

SPECIAL EDITORIAL
HEALTH INSURANCE REFORM
Labor versus health perspectives

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ABSTRACT : The Ministry of Labor (MOL) has submitted to the Council of Ministers a social security reform plan. The Ministry of Public Health (MOPH) considers that health financing should be dealt with as part of a more comprehensive health reform plan that falls under its prerogatives. While a virulent political discussion is taking place, major stakeholders' inputs are very limited and civil society is totally put away from the whole policy making process. The role of the media is restricted to reproducing political disputes, without meaningful substantive debate.

This paper discusses health insurance reform from labor market as well as public health perspectives, and aims at launching a serious public debate on this crucial issue that touches the life of every citizen.

THE SOCIAL SECURITY REFORM
AS PROPOSED BY THE MINISTER OF LABOR

What is the rationale behind this proposal?

The proposal states the distortion effect of social security contributions on the labor market, as a major concern to be addressed by the reform. The employer's contribution share is regarded as a payroll tax, and the assumption is that, removing this share would allow employers to create more jobs, resolving thus the problem of unemployment.

To view social contributions as penalizing employment is a very old argument that goes back to the struggle for social justice around the middle of the last century. It was put forward by conservatives to curb social and welfare policies that considered contributions as the expression of solidarity between the employer and the employees, the better off and the less well off as well as between the healthy and the sick.

The recent "ideological" background for shifting health financing from contributions to taxes comes from a policy paper issued by the World Bank in March 2010 [1], that

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has raised much controversies with the Ministry of Public Health at that time. However, the genuine part of the proposed reform is Minister Charbel Nahas' proposal, on collecting additional treasury fund through taxes on real estate and capital gains. Disregarding how the generated money would be distributed among the many competing social programs, this kind of taxes would contribute to rectify the unfair fiscal policy in place.

What is particularly alarming however, is that the National Social Security Fund (NSSF) contribution exemption was put on the table of the Council of Ministers for adoption, together with a proposal for salary adjustment within the framework of insane political barter.

The content, as well as the way to proceed with these proposals, raise some serious concerns:

- Removing the main NSSF source of financing i.e. employers' share is a major amendment of the NSSF law and could not be made by a simple decision of the Council of Ministers. Moreover, this would imply a drastic change in the social security governance where there will be no more legitimacy for employers to sit on the NSSF Board.
- Replacing contributions by taxes is a major structural reform that requires active involvement of the civil society, through an open debate and a consensus building process, that are not taking place.
- The current "urgent" proposals shift the emphasis from linking contributions with unemployment, to a trade-off between contributing to the social security and raising salaries. Thus, the primary intention for removing contributions is diverted from enabling employers to create additional jobs to make them capable of affording wage adjustment.
- Even from a labor market perspective, employers have a long list of claims to reduce production costs and enhance competitiveness and hence job creation. Abolishing their contributions to the NSSF was never among their listed priorities.
- The effect that would have the removal of employer share on job creation depends on two parameters. The first is the importance of unemployment where recent studies reveal a relatively low rate in Lebanon [2]. The second is the elasticity of labor demand i.e. the effect that would have employers' exemption on the creation of new jobs. This should be examined in light of the relatively modest contributions ranging from less than 30 USD to a maximum of 70 USD per employee (the employer's contribution to the sickness fund is 7% of the salary with a maximum deductible of 1000 USD).

FINANCING REFORM FROM A HEALTH SYSTEM PERSPECTIVE

The ultimate goal of health financing reform is Universal Coverage. Therefore, in addition to fund generation, reform plan should tackle health services provision and utilization. The World Health Report 2010 gives Lebanon as an example on how to move towards universal coverage by “improving the efficiency and quality of primary care network”. Germany was considered as an example for “injecting additional funds from general revenues in the wage-based insurance system” to meet the growing needs of an aging population [3]. Therefore, financing reform i.e. insurance reform is only a piece of the puzzle in the comprehensive systemic approach contributing to universal coverage.

System related problems have cultural roots and are institutional dependents and cannot be solved by magic or by a coup d'état. System's weaknesses and deficiencies could only be addressed by building on system's strengths, and by capitalizing on previous achievements. A particular attention should always be paid to preserving acquired advantages. It is, therefore, crucial to identify those strengths, advantages and achievements.

How the health coverage system is currently functioning?

It is true that half of the population in Lebanon does not have formal health coverage. It is also true that those uncovered are entitled to the coverage of the MOH for hospital care and expensive treatments i.e. to what may constitute a catastrophic spending for households. This was designed to protect households from impoverishment resulting from health spending.

The MOH does not reimburse ambulatory care. It provides, however, an alternative for the poor by subsidizing a comprehensive package of Primary Health Care (PHC) services through a wide network of PHC centers. This network is becoming more and more credible and trusted by local communities leading to significant decrease in out-of-pocket (OOP) that households used to spend mostly on ambulatory care and medicines.

Provision and utilization data reveals that the poor are utilizing more ambulatory and hospital services than the better off, and indicates that equitable accessibility is not a major concern for the time being. As a matter of fact, over consumption of medicines and over utilization of health services are rather a problem [4].

Accreditation programs have contributed to a documented improvement of the quality of health services at the hospital, as well as at the PHC level.

Working on payment mechanisms and performance assessment led to significant efficiency gains at the level of the MOH. Evidence shows that, with almost the same resources, the MOH has been covering a significantly increasing number of cases and continuously improved quality of services, over the past 10 years [5].

With regard to health outcomes, recent studies revealed great improvement in child and maternal mortality rates

reaching respectively 10 per thousand [2] and 26 per hundred thousand [6].

Thus, a functional Safety Net exists, sound policies are in place and progress has been noted. We should be particularly careful though, that acquired advantages, from the culmination of years of work and militancy, would not be jeopardized by the reform.

Why do we need health financing reform?

Because health financing is *unfair* and *not sustainable* and because spending on health exposes households to a *high risk of impoverishment* [7].

Reform should rather be seen as a continuous process. Much can be and has been achieved at the technical and administrative levels provided that a vision exists and politicians do not interfere. However, when a structural reform is proposed, a clear, strong and continuous political commitment is required. Such reform needs major legislative amendments and civil society involvement. As a matter of fact, the recent history of the health sector in Lebanon has known a considerable progress in technical and administrative reform components, although it has witnessed failures whenever political commitment was needed [5]!! The World Health Report 2010, dedicated precisely to universal coverage, tells a success story about health system financing in Lebanon. It points out major achievements as a result of sound policies and professional work. It states “A series of reform has been implemented by the Ministry of Health to improve equity and efficiency [...] spending as a share of GDP has fallen from 12.4% to 8.4%. Out-of-pocket spending as a share of total health spending fell from 60% to 44%, increasing the levels of financial risk protection” [8].

From a health system perspective, financing reform should protect people from financial risks, remove financial obstacle that may hinder the accessibility of the poor to essential health care, and prevent those living over the poverty line from impoverishment when spending on health.

Where does the money come from in the current health financing system ?

Forty-four percent of total health expenditures (THE) is disbursed directly by households at the point of getting the service; 29% of financing comes from the treasury. This represents what is paid by the MOPH, 25% of NSSF expenditures and most of other public funds disbursements. The remaining 27% are contributions to the social security and premiums to the private insurance, split into 16% paid by households and 11% by employers.

Hence, most of health financing (44%) comes from out-of-pocket (OOP) which is the worst payment modality from equity perspective. It hinders the accessibility of the poor to necessary health services and pushes people living close to poverty under the poverty line. OOP are distributed by household income categories in the following manner: 30% come from the lower income categories earning less than 650 000 LBP monthly; 30% from the low middle income categories with a monthly income

ranging from 650 000 to 1 200 000 LBP; and the remaining 40% from the better off. The latter share is mostly spent on luxury treatment such as first class hospitalizations, cosmetic and plastic surgeries [9].

HOUSEHOLDS DIRECT PAYMENTS AS SOURCE OF FINANCING

How OOP should be addressed to remove the financial obstacle facing the poor to health care, and protect people with limited resources from impoverishment?

For the poor, imposed fees and co-payment may hinder the accessibility to health services, and therefore a complete exemption from Primary Health Care fees and hospital co-payment is required. Beneficiaries of this category could be identified by Proxy Means Testing conducted by the Ministry of Social Affairs.

For the low middle income households, health spendings are catastrophic and may push people under the poverty line, hence, OOP should be reduced through waiving schemes based on income. Those can be identified by Public (& NGO) providers, and “equity funds” could be created and managed by municipalities and/or the Ministry of Social Affairs.

As mentioned in the World Health Report 2010, OOP in Lebanon has been decreased during the past decade from 60% of THE in 1998, to 44% in 2005. However, 44% is still very high and should be lowered at least by half if we are to protect people from the risk of impoverishment due to health spending. Eliminating unofficial payments imposed by hospitals (exceeding the 15% co-payment) will only have a limited impact in this regard. The main intervention would therefore consist in lowering the reliance of the poor on private ambulatory services. And the only source of money to finance alternative PHC in order to achieve this result, is that of taxation.

TAXES AS SOURCE OF FINANCING

This brings us to consider taxes as a source of funding. As this money will feed into the treasury, competing priorities exist among different social programs. The fairness of health financing depends on how equitable is the fiscal system i.e. the progressivity of taxes as well as the importance of tax avoidance and tax evasion.

In all cases, funding from treasury source has the advantage of being prepaid and somehow redistributive, and thus remains more equitable and less catastrophic than OOP. It is usually used to cover preventive and primary care as well as regulated hospital care, generating thus better value for money than households' direct disbursements.

More progressive taxes are preferred from equity perspective. Therefore, taxes on real estate and capital gains proposed by the MOL are particularly interesting. It is worth mentioning that the only indirect taxes that may be recommended are value added taxes (VAT) on unhealthy food or harmful products such as foods high in fat, salt, and sugar, tobacco, alcohol, hunting rifles and munitions.

CONTRIBUTIONS AS SOURCE OF FINANCING

Finally, what are the characteristics of contributions as a source of funding?

Contribution to Social Security is the expression of the culturally rooted value of Solidarity. In economic terms, contributions represent a progressive redistribution going from high income to low income adherents, and from low to high-risk beneficiaries. However, the employers' share may be considered as a payroll tax contributing to labor market distortions, reducing employment levels and promoting informality, and this is obviously the main concern of the Minister of Labor. However, abolishing contributions means depriving the health sector from an important and equitable source of financing. This also means destroying a valuable efficient instrument for collecting money for health. Any reform plan should consider the cultural and historical development of the social security system that is based on the value of solidarity, and should capitalize on existing institutional capabilities.

In conclusion, the diversity of resources into OOP, taxes and contributions, is an important element for pooling sufficient revenues and ensuring sustainable health financing. Increasing revenues from treasury source is a must, provided equitable fiscal policy is adopted and fair taxes are put in place. Minister Nahas' proposal on real estate and capital gains taxes would rebalance, to some extent, the inequity of the fiscal system and is expected to ensure important revenues. Money from treasury source should be spent in preference to reduce OOP for equity purposes. Then, once additional funds are made available, the employer's share may be reduced if a meaningful positive effect on the labor market is reasonably expected.

Nevertheless, the main question remains: Do people have a say in the social security reform in Lebanon? How?

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