

## Policy Brief No. 17

# Analysis of the Medium-Term Financial Sustainability of the State Guaranteed Benefits Package

The purpose of this brief is to provide an analysis of the impact of the 2006 changes in co-payment policy on the coverage of the costs of the State Guaranteed Benefits Package.<sup>1</sup>

The State Guaranteed Benefits Package (SGBP) regulates the entitlements of Kyrgyz citizens to medical services. Broadly, it provides for free medical care at the primary care level and for referral care against regulated co-payments. The co-payment levels are revised on an annual basis.

The SGBP is financed through four sources: (1) republican and local government budget, including transfers for the insurance of vulnerable groups, (2) special means of the republican and local budgets, (3) social tax contributions for the employed collected by the SF and transferred to the MHIF, (4) co-payments.

In 2006, far-reaching changes were introduced to the entitlements provided under the SGPB, significantly increasing the depth of coverage. Specifically, co-payments were eliminated for the following three categories:

- Children between 1 and 5 years old,
- All types of deliveries, and
- Pensioners 75 and older.

While the expansion of the SGBP was a welcome move on financial protection and equity grounds, concerns were raised regarding its impact on the gap between the costs of the Program and the available financing.

### 1. How did the new exemptions impact the utilization of medical services?

- From 2005 to 2006, the total number of hospitalizations increased by 11%, while number of hospitalizations among the exempt groups increased by 59%;

- This led to a marked increase in the share of exempt patients in the total number of cases from 46% to 65%;
- This is expected to be an one-off increase: In 2007, according to projections based on data for the first 6 months, the number of cases will increase only by 6%;
- The share of exempt patients in total number of cases is expected to stay approximately the same as in 2006 and not to exceed 70%.

### 2. What was the impact on co-payment collections?

- The volume of co-payments collected from the newly exempt categories decreased by 90% or approximately 38.48 mln KGS;
- The increase in the volume of co-payments for all other categories of patients was only 1.1%, or approximately 1.95 mln KGS;
- This led to a 16.6% (or 11% in real term) decline in the volume of co-payments collected in 2006, which equals to 36.53 mln KGS.

**Table 1: Changes in volume of co-payments by the exemption category, 2005 – 2006 (thousand KGS)**

	2005	2006	% change 2005-06
Co-payment for deliveries	19 174	2 180	-88,6
Co-payment from children one to five years of age	18 579	1 365	-92,7
Co-payment from pensioners older than 75	4 978	708	-85,8
<b>Total co-payment from newly exempt groups</b>	<b>42 730</b>	<b>4 253</b>	<b>-90,0</b>
Co-payment from all other categories	176 670	178 620	1,1
<b>Total co-payment collections</b>	<b>219 400</b>	<b>182 873</b>	<b>-16,6</b>

Source: MHIF Clinical Information Forms Database, November 2007; MOH, 2006, 2007. *FMR 2005, 2006.*

<sup>1</sup> This policy brief is a summary of a detailed study evaluating the medium-term financial sustainability of the State Guaranteed Benefits Package (SGBP) (See *Policy Research Paper No. 44*, November 2007).

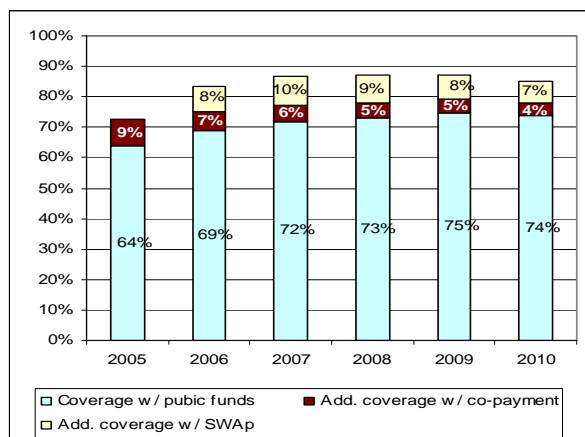
### 3. Is the funding gap expected to increase?

In the short-term, the changes in the co-payment policy did not have a negative impact on the financial sustainability of the SGBP:

- Between 2005 and 2006, there was a 29% increase in total funding for the SGBP due to a 20.6% increase in public funding and new external financing;
- At the same time, there was 16.6% decline in the volume of co-payments;
- As a result of these two factors, the coverage of the costs of the SGBP increased from 73% to 84%.<sup>2</sup>

In the medium-term, the coverage of the costs of the SGBP is projected to gradually increase, reaching 78% in 2010, without considering the available external funding (Figure 1). However, the decline in funding gap is mainly due to the increase in public expenditures, including contributions to the Social Fund, which are expected to continue growing on average at the rate of 17% per year between 2007 and 2010. This is likely to be an optimistic projection. Among other things, it assumes that between 2008 and 2010 the average real growth rate of the GDP will stay around 7.2%.

**Figure 1: Coverage of the SGBP costs, 2005 – 2010**

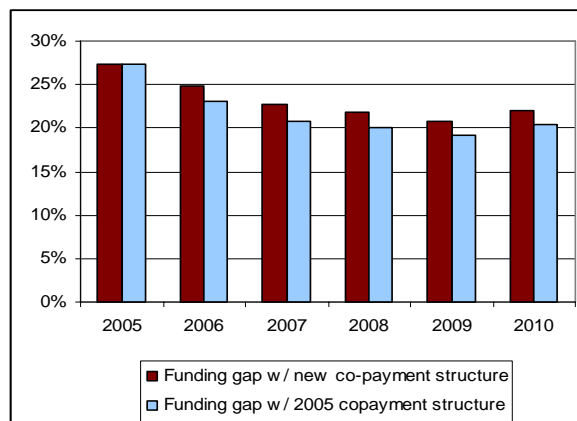


**Source:** Socium Consult, "Modeling the level of financing of SGBP – Kyrgyzstan", 18 May 2007; SF Report 2005, 2006; MOH, 2006, 2007. *FMR 2005, 2006*; 2007 Approved Law on the Republican Budget; MOF Note on salary raise for the health sector and MHIF Internal note on allocations of salary raise; WB Planned disbursements 2007-2010, email from May 30, 2007; MTBF 2008 – 2010.

It is interesting to note that if we take the 2005 level of co-payments, that is prior to new exemption policy, and set its growth rate at 5% per year, or the expected annual inflation rate,

the funding gap does not change significantly, reaching 20.5% by 2010 as compared to the expected 22% given the new exemptions (Figure 2).

**Figure 2: Comparative funding gap, 2005 - 2010**



**Source:** Socium Consult, "Modeling the level of financing of SGBP – Kyrgyzstan", 18 May 2007; SF Report 2005, 2006; MOH, 2006. *FMR 2005*; MOH, 2007. *FMR 2006*; 2007 Approved Law on Republican Budget; MOF Note on salary raise for the health sector and MHIF Internal note on allocations of salary raise; WB Planned disbursements 2007-2010, email from May 30, 2007; MTBF 2008 – 2010.

### 4. Main conclusions

1. The SGBP was not fully funded prior to increasing the scope of the benefit package: In 2005, the available funding covered 72.6% of the estimated financing needs of the SGBP.
2. The co-payment exemptions introduced in 2006 did not have a significant adverse affect on the financial sustainability of the SGBP. The increase in public funding was greater than the loss of co-payment revenues slightly increasing the coverage of the SGBP to 75.2%.<sup>3</sup>
3. Without any further expansion of entitlements and with highly optimistic assumptions about economic performance of the country and government commitment to the health sector, **by 2010, only 74% of the costs of the SGBP are expected to be covered by the public funds** (state budget plus Social Fund contributions).
4. The persistence of a funding gap for the SGBP suggests that increased public funding ought to be targeted to covering the funding gap before further coverage expansion is considered.

<sup>2</sup> The methodology for estimating financing needs for the SGBP was officially adopted in July 2005 through the Government Decree # 280.

<sup>3</sup> In Figure 1, the total coverage with public funds plus co-payments equals 76%. This is due to rounding of 68.7% to 69% and 6.5% to 7%.