AmCham Latvia
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TOWARDS SUSTAINABLE, EFFECTIVE AND EQUITABLE HEALTHCARE FINANCING

2022

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> A healthy society is crucial for the future of Latvia. It is also crucial in securing investment and to ensure further economic growth. Investments in people are vital to their wellbeing contributing to a more resilient society. Sustainable and efficient financing for health will ensure a healthier population and better patient outcomes and the growing prosperity of Latvians.

The development of human capital is crucial for Latvia's competitiveness and ability to secure and attract investments. High unmet medical needs, large inequity in access to treatment, delayed treatment, and increased avoidable hospitalization rates seriously threatens achieving high economical potential. With that in mind, AmCham advocates for reforms in areas including preparation for the future of work and improvement of health outcomes of Latvia's society.

Sustainable healthcare financing leads to economical sustainability and has strong correlation with improvement of health outcomes of the population[1]. Contracting and payment arrangements can incentivize care coordination and improve the quality of care while sufficient and timely allocation of funds can help ensure adequate staffing and medicines to treat patients.[2]

Understanding that building a sustainable healthcare funding model is a complex task, AmCham believes that healthcare system organization and financing must be aimed at **introduction of universal and equitable access to healthcare with adequate resources in order to produce desired health outcomes through value-based and personalized healthcare approach,** which is economically justified and brings high value both at individual and state level. Based on that, we have compiled recommendations in two important layers designed to help ensure there are adequate resources in the health system to produce the desired health outcomes:

Ensuring sustainable, predictable and adequate healthcare budget

Improving healthcare spending effectiveness and patient outcomes

I SUSTAINABLE, PREDICTABLE AND ADEQUATE HEALTHCARE BUDGET

Empirical analysis by OECD shows that between 1991 and 2003 **increases in health spending explained 46% of male and 39% of female gains in life expectancy at birth**. No other factor – GDP, education, pollution, or lifestyle characteristics – was shown to play a larger role in lengthening lives than health expenditure.

More recent evidence from the OECD also finds that a **10% increase in health spending is associated with 3.5 additional months of life expectancy on average**. The size of this effect is larger than for comparable increases in income or education coverage, or for comparable decreases in smoking or alcohol consumption.[3]

Strong correlation between healthcare financing and health outcomes was already reported by AmCham in 2021[4]. Recent analysis for Estonia shows, that GDP in Estonia could grow by as much as a tenth if premature deaths could be reduced and people could remain longer in the labor market. It was reported, that investing one euro in healthcare produces a return of 2.4 euros and each person would gain an average of 28 days of healthy life per year[5].

> **Increases in health spending explained 46% of male and 39% of female gains in life expectancy at birth.**

In order to ensure sustainable, predictable and adequate healthcare funding, AmCham calls respective policy makers to:

- **Increase healthcare funding** to meet the EU average healthcare allocation of 8% from GDP by 2027;
- **Enable long-term planning** and improve health budget revenue predictability and political independence by connecting healthcare budget to macroeconomic indicators, preferably **average salary**;
- **Implement the model** where share of expenditures on reimbursed out-patient health technologies, such as medicines, medical devices and digital therapies would increase at least proportionally to the increase of the total budget of the National Health Service (NHS);
- **Maintain universal health** coverage by eliminating barriers in receiving healthcare services (for example by **eliminating the two-basket system**), according to WHO and OECD recommendations; keep reliance on general taxation as the main source of revenue;
- **Increase funding and capacity of NHS** and enable data driven decision making process. Eliminate 100% NHS budget execution targets and keep unused funds for next year expenses. Keep risk reserves of at least 3% of the annual budget;
- **Make** macroeconomic indicator **data, revenues, and the general government budget balance available** before the health sector starts planning priorities. Actively involve private sector partners in development and definition of sectoral priorities.

II IMPROVEMENT OF HEALTHCARE SPENDING EFFECTIVENESS AND PATIENT OUTCOMES

Concrete steps must be taken to move from financing individual treatment services towards funding total treatment outcomes. AmCham suggests two main areas to focus on: **1) integrated care,** which is likely to reduce cost and improve outcome; and **2) implementation of value-based healthcare model**, which aims to improve each patient's health outcomes by meeting the patient's personal goals, replacing payment for quantity with payment for outcome and quality, thus ensuring cost control and fair distribution of limited resources to all patient groups.

> **Main areas of focus: integrated care and value-based healthcare model.**

To improve healthcare spending effectiveness and patient outcomes, AmCham calls policy makers to:

Implement value-based healthcare financing model in order to improve patient health outcomes and the performance of the healthcare system while controlling rising healthcare costs. To broaden patient access and contribute to improving sustainability of healthcare systems, we call to introduce pilot projects in selected therapeutic areas by 2023[6];

Introduce integrated and personalized healthcare approach, including chronic care management within the health sector and beyond, especially with the welfare sector. Patient-relevant outcomes as performance indicators, as well as clinical outcomes should be made available, so that providing integrated care becomes part of quality measurement and provides data for evidence-based decision making;

Continue to develop health technology assessment and other health economic tools to select cost-effective treatments and programs, not only for pharmaceuticals, but for all health technologies. Assessment methods should be of high-quality while the evidence standards should remain flexible to account for the specificities and reality of new innovative treatments;

Invest in innovative technologies and medicines, which can significantly improve health outcomes. Only adequate investments in the healthcare system in general and rewarding innovation in particular can improve quality and effectiveness. Innovative treatment extends and improves people's lives, however, Latvia is consequently lagging behind the EU and OECD member states in ensuring equitable access for patients, which results in high rates of mortality from preventable and treatable causes;

Develop a well-governed digital health ecosystem, based on electronic patient health records, as a network of interoperable health information systems, enabling integrated service models and health outcome measurements across all health service providers. Modern digital health solutions, such as electronic decision support systems, computer-aided diagnostics and telemedicine, are the right instrument to improve individual health outcomes. A comprehensive digital health ecosystem would enable to contain rising costs by reducing unnecessary or duplicate services and manipulations, as well as enable analytics of individual patient healthcare resource spending and increase transparency in the health system.

ANNEX I
PREDICTABILITY OF HEALTHCARE FINANCING – EXAMPLES FROM BALTICS

The methods of finance pulling differ substantially between Baltic countries (see Table 1). Two biggest revenue sources for health insurance funds in Lithuania and Estonia are social contributions and state budget subsidies. As a result, future revenues of health insurance funds in Lithuania and Estonia are predictable and less prone to political interventions, enabling longer-term planning. Importantly, it is mandatory for Estonian and Lithuanian health insurance funds to maintain risk reserves.

Latvian Healthcare financing Law has two mechanisms of Healthcare (HC) budget formation - target of 4% GDP allocation to HC and 1% of employee income allocation to HC budget.

In 2020 HC budget of Latvia was equal to 4,3% GDP and increased further to 4,4% in 2021.[7] Expecting further convergence with neighboring and EU countries, we project healthcare budget in Latvia consistently and well over 4% GDP in upcoming years. Thus, the target of 4% GDP implemented in 2017 in the Health Care Financing Law was achieved already in 2020 and is no longer relevant during budget negotiations, therefore has to be revised.

In 2021, 1% of employee income that was allocated to HC was 98 million EUR, it made less than 7% of total healthcare budget.[8] Although, this part of the HC budget is directly connected to economic performance, and specifically to the average wage, its portion is too small to enable any true predictability.

AmCham investigated potential alternatives of relevant macroeconomic indicators that would enable long-term planning and improve health budget revenue predictability and political independence. Following indicators were chosen to evaluate historical correlation with healthcare budget during last 11 years - Healthcare budget (t.EUR, GDP (t.EUR, Minimal wage (EUR, Average wage (brutto, EUR, Average wage (netto, EUR, Household average income (per one member, EUR, Household average income (per one equivalent consumer, EUR.[9] While all the indicators showed strong correlation with healthcare budget amounts (all over 0.9, the best predictor of healthcare budget amount proved to be "Average wage", with correlation coefficient 0. 97. "G DP" an d "Minimal wage" were the least correlating indicators.

This supports the macroeconomic indicator of "Average wage" as a feasible proxy to healthcare budget, instead of 4% GDP floor, currently reflected in the Health Care Financing Law.

Based on macroeconomic forecast of the Ministry of Finance[10], it is concluded that gradually increasing the value of multiplier from current 1.15 to **2.2** million x **"Average wage"** by 2027 will result in health budget sustained at level of 8% GDP.

Conclusion: Formulating health budget targets in terms of "Average wage" will result in sustainable and predictable growth consistent with overall economic performance of Latvian state, bringing NHS closer to the model of relatively more independent health insurance funds in Estonia and Lithuania. Longer (than 1 year budget cycle planning horizon will enable innovative outcome-based payment mechanisms and long-term planning based on population needs.

	Latvia	Estonia	Lithuania
General healthcare financing principles according to legislation	Health budget has to be >4% GDP;[11] 1% of employee salary to be transferred as into health budget as health insurance premiums.	13% health insurance tax + 13% of average pension for pensioners, as subsidy from the state budget.[12,13]	6.98% health insurance tax + 6.98% minimum wage for people insured by state.[14]
Reserves to mitigate risks	Only revenues collected for providing paid services can be used in the next year (around 1 million EUR in 2021). The rest residual funds are returned to State Treasury by the end of each year.	Legal reserve 5.4% of health budget + 2% risk reserve + cash reserves;[15] Estonian Health Insurance Fund total reserves by the end of 2020 = 117.8 mio EUR.[16]	1.5% main reserve + cash reserves;[17] Total reserves by the end of 2020 = 227.6 mio EUR.[18]

Table 1. Healthcare financing model comparison between Baltic countries.

ANNEX II

FINANCING OF REIMBURSED OUT-PATIENT THERAPIES

Latvia is lagging behind Estonia, Lithuania and the rest EU member states in terms of availability of innovative therapies, demonstrating little progress during past years. One of the reasons is decreasing share of spending dedicated to reimbursed out-patient therapies, see Table 2.

Several strategies are used in neighboring countries to tackle the issue of "deflating" reimbursed out-patient therapies budget and match it with growing societal medical needs. In Lithuania relevant clauses of the Pharmaceutical Policy Guidelines are following:[19]

- In order to ensure the increase of state funds intended for the reimbursement of medicines, to legalize the provision that with the increase of the Compulsory Health Insurance Fund (CHIF) budget, **the share of expenditures on medicines shall increase by not less than the increase of the total CHIF budget;**
- In forecasting the CHIF budget in the short term, assess not only the CHIF costs for reimbursable medicines for the year preceding the entry into force of the Law on Approval of Budget Indicators of the CHIF, but also **the need to reimburse medicines included in the Waiting List for 3 years after the entry into force of the Law on the Approval of Budget Indicators of the CHIF for the respective year;**
- Sustainable financing of the list of reimbursed out-patient therapies allowed to reimburse all the technologies evaluated as clinically and economically effective. Currently the Waiting List of effective therapies waiting to be funded has no records – **all technologies recommended by health technology assessment (HTA) agency for reimbursement are reimbursed.** In contrast, analogous list in Latvia contains 44 therapies/indications (March 2022)[20], due to relatively smooth and robust HTA process, but shortage of available funding is the main bottleneck impeding access for patients to effective technologies and medicines.

In Estonia[21] :

- Estonian Health Insurance Fund (EHIF) **implements horizon scanning** for generic entries, savings could be allocated for new indications and innovative treatments;
- EHIF meets regularly with specialty representatives where **largest gaps and needs in technologies, services and medicines are mapped;**
- The budget for medicines **takes into account financing needed for incusion of new medicines** for which the application process and price negotiations have been successfully concluded.

Conclusion: financial mechanisms should be in place to achieve proportional increase of innovative medicines and technologies budget as a part of whole Healthcare budget. Definition of political priorities for budget allocation in Healthcare should be aligned with healthcare specialists, patient advocacy organizations and industry partners.

Year	2017	2018	2019	2020	2021
NHS budget for health service provision (33.00.00), million EUR	715.4	888.7	1019.8	1050.8	1204.1
Reimbursed out-patient therapies (33.03.00), million EUR	146.3	172.8	179.8	177.7	190.4
Share:	**20%**	**19%**	**18%**	**17%**	**16%**

Table 2. Share of reimbursed out-patient therapies spending in total health service provision budget 2017-2021[22]

ANNEX III

VALUE-BASED AND INTEGRATED HEALTHCARE APPROACH

Value-based healthcare (VBHC) is conceptual approach [23] for the transformation of healthcare around the world that aims to improve patient health outcomes and the performance of the healthcare system while controlling rising healthcare costs. The VBHC builds on previously used concepts of health system governance, such as evidence-based health care, the application of health economic principles, and a comprehensive system of quality and patient safety, complemented by a health care payment system linked to the outcomes achieved.

Potential benefits of VBHC for system participants:

- **For patients:** cost savings, reduced treatment time, improved treatment outcomes and experience, improved access to the innovations and personalized therapies;
- **For service providers:** increase of operational efficiency, professional performance and quality of services, new treatment standards know-how transfer;
- **For payers:** cost control and reduction of financial risk, ensuring the best possible health benefits within existing resources;
- **For medical technology providers:** ensuring the positive impact of technology on the actual value to patients, implementation of an extended individualized treatment approach;
- **For the healthcare system:** the ability to manage costs increases and make better use of limited resources by improving overall public health outcomes.

Examples of successful integrated care and VBHC implementations are following:

Central Denmark Region case. The Region (1.3 million inhabitants centralized acute stroke care from 6 to 2 designated acute stroke units with 7-day outpatient clinics. Centralization was associated with a significant reduction in length of acute hospital stay from a median of 5 to 2 days. Similarly, centralization led to a significant increase in strokes with same-day admission (mainly outpatients. Significant improvements in quality of care were observed and 11 process performance measures in both the Region and the rest of Denmark were captured.[24]

Estonian value-based healthcare pilot. In 2018 Estonian Association of Neurologists raised two main issues in stroke care in Estonia: firstly, ambulances didn't transport patients to the right hospitals with stroke units and centers, but instead also to rural hospitals with no stroke units. Secondly, the rehabilitation and other follow-up care of stroke patients was insufficient. The EHIF and the Ministry of Social Affairs started a national stroke patient pathway pilot involving 4 out of 6 hospitals in Estonia providing acute stroke care. IT systems supporting the implementation is a vital success factor in the project. As of 1st July 2020, hospitals started with the outcomes' measurement and new bundled payment model. [25]

Conclusion: implementation of integrated care model and value-based healthcare model are possible reforms aiming to improve healthcare spending effectiveness and patient outcomes.

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About Healthcare work group

The AmCham Healthcare work group is an executive forum for organizations from across various industries. It brings together international experience and perspective aiming to improve the quality and access to healthcare, improve health outcomes, increase efficiency and drive innovation into the healthcare system.

About AmCham

AmCham speaks on behalf of more than 140 leading U.S. and international companies in Latvia. It is committed to fostering trade, investment, partnership and friendship between the U.S. and Latvia and serves as a business, knowledge, networking and policy forum. Among AmCham's priorities is the development of human capital in areas including preparing for the future of work and improving health outcomes of Latvia's society with the aim to increase and secure investments.