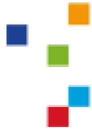
9.2. Financing progressivity (EQ-2, EQ-3)

9.2.1. Documentation sheet

Description	**The public healthcare system is financed through a mixture of direct and indirect taxes and social insurance contributions. Different financing sources have different implications with respect to redistribution and solidarity. We assess the progressivity and regressivity of the financing sources of the healthcare system. Progressive [regressive] financing implies an increasing [decreasing] relative contribution as function of income.**
Calculation	Since 2005, the financing of the Belgian social security system is based on the principle of pooling of receipts (the so-called 'financial global management'). That means that all resources used to finance social security are globalized and then transferred to the different branches of the social security in function of their respective financial needs. The financial global management is funded through social contributions, alternative financing (mainly value added tax (VAT), excises and withholding tax on capital income) and state subsidies. Contrary to most branches of the social security, the financing of the healthcare system is only partly funded through the financial global management. The budget also consists of some 'own receipts', that can be categorized as social contributions, alternative financing, and allocated and diverse receipts.. For the years 2007, 2011, 2015 and 2017, we decompose the various financing flows in the underlying parts: social contributions, alternative financing and state subsidies. For each of the sources we indicate whether they are progressive, proportional or regressive (see below). Next, four ratios are calculated: the proportion of, respectively, progressive, proportional, regressive and diverse/allocated receipts in the total receipts. A fifth ratio is calculated as the regressive receipts divided by the progressive receipts.
Rationale	Universal health coverage aims to ensure that everyone can use the health services they need without experiencing financial hardship or deepening poverty. This implies that the financial burden should not disproportionately rest on those who suffer from illness, i.e. it should be largely independent of the health risks. The decoupling of payments from utilization, however, does not provide guidance on what other criteria may be used to raise the necessary funds for the public healthcare system. It is generally presumed that payments should be determined by the household's ability to pay.[1-5] A rationale to relate payments for healthcare to ability to pay is that one does not want that these payments hinder people's ability to seek healthcare when ill. Another rationale is that one want to avoid that payments for healthcare reduce households' ability to consume other necessary goods and services such as food, housing and utilities.[5] It can be argued that income reflects one's ability to pay (consumption expenditures might be another indicator). In that case, the progressivity or regressivity of financing sources provides information on the extent to which financing is in line with ability to pay. Progressivity [regressivity] implies that payments relatively increase [decrease] as income – ability to pay – increases. Proportional financing implies that payments are proportional to ability to pay. The progressivity or regressivity of a financing source is one element to determine its redistributive impact – in addition to the amount of tax revenue raised by the source, and the extent to which households with a similar ability to pay are treated unequally. Progressivity is a necessary condition to have a positive redistributive effect, i.e. a redistribution from individuals with higher ability to pay to those with lower ability to pay. Moreover, it is in line with the vertical equity principle, which states that higher contributions should be made by households with a higher ability to pay.



Source (data and indicator)	FOD Sociale Zekerheid - SPF Sécurité sociale, RIZIV – INAMI, Nationale Bank van België – Banque Nationale de Belgique
Periodicity	2007, 2011, 2015, 2017
Technical definitions and limitations	The financing of the healthcare system can be defined as progressive [regressive] when the average tax rate is an increasing [decreasing] function of income. The financing system is called proportional if the average tax rate is invariant to the income level. The progressivity / regressivity of a financing source depends on the marginal tax rates as well as tax deductions and tax exemptions of some part of the income. We do not calculate the progressivity of each financing source (social contribution, alternative financing, and government subsidies). However, this will be done in a follow-up report on the equity in healthcare use and healthcare finance. Here, we characterize the 'system', in general terms. Based on previous research, we use certain assumptions with respect to progressivity / regressivity in terms of the disposable income.[6-9] - Allocated and divers receipts are not classified. They are about 5% to 7% of the budget for healthcare (see Table 97). - Social contributions are considered proportional. Given that low incomes are not subject to social security contribution, they can be in fact slightly progressive. - Alternative financing is generally composed of regressive financing sources, such as the value added tax (VAT) and excises. However, the withholding tax on capital income is considered progressive. - The status of government subsidies is somewhat ambiguous since they are composed of many different receipts. After subtracting federal taxes that are earmarked for specific purposes (such as the financing of the EU, the communities and regions and the alternative financing of the social security system), we have classified all the different types of receipts of the federal government as regressive or progressive (except for the corporate tax which was not classified). We find that between 2007 and 2014 about two thirds of the remaining receipts are progressive (mainly the personal income tax) and one third regressive (mainly the remaining indirect taxes) (see Table 96). Since the 6th state reform, regressive taxes have gained importance in the general means of the federal government. The reason is that a larger share of the personal income tax is used to finance the regions and communities and a smaller part of the VAT is transferred to the social security system (see Table 96). - Another implication of the 6th state reform is that the communities have taken over certain competences with respect to the healthcare budget. Hence, to follow the evolution of the budget over time in a consistent way, the financing by the communities through state subsidies has to be taken into account. The budget of the regions and communities is split in nearly equal shares between progressive (mainly the personal income tax and wealth tax) and regressive taxes (mainly value added tax and other indirect taxes and contributions) (see Table 96). We consider here the public **financing of the healthcare system**. We do not take into account the amounts paid at the 'point of care' (the out-of-pocket costs) that we consider as a private financing. Wagstaff and van Doorslaer meanwhile present an estimation of progressivity indices for public and private source of financing.[1,2,10]
International comparability	International comparisons are not pertinent because the part of public/private financing of the total healthcare expenditure is substantially different in all countries.
Dimensions	Contextual indicator of equity - Equity of the financing
Related performance indicators	Ratio **proportional** receipts/total receipts, **progressive** receipts/total receipts, **regressive** receipts/total receipts, **regressive** receipts/**progressive** receipts

9.2.2. Results

Table 95 presents a breakdown of the public budget for healthcare by type of financing source for the years 2007, 2011, 2015 and 2017. Table 96 provides an overview of the proportion of progressive and regressive tax revenue in the budget of the federal and regional governments. This distribution is used to subdivide government subsidies to the healthcare budget in progressive and regressive financing sources. Table 97 translates Table 95 into 5 ratios: proportion of progressive receipts in total receipts, proportion of proportional receipts in total receipts, proportion of regressive receipts in total receipts, proportion of other receipts in total receipts, ratio of regressive receipts to progressive receipts.

From these different Tables, we conclude that:

- In the **period 2007 to 2011**, there was an important increase in the budget for healthcare, with an average annual growth of 4.2% in real terms. The increase in the budget was funded mainly through an increase in value added tax (VAT), a source of alternative financing. The share of alternative financing increased from 22.8% to 31.6%. The share in government subsidies remained constant at about 9.5%, while the share of social contributions decreased from 61.5% to 53.8%. As a result the proportion of regressive receipts has increased over this period, whereas the share of proportional receipts has declined.
- In the **period 2011 to 2015**, the increase in the budget for healthcare was limited to an average annual growth of 0.5% in real terms. There is however an important shift in financing sources. We observe an increase in government subsidies from 9.5% to 21.2%. As a consequence of the 6th state reform, the communities take over certain competences related to healthcare and hence contribute to the budget through government subsidies. The alternative financing, and especially the contributions from VAT are reduced. The share of alternative financing drops from 31.6% to 15.5%. Social contributions slightly gain in importance and have a share of 57.8% in 2015. In terms of progressive and regressive receipts, we find an increase of the former and a decrease of the latter. The ratio regressive receipts to progressive receipts has fallen significantly.
- In the **period 2015 to 2017**, the average annual growth remains at 0.5% in real terms. We observe the effects of the tax shift, and in particular the reduction of social contribution from employers. The share of social contributions in the budget decreases to 52.6%. Moreover, the alternative financing of social security has been reformed. Receipts from excises are replaced by receipts from the withholding tax on capital income. This implies a shift from regressive to progressive financing. In addition receipts from VAT have increased again, leading to a higher share (18.0%) of alternative financing.

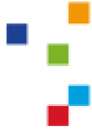


Table 95 – Structure of the financing of the public healthcare system (2007, 2011, 2015, 2017)

Public financing of the health system	2007		2011		2015		2017 (provisional)	
	Amount (million €)	Budget share	Amount (million €)	Budget share	Amount (million €)	Budget share	Amount (million €)	Budget share
Social contributions - total	13 938	61.5%	15 858	53.8%	18 230	57.8%	17 469	52.6%
Employers	4 074	18.0%	4 494	15.3%	4 866	15.4%	4 832	14.6%
Employees	8 011	35.4%	8 833	30.0%	10 471	33.2%	9 661	29.1%
Self-employed	825	3.6%	1 266	4.3%	1 462	4.6%	1 399	4.2%
Pensioners	719	3.2%	920	3.1%	1 066	3.4%	1 221	3.7%
Special social contribution	310	1.4%	345	1.2%	365	1.2%	357	1.1%
Alternative financing - total	5 172	22.8%	9 298	31.6%	4 905	15.5%	6 934	20.9%
Value added tax	4 124	18.2%	8 168	27.7%	3 660	11.6%	5 963	18.0%
Excises (tobacco and packaging)	825	3.6%	886	3.0%	926	2.9%	0	0.0%
Withholding tax on dividends and interest payments	161	0.7%	158	0.5%	208	0.7%	971	2.9%
Other	62	0.3%	85	0.3%	111	0.4%	0	0.0%
Government subsidies	2 180	9.6%	2 797	9.5%	6 688	21.2%	6 597	19.9%
Federal government	2 180	9.6%	2 797	9.5%	3 008	9.5%	2 077	6.3%
Regional government	0	0.0%	0	0.0%	3 680	11.7%	4 520	13.6%
Own allocated receipts	1 019	4.5%	1 029	3.5%	1 147	3.6%	1 136	3.4%
Diverse receipts	340	1.5%	486	1.6%	589	1.9%	1 052	3.2%
Total	22 648	100.0%	29 468	100.0%	31 558	100.0%	33 188	100.0%
Total (in € 2007)[a]	22 648		26 669		27 222		27 488	

[a] amounts corrected by the evolution of the consumer price index.
Sources: SPF – FOD Social Security, Year reports of National Social Security Office, Vade Mecum of financial and statistical data on social protection in Belgium, Year reports of National Institute for the Social Security of the Self-employed, Budget for healthcare by National Institute for Health and Disability Insurance, Book 2018 on Social Security by Court of Audit, National Accounts, KCE calculations

Table 96 – Share of progressive and regressive tax revenue

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Federal government											
Proportion regressive	32%	26%	35%	31%	32%	32%	31%	29%	36%	45%	41%
Proportion progressive	68%	74%	65%	69%	68%	68%	69%	71%	64%	55%	59%
Regions and communities											
Proportion regressive	49%	49%	48%	49%	49%	48%	48%	48%	48%	45%	45%
Proportion progressive	51%	51%	52%	51%	51%	52%	52%	52%	52%	55%	55%

Note: the corporate tax and sources that are earmarked for specific purposes or transferred to other entities are not considered. Progressive = personal income tax, capital income tax, wealth tax; Regressive = indirect taxes on e.g. products, services, insurance premiums, licenses and contributions.
Source: National Bank of Belgium, KCE calculations

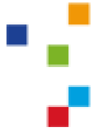
Table 97 – Progressivity indicators of the financing of the public healthcare system (2005-2014)

Indicators of progressivity/regressivity	2007	2011	2015	2017 (provisional)
Ratio proportional receipts/total receipts (in %)	61.5%	53.8%	57.8%	52.6%
Ratio progressive receipts/total receipts (in %)	7.3%	7.0%	12.8%	14.1%
Ratio regressive receipts/total receipts (in %)	25.2%	34.1%	23.9%	26.7%
Ratio diverse + own allocated receipts/total receipts (in %)	6.0%	5.1%	5.5%	6.6%
Ratio regressive receipts/progressive receipts	3.47	4.87	1.86	1.89

Sources: SPF – FOD Social Security, Year reports of National Social Security Office, Vade Mecum of financial and statistical data on social protection in Belgium, Year reports of National Institute for the Social Security of the Self-employed, Budget for healthcare by National Institute for Health and Disability Insurance Book 2018 on Social Security by Court of Audit, National Accounts, KCE calculations

Key points

- **The public financing of the healthcare system becomes more progressive, especially since the 6th state reform. Nonetheless, both the share of proportional receipts and regressive receipts exceed the share of progressive receipts.**
- **Proportional receipts follow a downward trend given a declining importance of social contributions as financing source.**



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