# Hospital Payment Systems in Europe

Expenditure for hospital care forms a substantial part of healthcare spending in all modern healthcare systems. In 2008, the mean share of hospital care in total healthcare spending among OECD members was 35.8 percent, with the shares varying between 26.7 percent in Slovakia and 46.9 percent in Sweden (see column (1) of the Table; column (2) shows hospital spending per capita adjusted for local price levels). The variation between countries is primarily driven by the relationship of in-patient and out-patient care in a healthcare system.

Another important driver of a country's hospital spending is the nature of hospital financing as different financing schemes shape different incentives for hospital care provision (Cyclus and Irwin 2010). Prospective hospital budgeting occurs in the form of global and line-item budgets. Under the former, hospitals autonomously decide how to spend fixed prospective funds. Under the latter, the hospital receives a budget that is already earmarked for specific types of spending. None of the two schemes directly encourages an efficient allocation of resources – instead, there is an incentive to consume all funds available in a budgeting period to avoid future budget cuts. Retrospective payment schemes that ex post reimburse all hospital spending also do not reward cost-conscious hospital behavior.

Case-related financing schemes avoid some of the problems of budget financing but can also fail to enhance spending efficiency. Fixed reimbursement rates per admission, for instance, can encourage hospital decision-makers to raise the number of admitted patients – irrespective of whether an admission is needed or not. Also, financing by per diem rates per occupied hospital bed tends to extend patients' length of stay beyond what is necessary.

To improve the alignment of the goals of hospital managers, patients and payers, health policymakers in many countries have introduced reimbursement by Diagnosis Related Groups (DRGs). The scheme first codes the patient case into a DRG. This coding mainly depends on the illness, the procedure to cure the illness and the patient's demographic characteristics. For each DRG case the hospital receives a fixed reimbursement that is set in accordance with estimates of efficient treatment costs. By attaching reimbursement more closely to the nature of the illness rather than the type and number of administered treatments or the length of stay, DRG financing aims to encourage more efficient provision of care and avoid waste. Experience with DRGs has shown, however, that this system also has unintended effects that go beyond its relatively high administrative costs. For instance, in order to increase reimbursement, hospitals tend to "upcode" cases into more treatment intensive DRGs than actually required. Moreover, DRG reimbursement can incentivize hospitals to discharge patients prematurely, which may lead to costly re-admissions later on. Furthermore, there are methodological issues involving the correct incorporation of capital and overhead costs into DRG rates and the appropriate classification of complex cases.

Column (3) of the Table provides a summary of current hospital financing schemes in OECD countries (Paris et al. 2010). Seventeen out of 29 countries in the sample use mixed reimbursement schemes that aim to strike a balance between the up- and downsides of different financing schemes. The Table also shows that in spite of the challenges they pose, DRG arrangements today exists in the majority of countries.

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**References**

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Paris, V., M. Devaux and L. Wie (2010), "Health Systems Institutional Characteristics: A Survey of 29 OECD Countries", *OECD Health Working Papers*, no. 50, http://www.oecd.org/officialdocuments/displaydocument/?doclanguage=en&cote=delsa/hea/wd/hwp(2010)1.

**Table**

**Hospital service expenditures and financing schemes in selected OECD countries in 2008**

| Countries | (1) Hospital services in % of total current expenditure on health | (2) Hospital service expenditures/capita, US$ purchasing power parity | (3) Hospital financing scheme |
|---|---|---|---|
| Australia | 39.9* | 1,263* | Prospective global budget + Payment per case/DRG |
| Austria | 38.8* | 1,393* | Payment per case/DRG (47%)/ Retrospective reimbursement of costs (48%) |
| Belgium | 31.2*e* | 1,147*e* | Payment per case (45%) + Payment per procedure (41%) + payments for drugs (14%) |
| Canada | 28.9*e* | 1,116*e* | Prospective global budget (79%) + per case (9%) + per diem (9%) |
| Czech Republic | 45.8*e* | 796*e* | Prospective global budget (75%) + per case (15%) + per procedure (8%) |
| Denmark | 46.2* | 1,567* | Prospective global budget (80%) + Payment per case/DRG (20%) |
| Finland | 35.3 | 1,010 | Payment per case/DRG |
| France | 35.0 | 1,259 | Payment per case/DRG |
| Germany | 29.4 | 1,061 | Payment per case/DRG |
| Greece | n/a | n/a | Per diem and retrospective payment of costs |
| Hungary | 33.1 | 463 | Payment per case/DRG |
| Iceland | 40.6 | 1,363 | Prospective global budget |
| Ireland | n/a | n/a | Prospective global budget (60%) + Payment per case/DRG (20%) + per diem (20%) |
| Italy | n/a | n/a | Payment per case/DRG |
| Japan | 36.6* | 984* | Payment per procedure/service + diagnosis-adjusted per diem |
| Korea | 41.6 | 705 | Payment per procedure/service + DRG |
| Luxembourg | 33.4*** | 1,322*** | Prospective global budget |
| Mexico | 15.8 | 131 | Prospective global budget (60%) + line-item (30%) + payment per procedure (10%) |
| Netherlands | 37.0*e* | 1,378*e* | Adjusted global budget (80%) + Payment per case/DRG (20%) |
| New Zealand | 37.1 | 994 | Prospective global budget + Payment per case/DRG |
| Norway | 38.2** | 1,613** | Prospective global budget (60%) + payment per procedure (40%) |
| Poland | 34.5 | 391 | Payment per case/DRG |
| Portugal | 37.5* | 796* | Prospective global budget |
| Slovak Republic | 26.7 | 442 | Payment per case/DRG |
| Spain | 39.8 | 1,117 | Line-item budget |
| Sweden | 46.9 | 1,545 | Payment per case/DRG (55%) + global budget |
| Switzerland | 35.1* | 1,567* | Payment per case/DRG (2/3 cantons) + global budget |
| Turkey | 40.9* | 287* | Line-item budget |
| United Kingdom | n/a | n/a | Payment per case/DRG (70%) + global budget (30%) |

n/a = data not available. – *e* = estimate. – * 2007. – ** 2006. – *** 2005.

Sources: columns (1) and (2): OECD (2010); column (3): Paris et al. (2010).