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Health Reform Monitor

# The Austrian health reform 2013 is promising but requires continuous political ambition☆

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ABSTRACT

The Austrian health system is much more complex and fragmented than in other OECD countries. In 2013 legislation was adopted to enhance efficiency through better balancing care provision across providers by promoting new primary care models and better coordination of care. Reform objectives should be achieved by cooperative and unified decision making across key stakeholders and by adherence to a budget cap that prescribes fiscal containment on the order of 3.4 billion Euros until 2016. This is priced into the envisaged savings of the current consolidation program. Efforts have been made to bridge the accountability divide by establishing agreements and administrative layers to govern the health system by objectives. Yet, more could have been achieved. For example, cross-stakeholder pooling of funds for better contracting governance and effective purchasing across care settings could have been introduced. This would have required addressing overcapacity and fragmentation within social security. At the same time, legal provisions for cooperative governance between Sickness Funds and the governments on the regional level should have been stipulated. The Austrian 2013 reform is interesting to other countries as it aims to ensure better-balanced care at a sustainable path by employing a public management approach to governance relations across key payers of care.



## 1. Introduction and objectives

Austria dedicates substantial public and total resources to health. At 11.1%, the share of total health spending in GDP is among the highest in OECD countries, mainly due to high public spending (8.4%, figures for 2012). Health accounts for about 15% of total general government spending. The system performs fairly well on standard output indicators. For example, life expectancy improved over the past 30 years, exceeding 80 years in 2008.

However, there is growing evidence that the large resources engaged in the health system are not being efficiently used [11]. The Austrian health system is much more complex and fragmented than in other OECD countries [7]. Constitutionally, the federal government is in charge of all areas of the health care system but delegates an important part of its responsibilities to the 9 federal states ("Länder"), and another part to the social insurance funds (Sickness Funds) (Fig. 1):

- The Länder are in charge of developing and maintaining an adequate hospital infrastructure, without funding it

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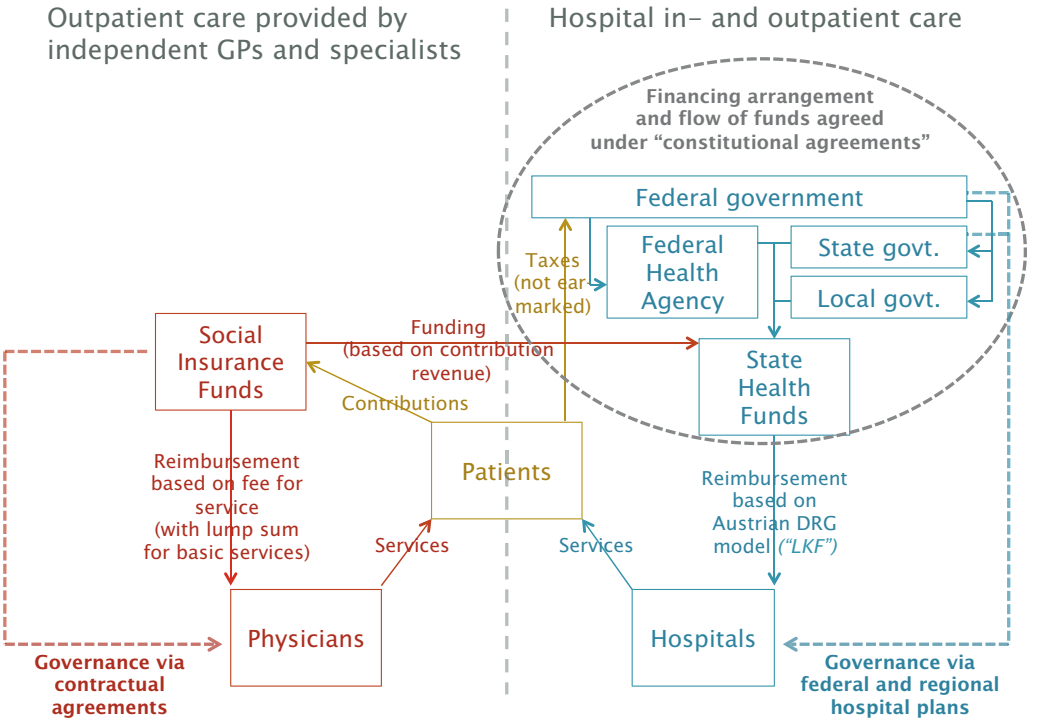


**Fig. 1.** Institutional arrangement of the Austrian health system before 2013 reform.

*Source*: Ostermann 2014.

from their own tax revenues as Länder are not entitled to collect taxes. Transfers from the federal government agreed under five-yearly "constitutional agreements" therefore fulfill this purpose, under relatively flexible rules open to political bargaining. Consequently, the federal government has very little direct influence on the utilization of the funds.

- The 19 Sickness Funds are in turn delegated the task of contracting for ambulatory care, pharmaceutical products and medical devices, that they fund from the employer and employee contributions that they collect. Sickness Funds also participate in the funding of hospitals by transferring a fixed share of their resources (about 35%) to Länder' hospital funds.

This highly segmented funding structure hence weakens incentives for optimization due to the inherent decision-making and accountability divide and puts providers into a very powerful position. The provision of inpatient services is mainly assured by Länder-owned hospitals, and outpatient services outside hospitals mainly by independent physicians permanently contracted by Sickness Funds through their "regional physician chambers".

Federal efforts to improve the performance of the health care system have always met with administrative barriers because decentralization of service provision and spending was not appropriately supported by strategic regulation. For example, in 2007 the government laid out an agenda for securing financial sustainability of Sickness Funds, which had accumulated high levels of debt [14]. This reform proposal was dismissed due to fierce opposition, largely from doctors but also from some Sickness Funds that resisted more central influence. However, the need to address debt levels became even more urgent as revenues plunged as a consequence of the recession following the 2008 financial crisis.

A new centre-left government introduced legislation in 2010 requesting cost containment for Sickness Funds in exchange for tax subsidies coming from the government budget through a "Health Fund". It also included debt forgiveness in annual installments until 2013. The hospital sector was left largely untouched beyond the 1997 and 2005 reforms. Yet, challenges of fiscal consolidation on the level of the "Länder" have increasingly emerged, shedding light on growing debt levels of hospitals which had not been priced into general government debt levels. Health reform 2013 is a renewed attempt to address fiscal sustainability and fragmented care delivery. The objective of this paper is to present the key content of the 2013 health reform and critically appraise it is potential to foster better-balanced and coordinated care. The 2013 Austrian reform effort is relevant for other countries because (1) it reflects a new public management approach in addressing fiscal stability through strengthening health system governance in a federal state and (2) it aims at improving substantially balanced care delivery and co-ordination of care.

## 2. The context for the health reform 2013

In spite of continuous efforts in the last 15 years to address key weaknesses, the Austrian health care sector