Public funding of health spending

While financing schemes purchase health care on behalf of individuals and the population (see indicator "Health expenditure by financing scheme"), the revenues needed to fund this expenditure can originate from a number of different sources (government revenues, social contributions, insurance premiums and so on). Analysing the flow from these sources to the schemes gives a more comprehensive understanding of how health services are ultimately funded and the overall burden on the sectors of the economy.

The vast majority of funding for government schemes comes from general government revenues (such as taxation and levies), which are then channelled through budgetary and allocation processes. However, governments might also contribute to social health insurance, for example, by covering the contributions of particular population groups or providing general budget support to insurance funds. Individuals purchase private health insurance through the payment of regular premiums. However, part of the premium is often paid by the employer, or it may be subsidised by government. Individuals also finance care directly, using household income to pay for services in their entirety or as part of a cost-sharing arrangement with a third-party financing scheme. Other health financing schemes (such as non-profit or enterprise schemes) can receive donations or generate income from investments or other commercial operations. Finally, although limited in most OECD countries, funds can come from non-domestic sources through bilateral agreements between foreign governments or development partners.

Overall public funding can be defined as the sum of government transfers and all social contributions. Private sources consist of the premiums for voluntary and compulsory insurance schemes, as well as any other funds coming from households or corporations. In 2019, public sources funded around 71% of health care spending on average in OECD countries (Figure 7.12). Where government financing schemes are the principal financing mechanism, as in Norway, Sweden and Denmark, public sources funded more than 80% of health care expenditure. In other countries, governments may not pay directly for the majority of health services, but they provide transfers and subsidies (Mueller and Morgan, 2017[5]). In Germany, for example, only about 7% of spending on health came directly from government schemes, but government transfers to public agency and social insurance funds, as well as social insurance contributions payable by employees and employers, meant that a large proportion of expenditure was still considered publicly funded (78% of the total).

Governments fund a range of public services, and health care competes with other sectors such as education, defence and housing. The level of public funding of health is determined by factors such as the type of health system in place, the demographic composition of the population and government policy. Budget priorities can also shift from year to year due to political decision making and economic effects. Public funding of health spending (via government transfers and social insurance contributions) accounted for an average of 15% of total government expenditure across OECD countries in 2019 (Figure 7.13). Around 20% or more of public spending was linked to health care spending in Costa Rica, Japan, the United States, Ireland and Germany. At the other end of the scale, Mexico, Greece, Hungary and Turkey allocated around 10% of government spending to health care. All OECD countries expanded and revised their budget allocations in 2020 as part of government responses to tackle the impact of COVID-19. While the public resources allocated to health rose, the extent of these increases was generally smaller than the subsidies provided to businesses that suffered from the economic standstill.

Many countries have a system of compulsory health insurance – either social health insurance or through private coverage – but there is substantial diversity in the composition of revenues for these types of scheme (Figure 7.14). The importance of government transfers as a source of revenue can vary significantly. On average, around three-quarters of financing comes from social contributions (or premiums) – primarily split between employees and employers – but around one-quarter still comes from government transfers, either on behalf of certain groups (such as low-income or unemployed population groups) or as general support. In Hungary, government transfers funded 64% of the health spending of the social health insurance fund. In Poland, Slovenia and Costa Rica, the share was less than 5%: social insurance contributions were the main funding source.

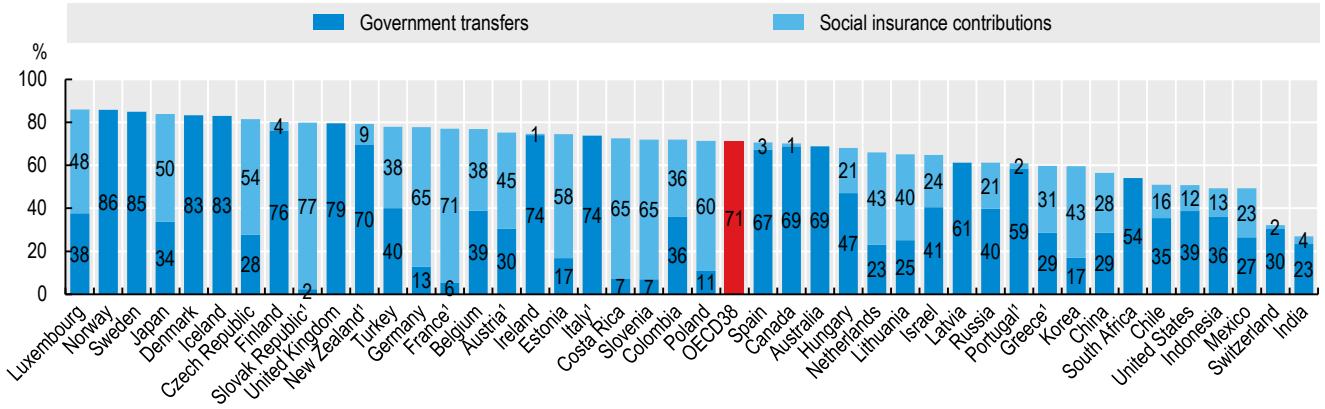
Definition and comparability

Health financing schemes raise revenues to pay for health care for the population they are covering. In general, financing schemes can receive transfers from the government, social insurance contributions, voluntary or compulsory prepayments (such as insurance premiums), other domestic revenues and revenues from abroad (for example, as part of development aid).

Revenues of a financing scheme are rarely equal to expenses in any given year, leading to a surplus or deficit of funds. In practice, most countries use the composition of revenues per scheme to apply on a pro rata basis to the scheme's expenditure, thereby providing a picture of how spending was financed in the accounting period.

Total government expenditure is as defined in the System of National Accounts. Using the methodology of the System of Health Accounts (OECD/Eurostat/WHO, 2017[1]), public spending on health is equal to the sum of transfers from government (domestic), transfers from government (foreign) and social insurance contributions. In the absence of information from the revenue side, the sum of spending by government financing schemes and social health insurance is taken as a proxy.

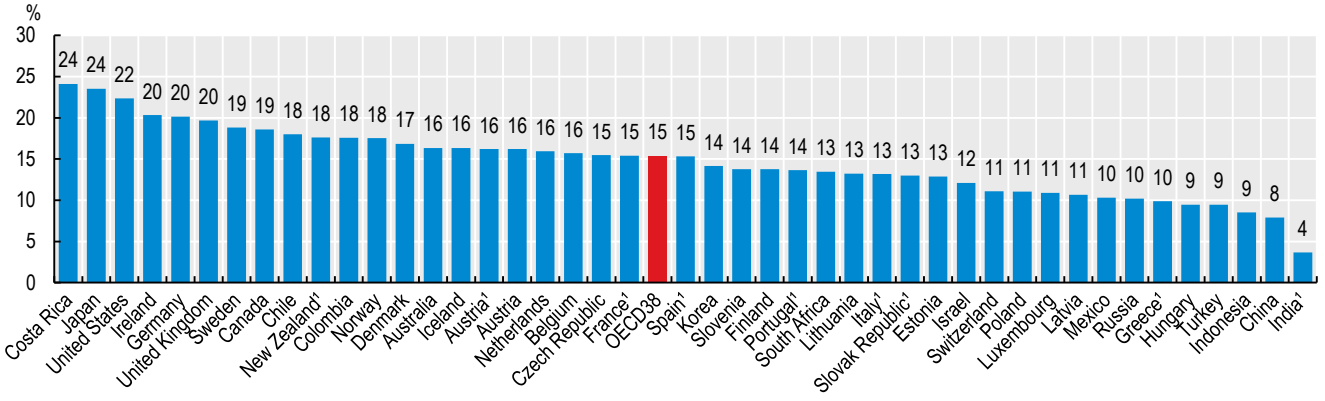
Figure 7.12. **Health expenditure from public sources as a share of total, 2019 (or nearest year)**



1. Public funding is calculated using spending by government schemes and social health insurance.
Source: OECD Health Statistics 2021.

StatLink https://stat.link/fpmysx

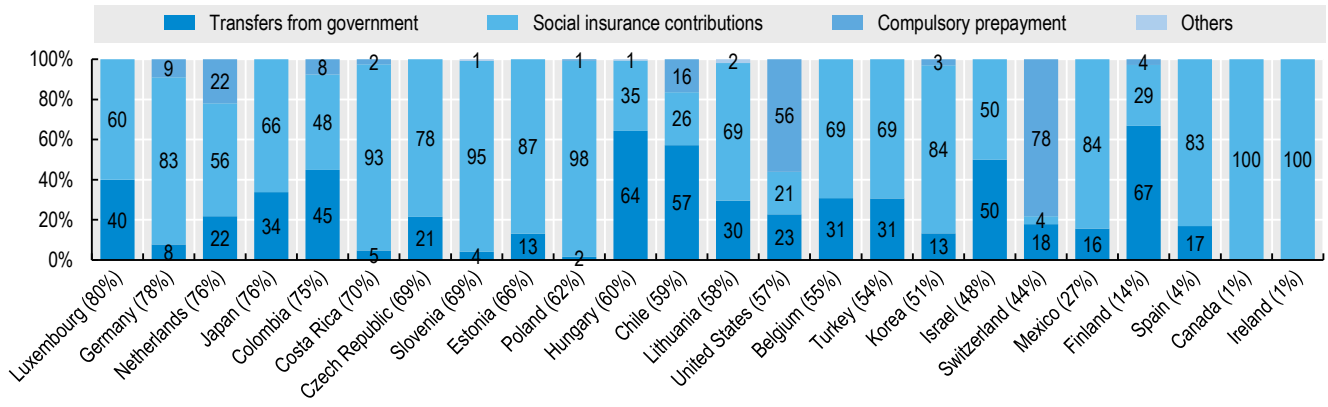
Figure 7.13. **Health expenditure from public sources as a share of total government expenditure, 2019 (or nearest year)**



1. Government expenditure includes expenditure by government schemes and social health insurance.
Source: OECD Health Statistics 2021.

StatLink https://stat.link/0ca9v5

Figure 7.14. **Financing sources of compulsory health insurance, 2019 (or nearest year)**



Note: Numbers in brackets indicate the contribution of compulsory health insurance to total health expenditure. Category "Others" includes other domestic revenues and direct foreign transfers. Due to rounding, percentages may not add up to 100%.
Source: OECD Health Statistics 2021.

StatLink https://stat.link/12dzfv