Klára Busa – Tamás Kóti – Tibor Tatay

Proposal on the development of the voluntary health insurance fund system

There seems to be a decision reached in one of the major social debates of the past years, under which the uniform, single social health insurance system in Hungary is to be retained. Regrettably overshadowed by the above debate, the place and role of complementary health insurance systems and their potential courses of development have failed to be determined.

Compared to countries in Western Europe, it is unique to the Hungarian health insurance system that, since the political change, complementary health insurances have failed to gain sufficient ground and are thus unable to fill their role in the health care financing system. Despite the above, individual health care contribution by patients, beyond their payment of social insurance contribution fees, can be considered significant even today (its annual sum being HUF 500bn approximately), which is mostly out of pocket payment, however, rather than preliminary savings made by regular fee payment.

It is a general problem of health care systems (including those of developed countries) how the sustainability of the systems can be ensured. The main reasons for the problem are well known and generally accepted.

- A change in the age composition of the population. At the global society level, society as a risk pool involves enhanced risks since the rate of elderly, inactive population compared to salary earners has grown and this age group lacks accumulated sources to spend on medical treatment.
- The widening of service opportunities at increased costs. The rocketing development of medical science and technology, which requires higher capital concentration at the same time due to the appearance of capital intensive equipment in health care and diagnostics.
- The market of health services, the supply, is in transition. It is no longer reimbursement but actual financing that is the question since private health services which expect the return of all their expenses (including amortisation) have gained an increasing role.
- Rising customer awareness. Through the development of science, there has been growing focus on prevention. Screening examinations have become increasingly efficient, there has been a global fight against a growing number of illnesses and there has been growing evidence on the importance of lifestyle in our lives. The pursuit of a healthy lifestyle and prevention are likely to form the basic pillar of modern medicine.

It is important tasks of those involved in the organisation of health care systems to meet several expectations simultaneously, create equity in access to services, increase efficiency and ensure financeability.

We must also do away with the illusion that, although Hungarian health care is of the standard that we experience, it is at least remarkably fair, i.e. it provides adequate social security. This is not the case unfortunately. The financing of the Hungarian health care system does not provide sufficient security to the population because, although the rate of public financing (but not its value) can be regarded acceptable in an international comparison, private financing constitutes direct payment by the population almost exclusively, which involves being dependent on their current financial situation. What is more, a significant part of private financing – and a decisive one within the service financing – is gratuities, with no opportunities for accountability or consumer protection. It has also been made evident in the past years that, in the transformation of private financing, voluntary complementary insurances in the service financing have not come up to hopes, while social security can be considered adequate only if there is a third payer behind private financing (the reimbursement paid by patients), too, i.e. if reimbursement is independent of the current state and financial situation of the patients. In this respect, the situation in Hungary is extremely poor.

It would be important to promote the spreading of complementary insurances and introduce a health-targeted savings accounts system not only because of their effect of spurring demand but also considering that these systems are suitable for channelling private financing towards the direction of the more secure "preliminary payment". This could be the basis for transforming gratuities into legal and accountable service purchase and for all this to foster a move towards the security of citizens and the fairness of the system. It is these individual problems and demands arising in a widening circle that health funds are able to address systematically.

Voluntary health funds are able to find solution for the financing of several types of services not covered by public health insurance. These may include *complementary* services providing coverage for services not included in the core insurance package (dentistry, certain medication, long term care, rehabilitation, alternative medicine, extra hotel services, etc. as supplementary services) as well as the payment of contribution as demanded by the public insurance package in the case of its use (copayment as a complementary service).

Private health insurance and voluntary health funds within the former have an influential role in meeting the targets of the health insurance system and, through this, in the system of health care as a whole. The coexistence and interdependence of various types of health insurance systems can be observed everywhere. The beneficial effects of complementary health insurance should be enhanced and supported.

We believe that the voluntary health fund system is a unique system that is able to collect a considerable amount of health-targeted household savings and, complementing the public health insurance system, finance health services. Voluntary health funds are able to complement the insurance institution activity gaining ground in private financing, filling a role in prevention and covering non-classic business insurance fields. In the past years, the regulatory environment of health funds has undergone several changes. On the basis of the experience gained so far, the system requires repositioning. For the stabilisation of the health fund system and the attainment of long-term development, the operation of health funds should be considered both as a service financing and as a savings collecting system.

THE HEALTH FUND SYSTEM IN HUNGARY

Since 1993 (Act XCVI of 1993 on Voluntary Mutual Insurance Funds- hereinafter: VFA), the health fund system in Hungary has under-

gone significant transformation. The system has grown to a size that makes it unavoidable, but there are significant further opportunities for development.

By the end of 2007, the number of health fund members was over 733 thousand people *(see. Chart 1)*. It is characteristic of health funds that they finance services not only for their members but also for close relatives they have identified. Therefore, the financing of services by health funds influences the health of over two million people in reality.

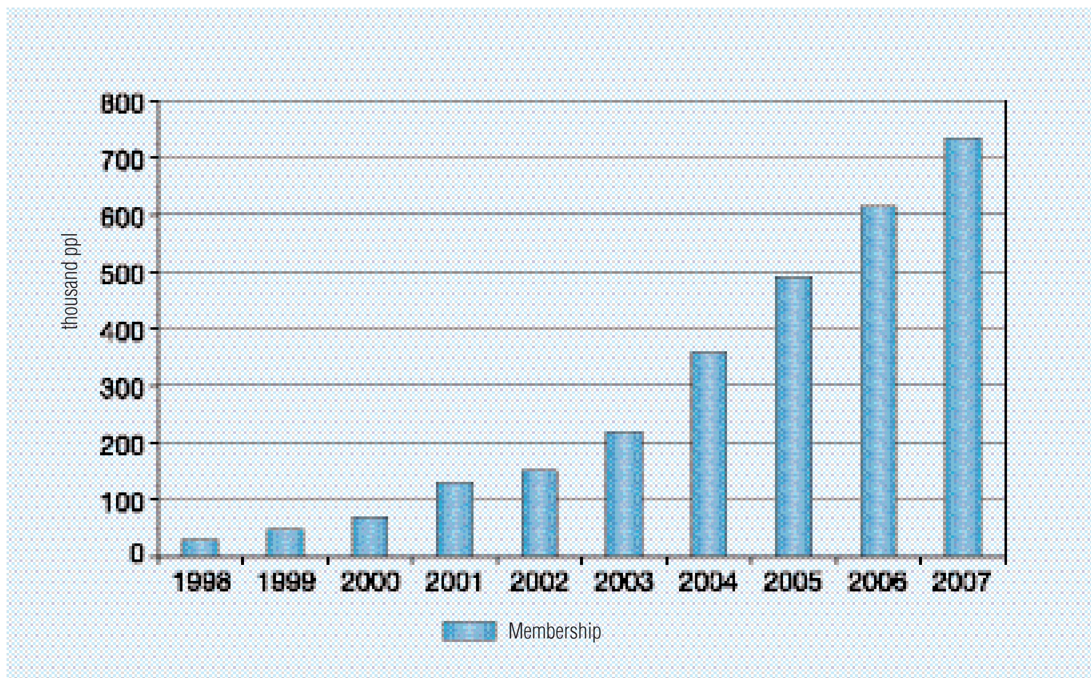
The value of services financed by health funds was over HUF 34 billion in 2007. The comparison of fee payments and expenditure on services reveals that health fund members use the majority of the fees paid on health targeted services within a year. The latter proves that, at the moment, health funds basically serve the financing of services related to daily health preservation and restoration.

Voluntary health funds are characterised by the following:

- They are (association-like) non-profit civil organisations based on the association of persons, closely related to and complementing social insurance, which are owned by their members and which, as their basic activity, perform services for their members. Health funds simultaneously implement solidarity and, through the individual accounts, meet individual demands. Solidarity is mostly implemented within the family and for relatives, while, in optimal cases, it refers to all health fund members.
- Health funds do not implement risk selection: anybody who accepts the basic rules and pays the membership fees can be a member.
- Under the amendment of VFA, voluntary health funds have been authorised to keep the health accounts introduced on January 1, 2004. Through this amending proposal, the state

Chart 1

CHANGES IN FUND MEMBERSHIP



Source: HFSA

declared that it regarded health funds to be the primary organisations able to complement social insurance.

◗ Since the establishment of health funds – similar to the case of pension funds – the state has supported health fund membership and fee payment by tax credits. This also indicates that, in the long run, voluntary health funds are to have as prominent a role in the development of health insurance as pension funds have in the pension system.

The greatest challenges related to health funds can be put down to serious communication problems. The services of pension funds seem to be more simple since these constitute lump sum or allowance services that depend on ten years of contribution payment or retirement. The service port folios of health funds are most diverse, however, and their assessment requires interdisciplinary technical informedness. Yet, the communication on pension funds has been much more extensive than that on health funds.

FIELDS OF DEVELOPMENT FOR HEALTH FUNDS

So as to determine the functions and service areas of health funds, the definition of health should be kept in mind: *"a person can be considered healthy if he is able to work according to his qualifications, is not harmed by activity fitting his age and – in the case of children primarily – is capable of undisturbed development."*

Fields of cooperation with social insurance

The basic principle of cooperation between social insurance and voluntary health funds is the harmonisation of sources, which means a regulated unification of financing in specified fields. In the year 2007, voluntary health funds financed health-targeted services worth over HUF 34 billion, a significant part of which was directly related to health services financed by social insurance. This sum equals approximately half of the annual budget for basic services of the Health Insurance Fund.

In the adjustment to the real world of multiple values, health as a value must be given the position it deserves in our social value system. In order to foster this, active health behaviour, real risk sensitivity and efficient needs communication are required at the societal level. Classic, therapeutical health care (health damage management) must be developed into an institution based on health needs that provides health risk management services and turns the principles of *cost efficiency-social justice* into practice.

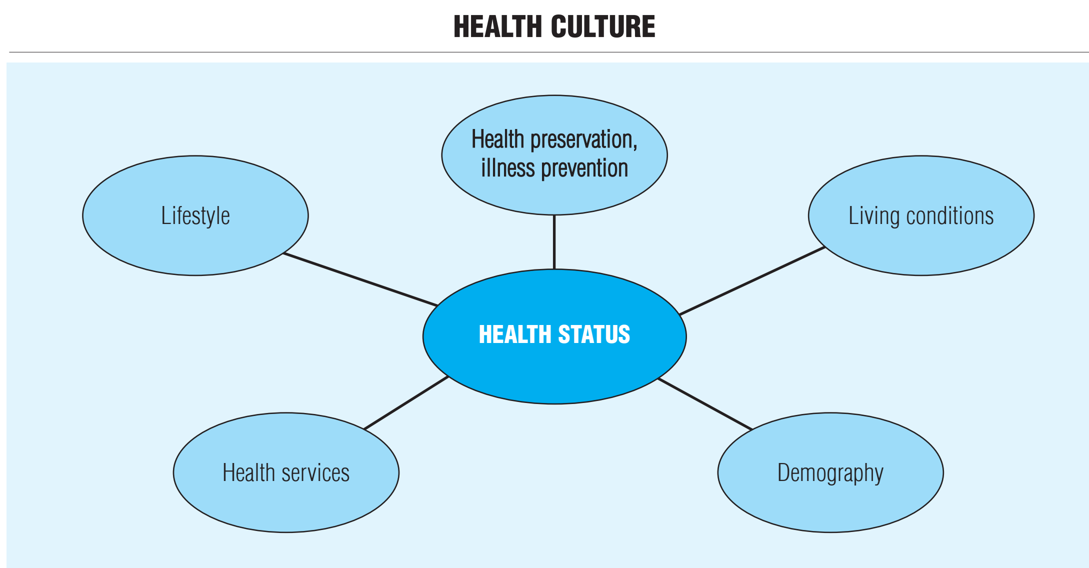
Health culture does not exist in itself, so the scope of development includes, among others, lifestyle culture and erudition, and development must thus be supported in this broader scope. Health culture embraces the totality of life, from the conception to humane death. *(see Chart 2)*

Health preservation and illness prevention reflect the impact and result of composite factors characteristic for the value system and cultural standard of society. Under living conditions, it is the general economic background, the labour market background, educational conditions, living standards and the environmental background that are of importance. Significant lifestyle elements are: physical activity, diet, smoking, alcohol- and drugs consumption.

Voluntary mutual health funds contribute to the harmonic development of health culture by providing health preservation and illness prevention services primarily, including services significantly influencing health but not qualifying as health services, like sports or convalescence and wellness holidays.

Chart 2

HEALTH CULTURE



Prevention, health screenings

It is a priority task identified in the government policy to establish a uniform system of health tests, screenings, health preservation, illness prevention, medical treatment, care and rehabilitation. A prerequisite for the speedy implementation of this task is to coordinate the activities of the organisations playing a role in the realisation of national health policies, including health funds.

It is the basis for the establishment of a uniform system to harmonise activities related to the survey of health status and the monitoring of changes therein. Only this basic step will pave the way for the establishment of health needs, health planning and the use of services that mean the efficient meeting of health needs.

A significant part of health fund services can be directly related to services of preventive nature financed by social insurance, to screenings identified under Health Ministry Order 51/1997 (Dec. 18) that are accessible within the framework of compulsory health insurance and to the objectives and policies determined by the government. It is thus screening examinations for the whole population, oncological screening, mammography, gynaecological cervical screening, colon and rectum screening; the reduction of coronary-artery diseases and movement organ diseases as well as the fortification of psychological health that can be identified as priority goals through advocating a healthy lifestyle and encouraging healthy diet and physical exercise.

The implementation of national health goals requires efficient and intensive organisational work as well as health- and human centred, tailor-made health preservation and monitoring activities. Health funds can be efficiently involved in this organisational work. The status surveys and health screenings continuously carried out by the funds should be harmonised with similar activities financed by social insurance. This could guarantee a more efficient societal coverage and prevent the – occasionally occurring – double financing as well.

It is characteristic for the two systems that, while funds are able to achieve over 80 per cent attendance at screenings among their members, the rate of attendance is significantly lower, approximately 30 per cent, in the case of social insurance financed screenings. It is obvious considering the latter that voluntary health funds are able to more efficiently organise

screenings for their members (and the relatives thereof), including sending back screening findings to patients. The National Health Fund (NHF) could sign a contract with voluntary health funds as sub-contractors commissioning them to organise attendance at screenings for NHF members and their families. Funds could complement screening protocols, using findings to design a health conscious lifestyle. After the screening organised and financed by voluntary health funds, NHF would transfer the amount of financing available to the voluntary health fund, following the report of data by the latter.

For the attainment of the objective it is essential that the system of prevention activities carried out in various areas (basic and specialised health care) be considered in a uniform way. This work involves, among others, revising family doctors' records and working out and introducing a uniform health insurance indicator system. In the establishment of the indicator system, it is important to implement an insurance attitude alongside professional aspects.

As a result of the above work, a personal health plan would be worked out for every insured person which, by revealing the health status and lifestyle risk factors, could help in designing a health conscious lifestyle. These standardised health plans could replace the "doctor's recommendations", much limited in professional content, currently used in the health fund system.

Health planning based on health status indicators would serve as a basis for optimal management. Considering all the above, it is our basic interest to focus all the strength of the health profession in Hungary on the expected programme, to attain measurable results. This goal is to be achieved by an active support for the development of health culture only.

The basic services of voluntary mutual health funds should include as enacted by law making a detailed survey of the health needs of its members through cooperation with family doctors of the necessary extent. This requirement would be an obligatory precondition for health fund members for using the services of the fund and should be granted special tax credits accordingly.

The detailed health survey of health funds should cover annual obligatory dentistry check-ups, internal medical as well as cardiological examinations, which would create an opportunity for the early detection of endemic illnesses (cardiovascular illnesses, hypertonia, brain stroke, metabolic disorders, diabetes, respiratory illnesses, asthma or allergic illnesses, chronic hepatitis, oncologic alterations) as well as for health preservation.

In the health surveys financed by health funds there are two special fields – dentistry and psychic illnesses – which serve typically as fields of complementary fund activities since neither dentistry illnesses nor psychic disorders are completely covered by public health services. The lack of services specialised in the prevention and the early detection and therapy of these illnesses poses a special problem in both cases. The typical work environment around fund members poses especially high risk for psychic health disorders, while the maintenance of healthy teeth is of outstanding importance in the world of work.

Connection opportunities between health funds and business insurance companies

The tax credits granted to and the non-profit nature of health funds as well as the fact that they finance in-kind health-targeted services primarily, create the necessary basis for them to undertake to finance also health insurance products provided by business insurance companies. The health insurance products of busi-

ness insurance companies provide cash services (daily fees in the case of illnesses and hospital care, cash insurances against dreaded illnesses, etc.). Under our proposal, fund members could balance the fees of health insurance products used by themselves or their relatives from their health fund accounts. In the case of an insurance event, the money paid by the insurance company would be credited to the fund member's account also (similar to the tax refund by the Revenue Office). Through the above it could be guaranteed that the money be used only on health targeted services determined under the prevailing health fund regulations or be set aside for such a purpose. The health-targeted use of tax credits could thereby be further guaranteed.

Through the solution outlined above, the cash services of health insurance policies (cash insurances) provided by business insurance companies would significantly extend the financing background of the in-kind services of health funds. Connecting the *two systems* would produce a synergic effect in the operation of both systems. Health funds as major customers could attain significant discounts at the respective insurance companies for their customers and the relatives thereof. This would generate a revival at the complementary health insurance market, easing the burden and pressure on the social health insurance system. The health fund account settlement of services thus financed would furthermore promote the whitening of extra services related to services financed by the social insurance.

The changes proposed would require no budget funding but would contribute to the whitening of private health services.

Health fund services

In the above outline on the potential connections of health fund functions, certain service opportunities have been mentioned already, which are hereby to be presented in a system. The services can be related to health status as well as the life periods of individuals. Health funds are able to both finance and organise these services.

Prevention services (aimed at health preservation):

- support of sports activities (tickets, season tickets, support of sports club membership),
- support of recreation (active rest, wellness),
- organisation of screenings,
- contribution to the prices of vitamins and other dietary supplements, lip cares and, among others, sunscreens available at pharmacies.

Services aimed at health restoration:

- support of rehabilitation,
- support of dental treatment,
- support of services not financed or partly financed by social insurance,
- replacement of social insurance funding,
- financing of natural medicine services.

Services related to the status of permanent illness:

- support of home care,
- contribution to the prices of medicine and medical aids.

It is to be noted that several of these service elements have appeared at health funds in the past years, but their establishment and development into a stable system have been made impossible due to constant changes in regulations. In addition to determining and establishing the circle of services and functions, predictability and stability in regulations are also essential conditions for development.

THE VOLUNTARY HEALTH FUND SYSTEM AS A SYSTEM FOSTERING SAVINGS

Fostering household savings is an economic political goal. Household savings are sources

available for financing the economy. Contract savings are relatively more reliable than other forms of savings, which is an important economic political aspect. Contract savings are usually more permanent and are for longer periods. Due to their nature, they can be used for limited purposes only, so their range of use is predictable. What is more, the purposes of use by health funds outlined above serve positive societal goals. The investment of savings collected at health funds can be well regulated so, through the regulations, these savings could be used towards the financing of the Hungarian economy. The unique organisational structure – under which it is all-time members that are the exclusive owners of the health fund assets – would make it possible for the yields on investments to be kept within the country: to be re-invested or spent in Hungary.

Payments to health funds are presented in *Chart 3.*

As can be seen from the chart, membership fee payments gradually increased, reaching HUF 32 714 million by 2007. In 2007, 84.5 per cent of health fund membership fee revenues came from employer's contributions. Unfortunately, the rise in the rate of employer's contributions stopped in the year 2007, however, due to unfavourable changes in taxation. When examining the average payment per fund member, the unfavourable changes are even more apparent. *(see Chart 4).*

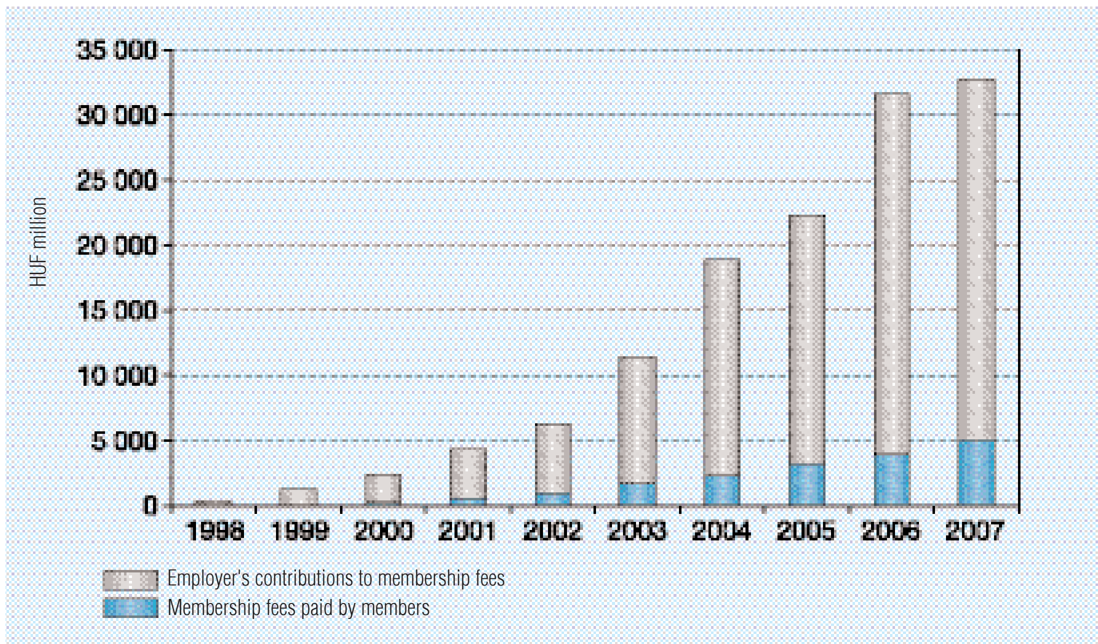
Despite the above, the assets of health funds, primarily the sum accumulated on a coverage basis serving as a background of services within the former, increased *(see Chart 5).*

Thus, the health fund system was able to grow and absorb growing savings despite the unfavourable change in regulation conditions. By the end of 2007, total health fund assets amounted to over HUF 44 billion.

Payments into health funds, both individual payments and employer's contributions, have

Chart 3

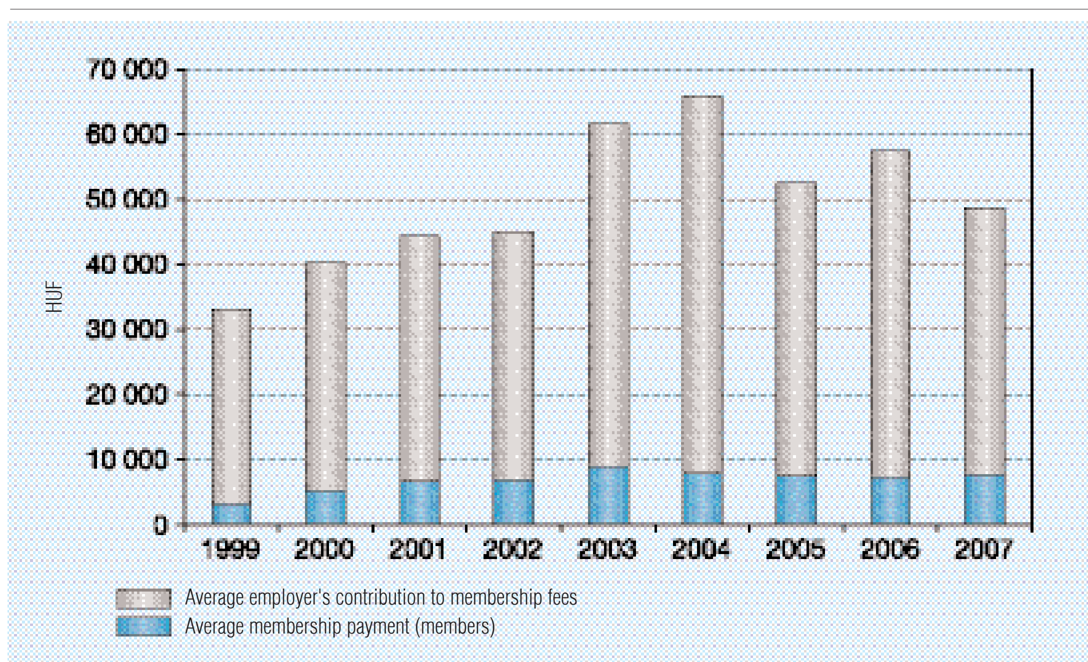
CHANGES IN THE PAYMENTS TO HEALTH FUNDS



Source: HFSA

Chart 4

CHANGES IN AVERAGE MEMBERSHIP FEE PAYMENT PER MEMBER



Source: HFSA

been granted tax credits. At its current life phase, the health fund sector would have a shaky existence without tax and contribution credits. The system, however, produces the offset of these credits through its operation.

The tax regulations changing year by year have differentiated between tax credits to pension funds and health funds on several occasions. The unfavourable changes concerning health funds affected tax credits supporting both the membership fee contribution paid by employers and the direct payments by fund members. Prior to the year 2000, pension funds were granted 50 per cent, while health funds 25 per cent tax credits, after which the uniform tax credit rate of 30 per cent was introduced for both types of fund, involving considerable development in the health fund sector.

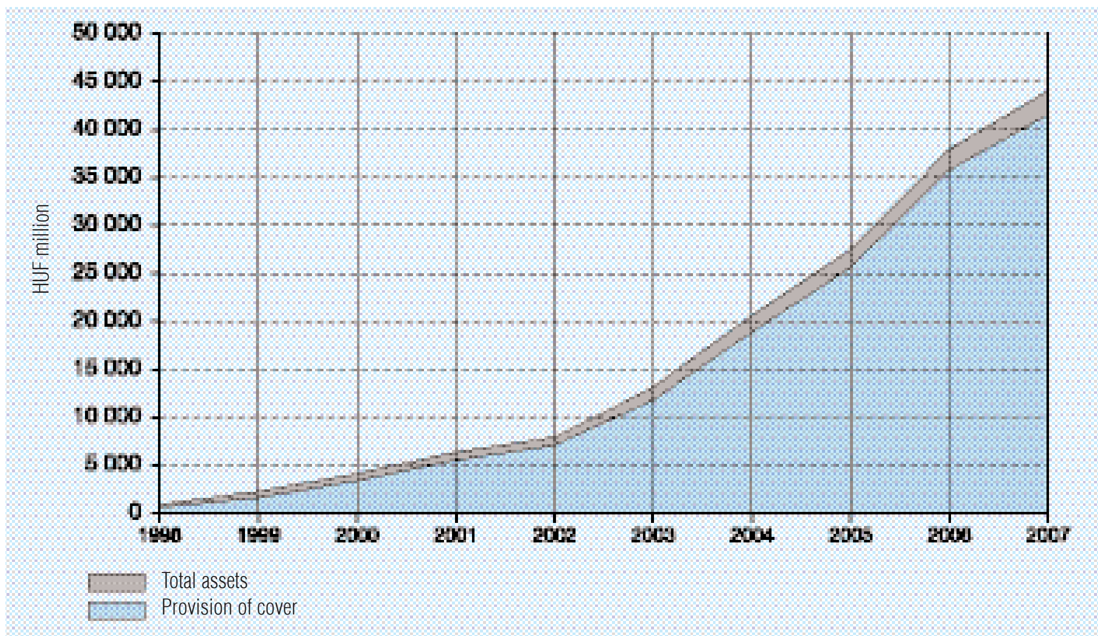
The population of Hungary is generally known to have a poor health status and is also known to bear considerable direct financial burden (of approximately HUF 500 bn annually) beyond the contributions, when using health services. The objectives laid down also in the government policy would justify preferential treatment for health fund tax credits. Through favourable tax regulations, the health fund system could attain further significant development, which would also significantly improve the health status of society. It is to be noted here that the health fund system finances typically health care services that are not or are only partly financed by the NHF, and this is the only form of complementary health insurance that does not apply risk selection and which finances in kind health services.

It is unfortunate that, in the past years, the system of credits has changed annually, which has seriously endangered accountability and, through this, the operational stability of the fund system. It is also important that the real value of credits be kept.

The proposed changes would involve a minimum reduction in revenues, while they would

Chart 5

CHANGES IN THE ASSETS OF HEALTH FUNDS



Source: HFSA

produce considerable gain in health, ease the burden on state health financing, incorporate private services into a system and promote the implementation of the government policy.

The gain on health would involve a reduction in state health expenditure on the one hand, since this is the clear consequence of a general improvement of health status, while the early detection of illnesses furthermore would make their treatment possible at lower costs. On the other hand, an improvement in working ability would result in a rise in tax and contribution payments.

Since health fund payments are based on controlled settlements, they could also help in the whitening of incomes in the black or grey economies like the above mentioned gratuities and often even incomes from dental and natural medicine services. There are certainly only rough estimations available on the latter, but from the experience related to health fund services in the past years, serious conclusions can be made on their order of magnitude. Strengthening the tax payment morale through this way would be cheaper and longer lasting than any audit activity by a tax authority. The resulting increase in income tax and VAT revenues would probably exceed the fall in state revenues due to the tax credits in the short run already.

The permanently accountable operation of the health fund system would foster an increase in household savings, which is also among the desired goals. Moreover, the collected savings could be used only on a target-oriented range of expenditure, easing the burden on the state and improving life quality. Retaining the human capital of the country would serve the country's long-term development.

The operational experience of the health fund system so far has shown that the potential fall in state revenues due to the tax and contribution credits have been exceeded by the extra revenues gained from the rise in legalised income. Moreover, the 'fall in revenues' is a relative term considering that employers might not give their employees such high contributions or salaries if credits were not granted. The taxation system

does not only have the role of collecting revenues but is also to represent social political aspects and preferences. Considering this latter function as well, the “balance” of health funds is positive despite the granted credits.

SUMMARY OF THE EXPECTED SOCIETAL-, HEALTH- AND ECONOMIC POLITICAL EFFECTS OF THE DEVELOPMENT OF THE VOLUNTARY HEALTH FUND SYSTEM

Strengthening self-care

The establishment and support of institutions of self-care is also meant to achieve that the process of recovery should not be interpreted as the completion of medical treatment but as the complete social reintegration of the individual, i.e. as his return to work. This also involves the restart of the individual's collection of sources of self-care and his contribution payment.

Managing the growing household burden, guaranteeing co-payment

It is a world trend that, in welfare sates, the range of services covered by social insurance systems has been diminishing in accordance with economic financeability. The financing of health services not covered or only partly covered by social insurance can be solved with less tension and in a systematic way through the involvement of the complementary health insurance system.

Defining the basic care package

Determining the services financeable by complementary health insurances is a step towards defining the basic care package to be financed by social insurance. Thereby the problem is approached from the question examining what services are outside the scope of social insurance financing, which are thus to be dealt with by complementary health insurances.

Meeting differentiated demands, extra revenues and outside investments

There is considerable pressure on institutions and services financed by social insurance to meet also demands that are in fact not part of the basic care package. Through the involvement of health funds, the tension caused by higher expectations can be eased.

Curbing the gratuity system

It may eliminate the distorting effects of the gratuity system if differentiated level services are available legally, through complementary insurance. In the health fund system, a contract with the service provider and account-based settlement, which are the most efficient ways to filter gratuity, are obligations by law in any case.

Whitening the private health economy

In the current practice, individual customers usually pay for the services without receiving an account. At the market of health services, health funds have a considerable bargain position when purchasing services for their members and the relatives thereof. In many cases, depending on the services, they are able to attain 5–30 per cent discount. From the point of view of individuals, this more than compensates for the sums deducted for the operational costs of the funds. The whitened private health economy does not only mean more tax revenues but also makes the operation of this sphere macroeconomically monitorable.

Strengthening quality assurance, consumer protection

Health funds are in the position to set several quality criteria at the service providers they have contractual relations with that individual customers would not be able to achieve due to their defenceless situation. Funds usually have a team of health care experts who are able to be partners of the service provider also from the professional point of view. For individuals, the health fund

serves as a background, providing case management for their members or relatives thereof in the case of complaints or situations seemingly impossible to solve. In the case of complaints, the fund is able to take action against the service provider, even including the opportunity of terminating contract, thus preventing further bad quality services for their clients.

Since patient satisfaction is a single factor, its improvement affects the whole health care system of a country.

Fostering a healthier lifestyle

Connected to the current illness-oriented health care, health funds with a suitable professional programme would be able to add a health conscious attitude to the lifestyles of individuals. This could foster a transformation in the use of social insurance-financed services from more expensive and serious health services towards shorter treatments at lower costs (out patient treatment, day care hospitals, planned interventions).

It is a further important aspect that, through the products and services financed by health funds, their members and relatives thereof, having a healthier lifestyle, would rely on the services of the health system financed by social insurance less frequently and to a lesser extent. People leading a healthier lifestyle would be more active in the societal division of labour and need to be paid sickness allowances less frequently.

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