

SUSTAINABLE HEALTH FINANCING WITH AN AGEING POPULATION

Implications of different revenue raising mechanisms and policy options

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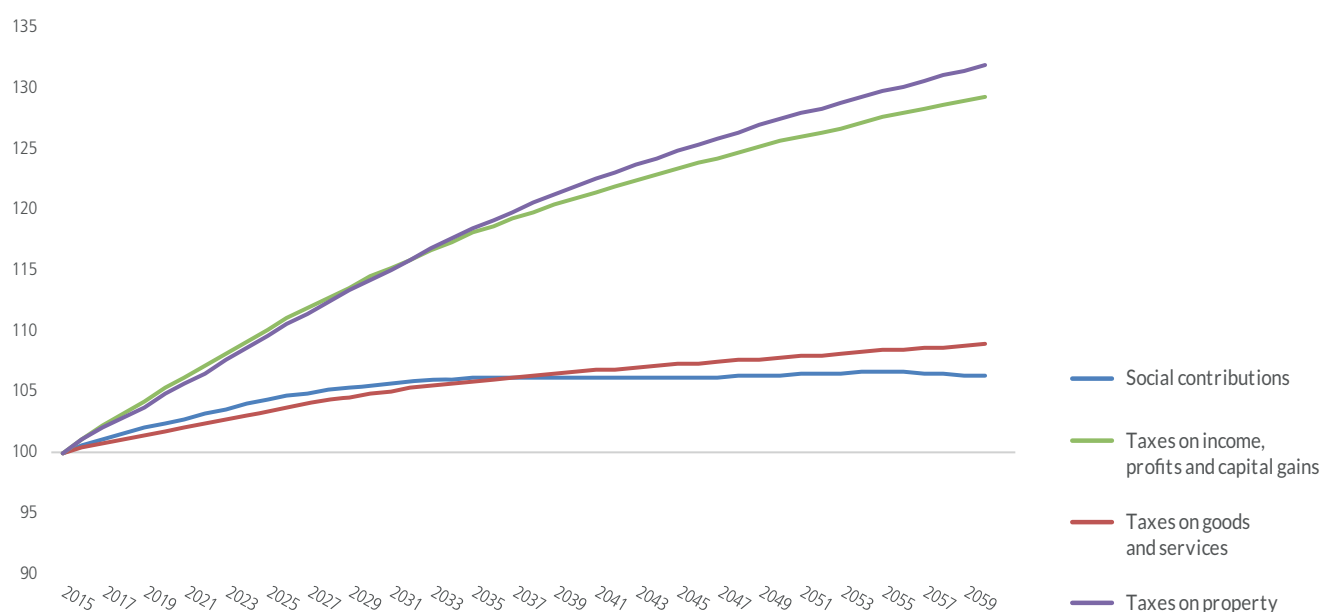
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The policy brief, *Sustainable health financing with an ageing population*,¹ summarised here, reviews approaches for raising revenues for health and considers the ways in which common funding mechanisms are affected by changes in population-age structure. It also reviews policy options that seek to ameliorate any adverse effects of population ageing on revenue generation for health.

KEY MESSAGES

- Population ageing affects a country's ability to generate revenues for health.
- We simulate the effects of population ageing on the ability to raise revenues for health from income taxes, goods and services taxes, property taxes, and social contributions. We find that:
 - For countries with a relatively younger population currently undergoing a rapid population age-structure transition, all revenue sources have the potential to grow considerably over the medium- to long-term (Figure 1). The challenge is to improve tax collection and the priority given to health to take advantage of this potential.
 - For countries with a large share of the population at older ages, revenues from social contributions linked primarily to the labour market are expected to decline substantially as a result of population ageing (Figure 2).
- Three general policy options could address declining labour market-related social contributions due to population ageing. They include:
 - expanding the revenue base by increasing the number of contributors, such as by increasing migration rates or increasing the effective retirement age;
 - increasing the contribution rate on social contributions; and
 - diversifying the mix of financing sources.
- Simulations suggest that these strategies in isolation are unlikely to fully compensate for the shortfall in revenues in countries that depend heavily on the labour market to finance health.
- Health and long-term care financing systems that are heavily reliant on labour market-related contributions may need to be redesigned if they are to continue to generate sufficient, stable revenues in the context of population ageing. This will require political commitment and a willingness to prioritize health.
- This research underscores the importance of moving away from financing health through labour-related contributions and premiums and, as a result, de-linking entitlement to care from the payment of contributions. Taxation policies can ensure health financing is both sustainable and equitable.

Figure 1: How will per person tax and social contributions be affected by population ageing? (Indonesia population example, index 2015 = 100)

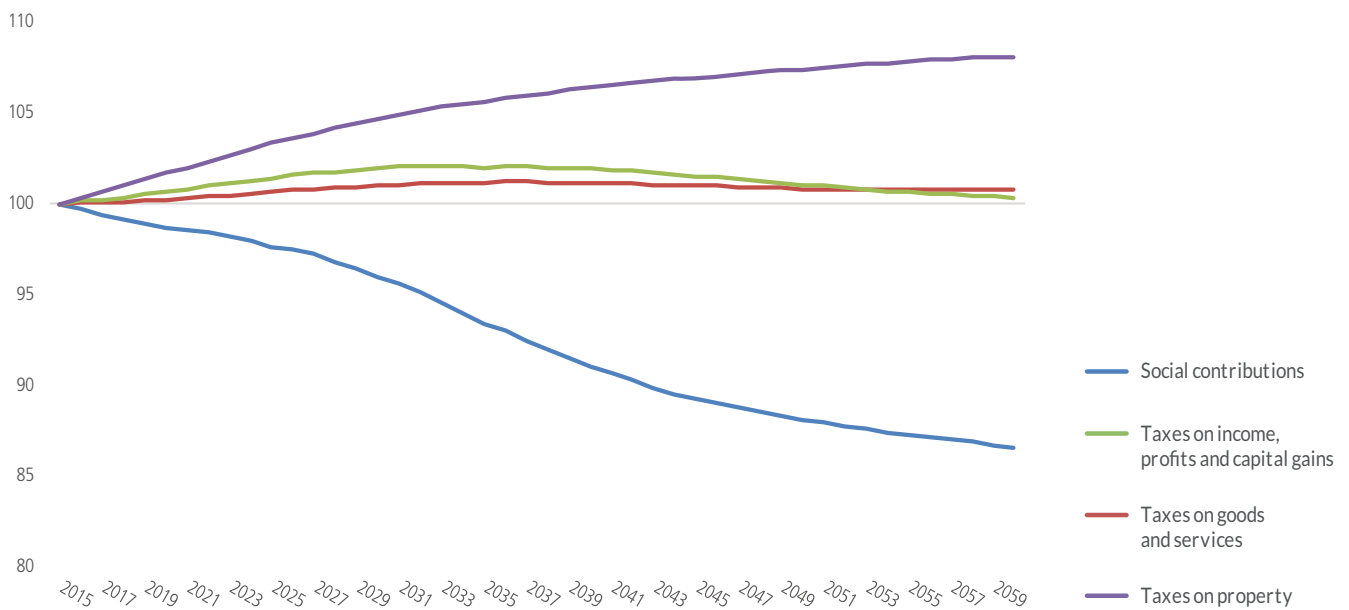


Source: Authors' calculations.

Figure 1 shows how each of the main sources of revenue per person are affected by the changing age-mix from 2015 to 2060, given Indonesia's population projections. Indexed to 2015 (i.e. so that the index level in 2015 = 100), we see that population ageing has the potential to pay dividends in terms revenue generation from all funding sources. The challenge is to improve tax collection mechanisms to take advantage of this.

1 Sustainable health financing with an ageing population: Implications of different revenue raising mechanisms and policy options. Copenhagen, WHO Regional Office for Europe (on behalf of the European Observatory on Health Systems and Policies), 2019.

Figure 2: How will per person tax and social contributions be affected by population ageing? (Japan population example, index 2015 = 100)



Source: Authors' calculations.

Figure 2 shows how each of the main sources of revenue per person are affected by the changing age-mix from 2015 to 2060, given Japan's population projections. Indexed to 2015 (i.e. so that the index level in 2015 = 100), we see stark changes over time. With an increasing share of the population at older ages, the ability to raise revenues from falls.

EXECUTIVE SUMMARY

By 2050, nearly every country will experience an increase in the share of their population over age 60. While there has been considerable analysis and policy attention focused on the relationship between population ageing and health spending, limited attention has been paid to how population ageing will affect the revenues generated for and allocated to health. The objective of this brief is to assess the impact of population ageing on countries' ability to generate revenues for health.

In recognition of market failures, health financing largely comes from government or through compulsory mechanisms that are pre-paid and heavily regulated. Revenues are collected from different sources, pooled at some level, and used to purchase health care goods and services. In Organisation for Economic Co-operation and Development (OECD) countries, for example, the main sources of revenues are income taxes, goods and services taxes, property taxes, and social contributions. As populations age, countries experience changes in the ability to generate revenues from these sources.

Our simulations show marked differences in the ability to generate revenues from taxation and social contributions depending on a country's population age structure. For countries where the population is comprised of a large share of relatively younger people who are likely to be active in the labour market, such as Indonesia, population ageing could be expected to have a positive impact on revenue generation from all sources (Figure 1). This presents an opportunity, the challenge being to improve tax collection mechanisms to capture this benefit. In contrast, for a country with a large share of the population already at older ages and increasingly exiting the formal labour market over time, such as Japan,

relying on social contributions primarily generated from the labour market to raise revenues for health results in declining revenues per person over the coming decades (Figure 2).

Three policy options to address declines in labour-related social contributions due to population ageing are explored through simulations. The first option is to increase the number of contributors. The second is to increase the contribution rate on social contributions. The third is to diversify the mix of financing sources.

Our simulations suggest that in countries that depend heavily on the labour market to finance health, none of these strategies on its own is likely to make up for the shortfall in revenues due to population ageing. For 'older' countries such as Japan, declining social contribution revenues could be expected even if the revenue base were broadened or contribution rates were raised equally across all age groups. Diversifying the mix of revenue sources in favour of sources that are less affected by ageing may be an appropriate solution. However, countries will likely still need to reprioritize their current public-sector budgets and allocate more resources to health, or increase tax rates on alternative revenue generation sources in order to maintain sufficient and stable revenues for health.

This analysis underscores the importance of moving away from financing health through labour-related contributions and premiums. De-linking entitlements from the payment of contributions and instead relying more on general taxation to fund health is critical both for equitable financing and access to care, as well as for sustainability.

ABOUT THE SERIES

Population ageing is often perceived negatively from an economic standpoint. Yet taking a more balanced view, it becomes evident that a growing older population is not necessarily very costly to care for, and that older people provide significant economic and societal benefits – particularly if they are healthy and active. This is the broad perspective of the Economics of Healthy and Active Ageing series: to inspire a ‘re-think’ of the economic consequences of population ageing.

In this series we investigate key policy questions associated with population ageing, bringing together findings from research and country experiences. We review what is known about the health and long-term care costs of older people, and consider many of the economic and societal benefits of healthy ageing. We also explore policy options within the health and long-term care sectors, as well as other areas beyond the care sector, which either minimize avoidable health and long-term care costs, support older people so that they can continue to contribute meaningfully to society, or otherwise contribute to the sustainability of care systems in the context of changing demographics.

The outputs of this study series take a variety of brief formats that are accessible, policy-relevant and can be rapidly disseminated.



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