



► Policy Brief

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Lao People's Democratic Republic: Towards a sustainable health insurance system for universal health coverage¹

Key points

- ▶ This policy brief reviews the financing mechanism of the Lao People's Democratic Republic's national health insurance system and presents recommended measures to improve its sustainability.
- ▶ Since the introduction of the state-subsidized National Health Insurance (NHI) scheme in 2016, the legal health insurance coverage has been significantly increased to more than 94 per cent of the population. However, there remain discrepancies in effective coverage and inequalities in access to healthcare services between different groups.
- ▶ The current financing mechanism of the national health insurance system faces multiple challenges. The state subsidy for the NHI scheme has been insufficient and payments to health facilities are delayed. As a result, the system recorded a deficit. This is being compounded by high inflation. The current financial situation calls for urgent action to recover the deficit and restore the financial sustainability of the national health insurance system.
- ▶ To respond to the current high inflation, there is a need to increase the provider payment rates as well as copayment rates. There is also a need to introduce a mechanism for automatically adjusting them in line with increases in health service costs in the future.
- ▶ In the state budget, adequate and sustainable resources should be secured for the subsidized NHI scheme. At the same time, the Government should seek to create fiscal space for the NHI by exploring other available funding sources and by reprioritizing expenditure towards essential healthcare.
- ▶ To inform the future financing needs, the ILO conducted an actuarial assessment of the required level of government subsidies for the NHI scheme and the required contribution rates for the LSSO and CBHI schemes for 2023–30 under three policy scenarios (the results are summarized in table 5).
- ▶ To close the existing gap in legal coverage, the Government could consider extending the subsidized NHI scheme to Vientiane Capital, with priority given to vulnerable populations, including persons with disabilities.
- ▶ All relevant stakeholders should review the reform measures through effective social dialogue. In view of the current cost sharing arrangement between different schemes, all stakeholders should discuss and agree on the mechanism and level of risk-pooling that are socially acceptable for sustaining the solidarity-based national health insurance system.

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Introduction

In recent years, the Lao People's Democratic Republic has taken decisive steps towards the achievement of universal health coverage. Especially, the introduction of the state-subsidized National Health Insurance (NHI) scheme in 2016 has achieved a spectacular expansion of the health insurance coverage, at least in terms of legal coverage. The population protected by health insurance schemes increased from 45 per cent of the total population in 2016 to more than 94 per cent in 2022. However, the country faces multiple challenges to achieve universal effective social health protection in practice.

This policy brief reviews the current financing mechanism of the Lao People's Democratic Republic's national health insurance system and discusses measures to cope with the current challenges and financing policies to ensure the sustainability of the system.

Overview of the health insurance schemes in the Lao People's Democratic Republic

Currently, the population in the Lao People's Democratic Republic is protected by the following health insurance schemes:

- Employees in the private and public sectors and their dependents are mandatorily covered by the health insurance provided by the Lao Social Security Organization (LSSO).²
- The resident population in Vientiane Capital not covered by the Law on Social Security (such as the self-employed and workers in the informal economy) can join either the voluntary insurance under the LSSO (which also provides other cash benefits) or the Community Based Health Insurance (CBHI) scheme.
- The population in the provinces³ not covered by the above two schemes is covered by the state-subsidized National Health Insurance (NHI) scheme, which was introduced in 2016.

The NHI is managed by the National Health Insurance Bureau (NHIB) under the Ministry of Health. Since 2019, the NHIB has also been administering the health insurance branch of the LSSO as a first step towards a single payer system.

All health insurance schemes provide a comprehensive package of services, including ambulatory care and hospitalization. The schemes also provide cash benefits to cover transportation costs and meals at health facilities.

As shown in table 1, more than 6.7 million persons, equivalent to 90.6 per cent of the total population, were legally covered by one of the health insurance schemes in 2022.⁴ The largest scheme is the state-subsidized NHI scheme, which covers 5.8 million persons representing 86.6 per cent of the covered population.

² Historically, the Social Security Organization (SSO) was established in 2001 to cover employees in the private sector, and the State Authority Social Security (SASS) was established in 2008 for public sector employees. In 2015, the two organizations were merged into the National Social Security Fund (NSSF). In June 2020, the Lao Social Security Organization (LSSO) was established by an integration of the NSSF and the Social Security Department.

³ Administratively, the Lao People's Democratic Republic is divided into 17 provinces and one prefecture (Vientiane Capital). Provinces are further divided into districts and then villages.

⁴ It is noted that the Government officially reports that 94.5 per cent of the total population was covered by health insurance in 2022. The difference is due to several factors, such as the non-inclusion of defence forces, the reference year for the total population and differences in the number of persons in the informal economy.

► **Table 1. Population covered by health insurance by scheme and place of residence, 2022**

	Vientiane Capital	17 provinces	Whole country
Total population	985 402	6 457 393	7 442 795
Lao Social Security Organization (LSSO)			
Private sector employees	169 476	133 663	303 139
Public sector employees	92 138	401 663	493 801
Police personnel scheme ¹	25 000	57 837	82 837
State-subsidized National Health Insurance (NHI) scheme	n/a	5 837 245	5 837 245
Community Based Health Insurance (CBHI) scheme	27 095	n/a	27 095
Population covered by health insurance schemes	313 709	6 430 408	6 744 117
As a % of total population	31.8%	99.6%	90.6%

n/a = not applicable. Notes: ¹ Police personnel are not members of the LSSO but pay the same health insurance contribution rate as LSSO members. Military personnel (also not LSSO members) are not included in the above table.

Source: ILO estimates based on the data collected from the NHIB, LSSO and Lao Statistical Bureau.

Table 2 presents the estimated utilization rates of health services by scheme and place of residence in 2022. The utilization rates of the provincial population are generally lower than those of the residents in Vientiane Capital. In particular, the utilization of outpatient care for the provincial population under the subsidized NHI scheme is significantly low at 0.724 visits per person per year in 2020.

► **Table 2. Utilization rates by scheme and place of residence, 2022**

Mode of care	Subsidized NHI scheme in 17 provinces (2020 actual data)	LSSO members and dependents in 17 provinces	LSSO members and dependents in Vientiane Capital	CBHI scheme in Vientiane Capital
Outpatient care (visit/person/year)	0.724	1.564	2.315	2.705
Inpatient care (episode/person/year)	0.069	0.107	0.065	0.129

Source: For the NHI scheme, data from Lao People’s Democratic Republic, Ministry of Health 2022. For the rest, ILO estimates based on data collected from the NHIB, LSSO and Lao Statistical Bureau.

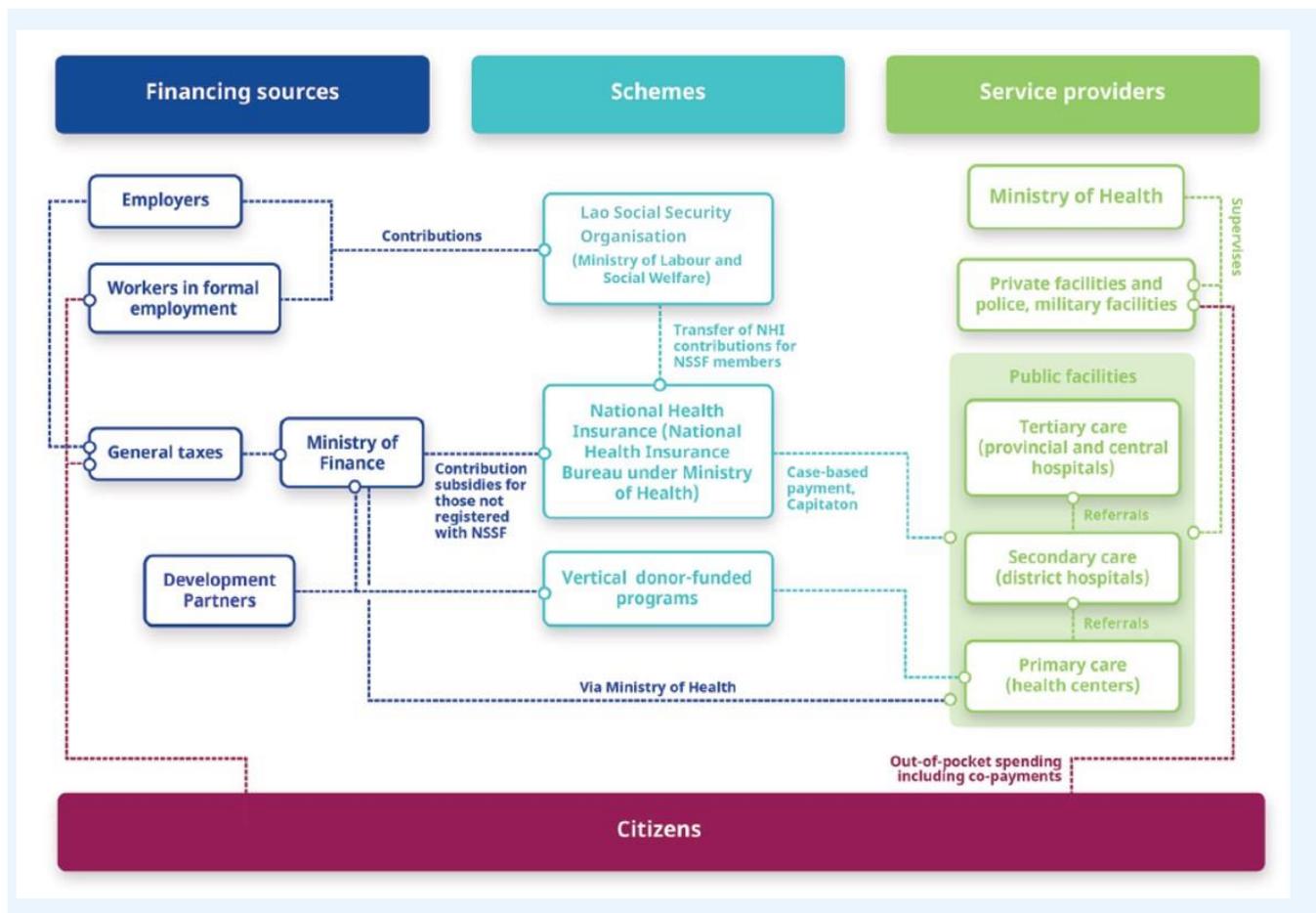
Even though the Lao People’s Democratic Republic has achieved almost universal coverage in terms of legislation, there remain discrepancies in terms of the effective coverage, as inequalities persist in relation to access and utilization of healthcare services:

- The compliance of formal private sector enterprises with the LSSO is weak, which results in a limited mandatory health insurance coverage of employees, in particular those working in small and micro enterprises.
- In Vientiane Capital, legal coverage remains at 31.8 per cent. This is mainly due to the low level of participation among informal economy workers in the CBHI scheme and in the voluntary LSSO scheme, as well as the limited compliance of formal sector enterprises with the mandatory LSSO scheme as mentioned above.
- Although the provincial population not under the scope of the LSSO is legally covered by the subsidized NHI scheme, the utilization of healthcare services by those members is low, as shown in table 2. There is a need to collect more evidence on the awareness of the NHI scheme among the provincial population and on their healthcare-seeking behaviours in view of their access to the existing network of health facilities.

Financial structure of the national health system

The figure below depicts the main financial flows of the national health system.

► Main financial flows of the national health system in the Lao People’s Democratic Republic



Source: Adapted from ILO 2021.

In the Lao People’s Democratic Republic, healthcare services are provided primarily through public health facilities, including health centres and district, provincial, central and specialized hospitals. The utilization of private health facilities is low.

Public health facilities receive a budgetary allocation from the Ministry of Health to cover capital costs, salaries of hospital staff, recurrent operation costs and activities (for example, preventive health and training). Other costs, mostly the cost of drugs and medical supplies incurred by healthcare providers, are met by reimbursements from health insurance schemes at the regulated providers’ payment rates as well as through copayments from users. The payments to healthcare providers are made based on capitation fees for outpatient care and case-based fees for inpatient care (including referral cases). Capitation fees vary according to the type of health facility. Case-based fees for inpatient care are fixed amounts according to the type of service and type of facility.

The main sources of income for the national health insurance system consist of:

- Health insurance contributions from members of the LSSO (1.25 per cent of the insurable earnings);
- Health insurance contributions from members of the CBHI in Vientiane Capital (prepaid annual premiums of 210,000–700,000 Lao kip depending on the family size and whether they have direct access to the central hospital or use the referral system);

- Subsidy for the NHI scheme from the Ministry of Finance. Each financial year the Ministry of Finance allocates a budget for the NHI scheme from the national budget based on the annual contribution plan approved by the National Assembly. The determination of the subsidy amount does not take into account the number of persons covered.
- Copayment by users (5,000–20,000 kip for outpatient care and 5,000–30,000 kip for inpatient care depending on the facility level), with exemptions for the poor, pregnant women, children under 5 years of age and LSSO contributing members;⁵ and,
- Other income provided by the Law on Health Insurance, including grants from individuals and national and international organizations, as well as a share of the tobacco control fund. However, there is no implementation mechanism in place.

These sources of income are pooled under the NHIB to finance the overall healthcare costs of the country's health insurance schemes.

Table 3 presents the revenues and expenditures of the national health insurance system with respect to the provincial population in 2020. Note that it does not include the revenue and expenditure with respect to the CBHI scheme⁶ and the LSSO members in Vientiane Capital. The subsidy for the NHI scheme amounted 180.0 billion kip or 0.10 per cent of the gross domestic product (GDP). It is observed that the system had an overall deficit of 54.7 billion kip, or 0.03 per cent of GDP in 2020. The actual deficit of the subsidized NHI scheme was partially offset by a surplus from the LSSO scheme (that is, the difference between contributions from the LSSO and the benefit claims of LSSO members and their dependents).

In recent years, the state subsidy has been insufficient to cover the benefit claims from subsidized members, and payments to health facilities are often delayed for several months. This is why a portion of the 2020 budget was used to settle the unpaid claims incurred in the last quarter of 2019, which is accounted as payables of 34.4 billion kip. The current financial situation calls for urgent action to recover the deficit and guarantee the financial sustainability of the national health insurance system. More specifically, in view of the current cost-sharing arrangement between different schemes, all stakeholders should discuss and agree on the mechanism and level of risk-pooling that are socially acceptable for sustaining the solidarity-based national health insurance system.

► **Table 3. Financial status of the National Health Insurance system (with respect to provincial population), 2020**

	Amount (in billion kip)	As a % of GDP
Revenue	270.0	0.16%
Subsidy for the NHI from the Ministry of Finance	180.0	0.10%
Transfer of the health insurance contributions from the LSSO ¹	90.0	0.05%
Expenditure	324.7	0.19%
Benefit claims from the subsidized NHI scheme	266.6 ²	0.15%
Benefit claims from the LSSO ¹	23.7	0.01%
Payables Q4/2019	34.4	0.02%
Balance/deficit	-54.7	-0.03%

Notes: ¹ With respect to the LSSO members and their dependents in the 17 provinces.

² Net of copayments worth 21.6 billion kip.

Source: Lao People's Democratic Republic, Ministry of Health 2021. The ILO calculated the percentage by using the GDP data of 2020 at 172,612 billion kip (Lao Statistics Bureau).

⁵ Reportedly, informal payments to health facilities are common practice in the Lao People's Democratic Republic, although they are not fully documented.

⁶ In 2022, the CBHI premium covered only 30 per cent of the scheme's expenditure.

High inflation and provider payment rates

The Lao economy has been hit severely by high inflation since 2022.⁷ However, the provider payment rates have not been revised since 2017. The devaluation of the current payment rates due to high inflation, coupled with insufficient and delayed payment of the state subsidy, have put financial pressures on health facilities. It is reported that there is a growing dissatisfaction among the healthcare users and providers with the deterioration of the availability of drugs and medical supplies, as well as an increasing financial burden, which has been partly shifted to patients.

In this context, the Ministry of Health has been considering an amendment of the legislation – namely, Prime Minister's Decree No. 470/PM on the National Health Insurance Scheme (2012). The draft amendment contains the following proposals:

- Increase in the provider payment rates and capitation amounts. It is estimated that the average rate, weighted by service utilization, needs to be round 40 per cent higher than the current level.
- Increase in copayment rates, and the application of separate copayment rates between general inpatient services and surgeries. It should be noted that copayments are not applicable to the poor, pregnant women, children under 5 years old and LSSO members.
- Outpatient care will focus on primary care provided by health centres. The poor, pregnant women and children under 5 years of age can still have access to outpatient care provided by hospitals at the district, provincial and regional levels.

Concerning these proposed measures, the following observations are made:

- Along with the increase in the state subsidy, the increase in the provider payment rates will certainly offer relief from the financial pressures faced by healthcare providers, although the proposed increase rate does not fully compensate the very high inflation.⁸
- While copayments can be used to prevent abuse, they should not be used as a primary source of revenue. When the Government increases the copayment rates, it should aim at keeping the level of out-of-pocket spending at less than 30 per cent of the total health expenditure in order to avoid impoverishing hardships.
- The restriction of outpatient care services can also be seen as a cost containment measure. However, it may negatively affect health outcomes and could ultimately lead to increased costs of healthcare. The Government should carefully assess the impact that such restrictions would have on health outcomes and the risk of health-related impoverishment.

Financing requirement for the health insurance schemes

This section summarizes the key results of ILO's actuarial assessment of the health insurance schemes in the Lao People's Democratic Republic (ILO 2024). The purpose of the actuarial assessment is to determine the required contribution rates for the LSSO and CBHI schemes and the required level of government subsidies to finance the NHI scheme in order to ensure their financial viability for the period of 2023–30. It assesses three policy scenarios and other reform options based on projections under actuarial assumptions.⁹ The main findings and recommendations are summarized as follows (see also table 5 below):

⁷ The inflation rate, as measured by the Consumer Price Index (CPI), was 3.6 per cent per year on average between 2017 and 2021, but it rose to 23.0 per cent in 2022 and 31.2 per cent in 2023. The inflation rate remains high, at around 25 per cent in the first quarter of 2024. Despite measures to cope with high inflation, such as increases in the minimum wage and living allowances, the increase in the average nominal wage is still lagging behind inflation.

⁸ Based on the actual data, the cumulative inflation rate between 2017 and 2023 is 85.5 per cent.

⁹ Throughout the three policy scenarios, it has been assumed that the health service costs increase faster than inflation and that utilization by subsidized NHI members will increase gradually from the current level. For more details and other assumptions, see ILO 2024.

Policy scenario 1: Under the current provisions

This scenario assumes the current provisions with respect to provider payment rates, copayment rates and benefit packages will persist. It is assumed that the current provider payment rates will be increased in line with the increase in health service costs from 2024 onwards. Under this scenario:

- ▶ While the subsidy for the NHI scheme was 0.10 per cent of GDP in 2020, the required level of government subsidy for the NHI scheme is estimated at 0.12 per cent of GDP in 2024 and its level as a percentage of GDP is projected to increase slightly to 0.13 per cent of GDP by 2030.
- ▶ The contribution rate of LSSO members should be increased from the current 1.25 per cent to 1.5 per cent from 2024 onwards.
- ▶ In 2024, CBHI premiums will cover only 28 per cent of the scheme's expenditure, and this share is projected to gradually decrease to 20 per cent by 2030. CBHI premium rates should be increased by 3.5 times in 2024 and adjusted periodically thereafter in line with increases in health service costs.

Policy scenario 2: Under the current provisions with inflation-adjusted provider payment rates

This scenario assumes the current provisions of copayment and benefit packages. It is also assumed that the provider payment rates of 2023 will be adjusted to account for the inflation rates of 2022 and 2023; they will then be increased in line with the increase in health service costs from 2024 onwards. Under this scenario:

- ▶ While the subsidy for the NHI scheme was 0.10 per cent of GDP in 2020, the required level of government subsidy for the NHI scheme is estimated at 0.18 per cent of GDP in 2024 and is projected to gradually increase to 0.20 per cent of GDP by 2030.
- ▶ The contribution rate of LSSO members should be increased from the current 1.25 per cent to 1.7 per cent from 2024 onwards.
- ▶ In 2024, CBHI premiums will covers only 19 per cent of scheme's expenditure, and this share is projected to gradually decrease to 13 per cent in 2030. CBHI premium rates should be increased by 5.0 times in 2024 and adjusted periodically thereafter in line with increases in health service costs.

Policy scenario 3: Under the proposed amendments

This scenario assumes the proposed amendments of the provider payment rates, copayment rates and benefit package as explained above. It is assumed that the amended provider payment rates will be increased in line with the increase in health service costs from 2024 onwards. Under this scenario:

- ▶ While the subsidy for the NHI scheme was 0.10 per cent of GDP in 2020, the required level of government subsidy for the NHI scheme is estimated at 0.12 per cent of GDP in 2024 and its level as a percentage of GDP is projected to stay stable until 2030. It should be noted that the projected amount of copayment under the amendment scenario is more than two times higher than the amount under the status quo scenario above.
- ▶ The contribution rate of LSSO members should be increased from the current 1.25 per cent to 1.5 per cent from 2024 onwards.
- ▶ In 2024, CBHI premiums will cover only 21 per cent of scheme's expenditure, and this share is projected to gradually decrease to 15 per cent by 2030. The CBHI premium should be increased by 5.0 times in 2024 and adjusted periodically thereafter in line with increases in health service costs.

► **Table 5. Summary of required financing measures for health insurance schemes for the period 2024–30**

	Current provisions	Current provisions with inflation-adjusted provider payment rates	Proposed amendments
State subsidy for the NHI¹	0.12% of GDP in 2024 and projected to increase to 0.13% of GDP by 2030.	0.18% of GDP in 2024 and projected to increase to 0.20% of GDP by 2030.	0.12% of GDP in 2024 and projected to stay stable until 2030
The LSSO contribution rate for health benefits	The contribution rate should be increased to 1.5% for 2024–30	The contribution rate should be increased to 1.7% for 2024–30	The contribution rate should be increased to 1.5% for 2024–30
CBHI premiums	The premium should be increased by 3.5 times in 2024 and adjusted in line with the increase of health costs.	The premium should be increased by 5.0 times in 2024 and adjusted in line with the increase of health costs.	The premium should be increased by 5.0 times in 2024 and adjusted in line with the increase of health costs.

Note: ¹ Net funding requirement excluding the copayment.

Source: ILO 2024.

Options for extending the subsidized NHI scheme to Vientiane Capital

Currently the scope of the subsidized NHI scheme does not cover the resident population in Vientiane Capital. Therefore, the residents in Vientiane Capital who are not members of the LSSO (either mandatory or voluntary) or the CBHI scheme fall outside of the protection of the existing health insurance schemes.

As a measure to close the existing legal gap, the Government could consider extending subsidized NHI coverage to Vientiane Capital, with priority given to vulnerable populations, including persons with disabilities. The following two options are considered and costed.

- If the subsidized NHI scheme is extended to cover all currently non-covered persons in Vientiane Capital, it is estimated that 680,000 additional persons will be covered. The required amount of state subsidy for this option is estimated at 175 billion kip (0.06 per cent of GDP) in 2024, assuming the increased copayments proposed in the draft amendment. This additional amount represents 64 per cent of the state subsidy for the NHI for the provincial population.
- If the subsidized NHI scheme is extended to cover only vulnerable populations (the poor, pregnant women, children under 5 years of age), it is estimated that 119,000 additional persons will be covered. The required amount of state subsidy for this option is estimated at 32 billion kip (0.012 per cent of GDP) in 2024 under the amended legislation. This additional amount represents 11 per cent of the state subsidy for the NHI for the provincial population.

Conclusions and recommendations

Universal health coverage represents the aspiration that all people can obtain the health services they need without suffering financial hardship, and that these services are of good quality. The Lao People’s Democratic Republic has taken a commendable step to turn this aspiration into reality with the implementation of the NHI scheme. The effective achievement of universal health coverage in the Lao People’s Democratic Republic crucially depends on whether the Government can secure adequate and sustainable resources for financing quality and affordable healthcare for all.

Our review revealed multiple challenges facing the current financing mechanism of the Lao People’s Democratic Republic’s national health insurance system. There is a need for urgent actions to recover the deficit and guarantee the financial sustainability of the national health insurance system.

Based on our review and actuarial analysis, the following recommendations on short-term measures and medium-term financing policies emerge:

- ▶ In response to high inflation, the Government should **increase the provider payment rates** (capitation and case-based fees). The Government should also introduce a mechanism for automatically adjusting provider payment rates to reflect increases in health service costs in the future.
- ▶ While considering cost containment measures, such as restricting outpatient services and increasing the copayment rates, the Government should carefully assess their impact on health outcomes and the risk of impoverishment due to excessive out-of-pocket payments.
- ▶ The state subsidy for the NHI scheme is a crucial financing source for covering persons with limited or no contributory capacities. However, there is a need to **improve the current financing mechanism of the subsidized NHI scheme to secure adequate budget for essential healthcare services** through more effective coordination between the Ministry of Finance and the Ministry of Health.
- ▶ At the same time, the **Government should seek to create fiscal space for the NHI** by exploring other available sources, such as tobacco and alcohol taxes, and by reprioritizing government expenditure towards essential healthcare services.
- ▶ The LSSO should ensure its long-term financial sustainability as a contributory scheme. Based on regular actuarial reviews, the **LSSO contribution rates should be adjusted to a level sufficient to meet the future health expenditure** and maintain a certain contingency reserve for absorbing fluctuations. At the same time, an immediate increase in the contribution rate should come with effective enhancement of services, including the strict application of the “no copayment” policy for LSSO members.
- ▶ Efforts should also be made to mobilize resources from those who have contributory capacities by **improving compliance with the LSSO contributory scheme** and by extending coverage through **formalization of workers in the informal economy**. The current ILO support to strengthen social security inspections is expected to contribute to these goals.
- ▶ To close the existing coverage gap in the national health insurance system, the Government could consider extending subsidized NHI coverage to Vientiane Capital, with priority given to vulnerable populations, including persons with disabilities. Do so will require additional budget and a time-bound plan for implementation.
- ▶ The CBHI scheme in Vientiane Capital should increase its premiums to adequately meet future health expenditure. It should also be considered to integrate the CBHI in Vientiane Capital into the NHI scheme following the model implemented in other provinces.

Efforts to restore the sustainability of the national health insurance system would likely require all relevant stakeholders to share the financial burden. A lasting solution can only be achieved through nationwide societal consensus based on a full understanding of both the short- and long-term implications of the proposed measures, facilitated by effective social dialogue. More specifically, in view of the current cost-sharing arrangements between different schemes, all stakeholders should discuss and agree on the mechanism and level of risk-pooling that are socially acceptable for sustaining the solidarity-based national health insurance system.

To support the national policy dialogue process and the implementation of the agreed measures, the ILO stands ready to provide continuous technical support to the key stakeholders in the Lao People's Democratic Republic.

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