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Trends in Health Spending

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SUMMARY

Health and its attendant costs is the subject of considerable attention in public policy across the world. The provision of healthcare and who pays animates political discussion almost everywhere.

After the social protection budget, health is the single largest component of public expenditure in the Republic of Ireland. Like most areas of government spending, however, health care expenditure has been reduced substantially in the aftermath of the Financial Crisis and subsequent austerity period, reversing the trend of increases up to 2008/2009. This *Research in Brief* seeks to offer a broad outline of recent trends in expenditure on health.

KEY POINTS

- Nominal annual public expenditure rose from €11.7 billion euro to €15.5 billion between 2005 and 2009. Nominal spending fell to slightly over €13 billion in 2014. Real public spending fell by over 18% between 2009 and 2014.
- Real annual public capital spending declined by 36% between 2008 and 2014. Community health and disability services experienced especially large investment declines.
- Nominal private spending rose by €630 million between 2009 and 2013. This represents a real increase of 8% over the period. This was driven largely by increases in expenditure on insurance, despite coverage declines. Total personal 'out-of-pocket' expenditure declined by €600 million between 2009 and 2011 due to increased rates of medical card coverage-notwithstanding higher charges for medication and other items. However, 'out-of-pocket' spending rose by €400 million between 2011 and 2013.
- Ireland's health system faces capacity issues in light of reductions in services and underinvestment as well as continuing demographic trends.

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Research for new economic policies

Introduction

Health and its attendant costs is the subject of considerable attention in public policy across the world. The provision of healthcare and who pays animates political debate almost everywhere.

After the social protection budget, health is the single largest component of public expenditure in the Republic of Ireland. Like most areas of government spending, however, health care expenditure has been reduced substantially in the aftermath of the Financial Crisis and subsequent austerity period, reversing the trend of increases up to 2008/2009. This *Research in Brief* seeks to offer a broad outline of recent trends in expenditure on health.

Recent Spending Trends

The two decades preceding 2008 and 2009 were characterised by rapid increases in healthcare expenditure in both public and private healthcare provision. At that point however, the expenditure trends of the two sectors diverged substantially. These trends are displayed in Figure 1. Public spending increased from €11.7 billion in 2005 to €15.5 billion in 2009. This represents an increase, in 2013 prices, of nearly 40%. Spending in 2014, however, was €2.5 billion lower than peak expenditure, a decline in inflation adjusted terms of over 18%. These reductions were largely driven by reductions in staff numbers and pay.

Overall declines in public spending have also been reflected in public capital investment since 2008. In that year, nominal capital spending amounted to some €598 million. In 2014, investment had fallen to €382 million. This is a 36% fall in inflation adjusted euro.

Figure 2 displays inflation adjusted capital spending by programme to the year 2013. In all years, acute hospital investment is the single largest expenditure item. Between 2007 and 2013, this spending fell by 31% at constant prices. The areas that saw the largest declines however, were community health and disability services. Real community health capital expenditure fell to slightly more than a third of 2008 values in 2013, a real decline of €110 million.

Disability Services investment fell, at constant 2013 prices, from €27.8 million in 2008 to €7.8 million in 2013 a decline of 88%

Nominal private expenditure increased, on the other hand, by €630 million between 2009 and 2013, the last year for which data are available. Adjusted for inflation, this represents an increase of 8% over the period, despite falls in income over the period. Private expenditure is comprised of private health insurance and out of pocket expenses.

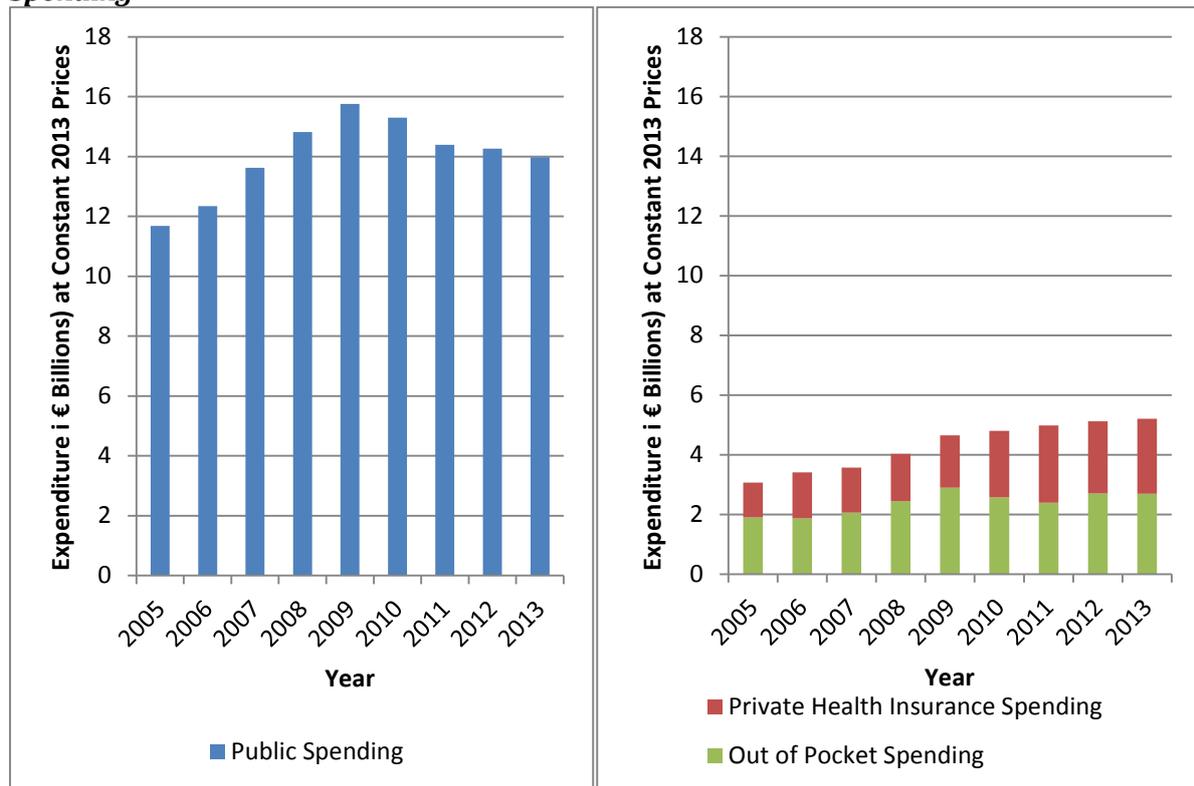
Rates of insurance coverage have declined substantially since 2008. The number of individuals with private health insurance inpatient cover declined from a maximum of approximately 2.3 million to slightly over 2 million between December 2008 and December 2014. As a proportion of the population, coverage fell from 50.9% to 44% over the same period. Premia increased from €1.56 billion to €2.32 billion in 2014.

'Out-of-pocket' expenses reached an (unadjusted) maximum of €2.9 billion in 2009, which fell to €2.3 billion in 2011. This decline was influenced by, among other factors, increases in the number of individuals in possession of medical cards, which exempt holders from many charges (such as GP services). Rates of medical card enrolment largely traced reductions in income and increases in unemployment, as the scheme is means tested. Recent increases in charges and medical card eligibility changes have been associated with increased 'out-of-pocket' payments, reaching nearly €2.7 billion in 2013. This amounts to an increase of over 13% between 2011 and 2013, at constant 2013 prices.

Future of Health Expenditure in Ireland

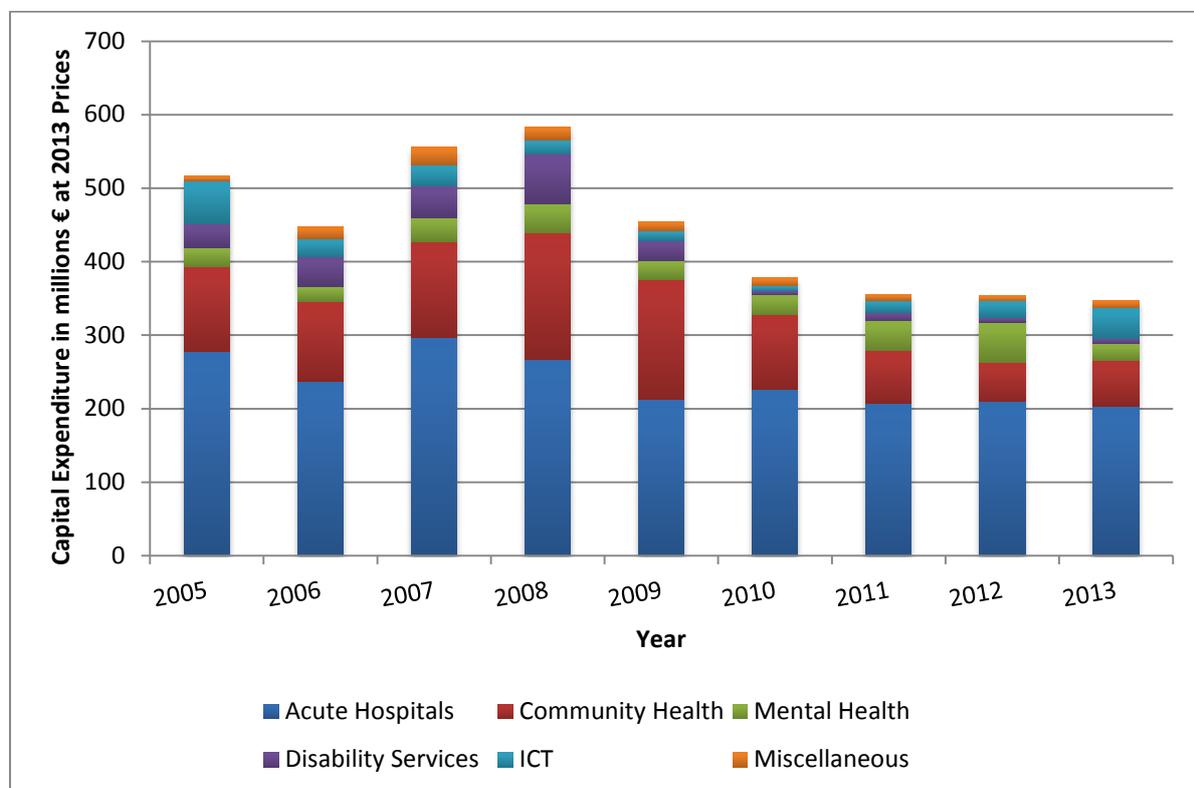
Ireland's healthcare system is widely recognised to suffer from chronic issues of undercapacity, which will worsen given likely changes in population size and demographic composition. Deficits in capital spending have also been linked with cost inefficiency in the Irish healthcare system as current expenditure has faced

Figure 1: Annual Health Expenditures by Category at 2013 Prices-Public and Private Spending



Source: Department of Health Statistics, adjusted with GDP deflator (World Bank)

Figure 2: Annual Public Capital Expenditure by Programme at 2013 Prices



Source: Department of Health Statistics, adjusted with GDP deflator (World Bank)

diminishing returns given constraints in existing infrastructure (Wren 2004).

These capacity issues are notably manifest in waiting lists for various services within the system. In October 2015, 69,046 people were on waiting lists for inpatient care, while 396,571 individuals were on waiting lists to receive outpatient care.

Previously highlighted reductions in capital expenditure across the public service will likely place further pressure on health service capacity and spending in light of projected demographic changes.

Ireland's population is projected to increase from approximately 4.6 million currently to some 5 to 6.8 million people by 2046. The demographic composition of the population will also change in light of positive developments in longevity and changes in fertility. Ireland's proportion of the population over the age of 65 is projected, by the Central Statistics Office, to increase from current levels of about 13% to between 21% and 28% in 2046.

Conclusion

The period following the financial crisis and "bailout" has been associated with substantial fiscal retrenchment in public health in Ireland. At the same time, private expenditure on healthcare has increased to a considerable degree, reflecting increased costs of insurance and out of pocket expenses incurred by healthcare users. These developments raise a number of issues concerning the provision of quality healthcare in Ireland into the future.

Changes in the size and composition of Ireland's population will place additional pressure on healthcare expenditure and services. These changes will require further investment to offset current capacity bottlenecks and accommodate the health needs of an expanding and ageing population effectively and efficiently.

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