associated restrictive and supportive measures on trends in SHI revenues and the system's overall financial situation in coming years. We find that without major interventions, being it either strengthening its funding sources or limiting its expenditures, the Czech health care system will move towards substantial deficits from 2021 onwards.
- Our model works with various scenarios of macroeconomic development, epidemiological severity, and state job support during the pandemic. Expectations of labour market development used in the predictions are based on forecasts by the Ministry of Labour and Social Affairs, the Czech National Bank, and the Czech Banking Association released in January and February 2021. The model includes all relevant measures introduced in response to the pandemic up to and including March 2021.

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- The total SHI revenues had gradually grown in recent years due to favourable macroeconomic situation. Their growth pace remained similar even in 2020 and would be so probably also in 2021. However, in contrast to previous years, this is only as a result of increased state payments into the SHI budget in response to the pandemic (+20 billion CZK in 2020 and +50 billion CZK in 2021, an overall increase of 74% per a so-called state insuree over these two years), and a re-established requirement for self-employed workers to pay minimum monthly health insurance contributions throughout 2021. We anticipate that revenues from contributions paid by economically active individuals will decline across 2021 and will increase only slightly in 2022.
- Between 2022 and 2024, state payments into the SHI system will not balance out substantially slower growth in collected contributions from economically active individuals, unless the state payments are further increased. In this period, total SHI revenues are expected to grow at only around 3% per year. This translates into the annual increase in SHI revenues of only around 10 billion CZK, including the state payment, in 2022-2024. This is substantially less than the year-on-year growth of 17-20 billion CZK in the years before the pandemic.
- The medium-term outlook predicting a drop in SHI expenditures in the 2021 Health Insurance Budgetary Plans (ZPP2021), stands in contradiction to previous trends and experience with reimbursement negotiations and appears to be underestimated. The health insurers' real expenditures for 2021 will be substantially higher than those planned in the ZPP2021, by at least 33 billion CZK. This is because the expenditures will be inflated by additional costs as a result of the, including vaccination, testing, bonuses for medical staff, and reimbursements for large numbers of Covid-19 patients in hospitals.
- Therefore, the original SHI budgetary plan of only a slight deficit in health care funding in 2021 is not realistic. Though the increased state payment improved the SHI revenue situation, the system will still operate at a substantial loss in 2021, which it will cover from reserves built up in recent years, however. These reserves will very likely be used up during 2021, whereas the SHI system may then run up annual deficits of tens of billions of CZK in the coming years.
- Our predictions also show the importance for the state job support schemes initiated during the pandemic to continue, and the substantial impact the course of the pandemic has had on the SHI revenues. The decision as to whether, and to what extent, to extend supportive job retention measures for the remaining eight months of 2021 could make a difference of up to 10 billion CZK in anticipated revenues to the social health insurance system. Further any worsening of the epidemiological situation could reduce SHI revenues by between 1.5 and 5 billion CZK per year. In such a case, contributions collected from employees and their employers may not even reach their pre-pandemic (2019) levels during 2022.

- The analysis we present demonstrates the necessity of finding additional sources of revenues for the social health insurance system, including launching a discussion on higher health insurance contributions or additional raises in state payments. The alternatives would include expenditure-side measures, including increase in health care providers' productivity, which, however, would have to be implemented in the nearest future. Other unpopular measures to reduce expenditures would lead to limiting the availability of health services, compromising on quality, imposing wage freezes or pay cuts in medical professions, or to the development of secondary insolvency among health care service providers.
- At the time of publishing this study, new predictions of macroeconomic development and the government's preliminary plans regarding the amount of state budget contributions for state insured persons to the SHI, were released. The partial effects of these new facts on the key conclusions of the study are described in the final section of the study.