Essays on Economic Policy (ESPE in Spanish) - Financial and Fiscal Aspects of the Healthcare System in Colombia

Download (only in Spanish) Keep in mind
In the journal Essays on Economic Policy (ESPE) - we disclose the results and policy proposals that arise from academic research carried out at the *Banco de la República*. When you read us, always keep in mind that the content of our articles, as well as the analyzes and conclusions derived from them, are the sole responsibility of their authors. The material disclosed in our ESPE magazine does not compromise or represent the opinion of *Banco de la República* or that of its Board of Directors.

AUTHORS AND/OR EDITORS Melo-Becerra, Ligia Alba Arango-Thomas, Luis Eduardo Ávila-Montealegre, Oscar Iván Ayala-García, Jhorland Bonilla-Mejía, Leonardo Botero-García, Jesús Alonso Crispin-Fory, Carolina Cardona, Manuela Gallo, Daniela Granger-Castaño, Clark Guzmán-Finol, Karelys Iregui-Bohórquez, Ana María Ospina-Tejeiro, Juan José Pinilla-Alarcón, Diana Estefanía Posso-Suárez, Christian Manuel Ramírez-Giraldo, María Teresa Ramos-Forero, Jorge Enrique Ramos-Veloza, Mario Andrés Restrepo-Tobón, Diego Alexander Restrepo-Zea, Jairo Humberto Silva-Samudio, Giselle Tatiana Vásquez-Escobar, Diego Mauricio
In the journal *Ensayos sobre política económica - ESPE* - we disclose the results and policy proposals that arise from academic research carried out at the Banco de la República. When you read us, always keep in mind that the content of our articles, as well as the analyzes and conclusions derived from them, are the sole responsibility of their authors. The material disclosed in our ESPE magazine does not compromise or represent the opinion of Banco de la República or that of its Board of Directors.

Publication Date: Monday, 2 of October 2023 **Approach**
Since the enactment of Law 100 of 1993, the health care system in Colombia has undergone significant transformations that have resulted in improvements in health indicators, expanded coverage, and financial protection for the population. The system has made significant progress, including the implementation of a comprehensive health care plan that only excludes cosmetic and experimental procedures, low out-of-pocket spending compared to international standards, and an increase in coverage from 29% in 1995 to 99% of the population in 2022. Despite these achievements, inequalities persist in access to and quality of services, which is manifested in territorial disparities and in care supply.

The health care system has also faced various financial and administrative problems, including the high percentage of affiliates in the subsidized regime, the increase in the demand for services, those included in the Health Benefits Plan as well as those excluded from it, the costs related to the unification of insurance premiums between the contributory and subsidized regimes, and the affiliation of Venezuelan migrants to the subsidized regime. Other issues include the bankruptcy of various health insurance entities and, recently, the Covid-19 pandemic and the Final Agreement (*Acuerdo de Punto Final*), which sought to clean up the accumulated debts of the Colombian government and territorial entities. Financial pressures may continue to increase due to various risks faced by the sector, posing a challenge to the sustainability of the system. These include the aging of the population due to declining mortality and fertility rates, pressure to adopt new medical technologies, increased demand for services (especially in regions with limited access), and changes in morbidity patterns, particularly those associated with chronic noncommunicable diseases. These challenges demand an increase in the need for public resources, with effects on public finances and various macroeconomic variables.

Contribution
The article provides a detailed description of the institutional aspects of the health care system in Colombia, contributing to an understanding of its functioning, especially regarding its financing. It also analyzes the mechanisms and sources of financing that have operated in the Colombian health care system over the last decade. In addition, it analyzes regional disparities in some indicators of supply and demand for health care services. The study also uses general equilibrium models to assess the effects of various risks faced by the health care system, considering their impact on the sector's finances, the fiscal deficit, and macroeconomic variables. These risks include the impact of demographic change characterized by an aging population, changes in morbidity patterns (especially related to the increase in chronic noncommunicable diseases), and the adoption of new medical technologies. Additionally, it explores the effect of increasing health care services to overcome gaps in access and the impact of informality and economic growth behavior on the need for fiscal resources. The article estimates measures of efficiency and scale economies for Health Promoting Entities (*Empresas Promotoras de Salud* or EPS in Spanish) and Healthcare Service Providers (*Instituciones Prestadoras de Servicios de Salud* or IPS in Spanish), highlighting the importance of efficiency in the use of the system's resources to mitigate public spending pressures.

Colombia could face a significant increase in public spending required to finance the health care system due to risks associated with changes in demographic and morbidity patterns, advances in medical technologies, and the structure of the labor market.

Results
The study found that Colombia could experience a significant increase in public spending needed to finance its health care system. It would be necessary to allocate additional resources equivalent to 1.9% of GDP by 2030 due to risks related to demographic changes, morbidity patterns, medical advances, the labor structure, and possible inefficiencies in the system. These increased resource needs would require permanent sources of financing, which would impact public finances and several macroeconomic variables. Alternative financing schemes to cover the growing need for resources have heterogeneous effects on the dynamics of macroeconomic variables and on income distribution, which vary according to the instruments selected and the impact of health spending on labor productivity. In addition, the results of the study highlight a marked dispersion in the efficiency and scale economies of EPSs and IPSs, suggesting the possibility of improving the sector's potential performance. Improved efficiency in resource management, higher economic growth, and a reduction in labor informality were also found to mitigate resource needs.

Fuente: https://d1b4gd4m8561gs.cloudfront.net/en/publications-research/espe/financial-fiscal-aspects-healthcare-system-colombia