HEALTH CARE REFORM

EE 474 Health Economics

Semester 1/2013

Topics

- What is Health Care Reform?
- Why Do We Need Health Care Reform?
- Issues in Health Care Reforms
- Health Financing Functions
- On the Path to Universal Coverage

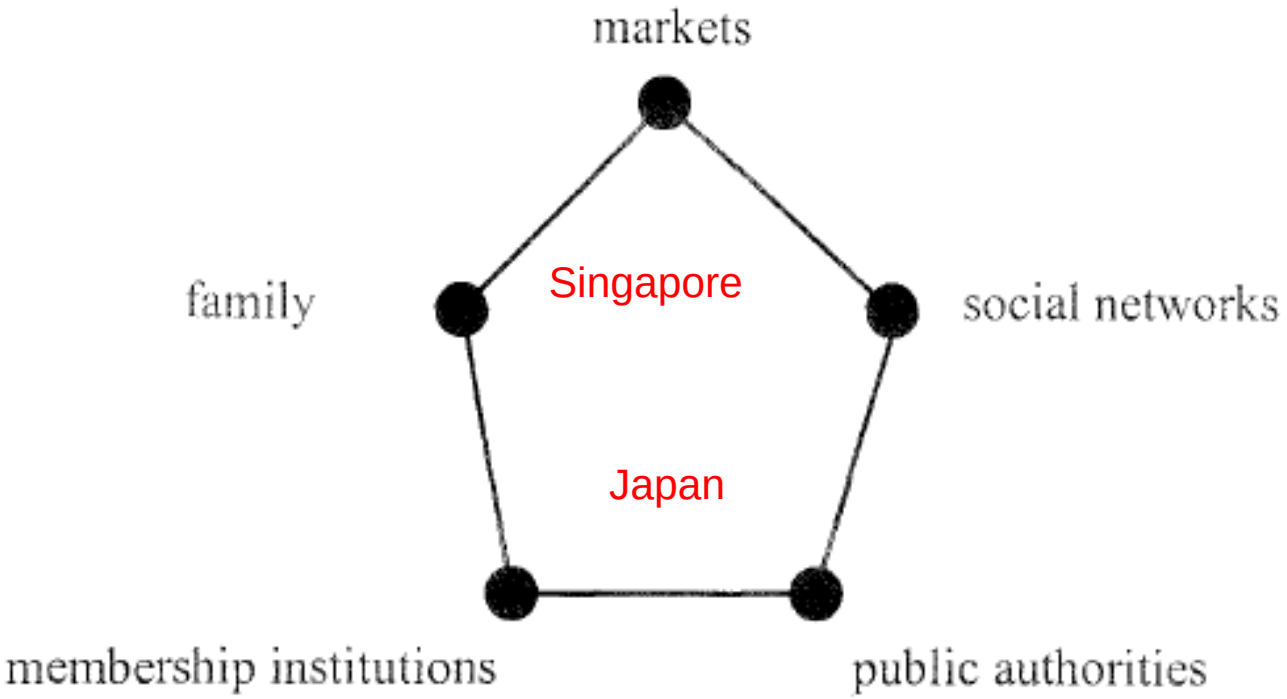
Health Care Reform

- What is health care reform?
  - A continuous process to improve the performance of health systems for better living standards and welfare
- Why do we need health care reform?
  - Failure to meet main objectives of health policy
    - Accessibility
    - Quality, efficiency and effectiveness
    - Equity
    - Responsiveness
    - Sustainability

Social Justice: A Factor Behind the Scene

Libertarianism VS Egalitarianism

The Welfare Pentagon



Source: Neubourg (2001)

Health Care Reform: Economic Decisions

- What should be covered in the insurance?
- What will be the effects on consumption and total health care costs of the system?
- How do we structure copayments (and control costs)?
- How do we provide incentives for doctors and hospitals to produce proper quantity and quality of health care?
- What externalities does the system solve?
- How do new technologies get introduced?
- Etc.

Health Care Financing

- Health care financing is an essential part of health care reform.
- What is health financing?

➢ Health financing provides resources and economic incentives for the operation of health systems.

- Raising money for health
- Who is asked to pay
- When they pay
- How the money raised is spent

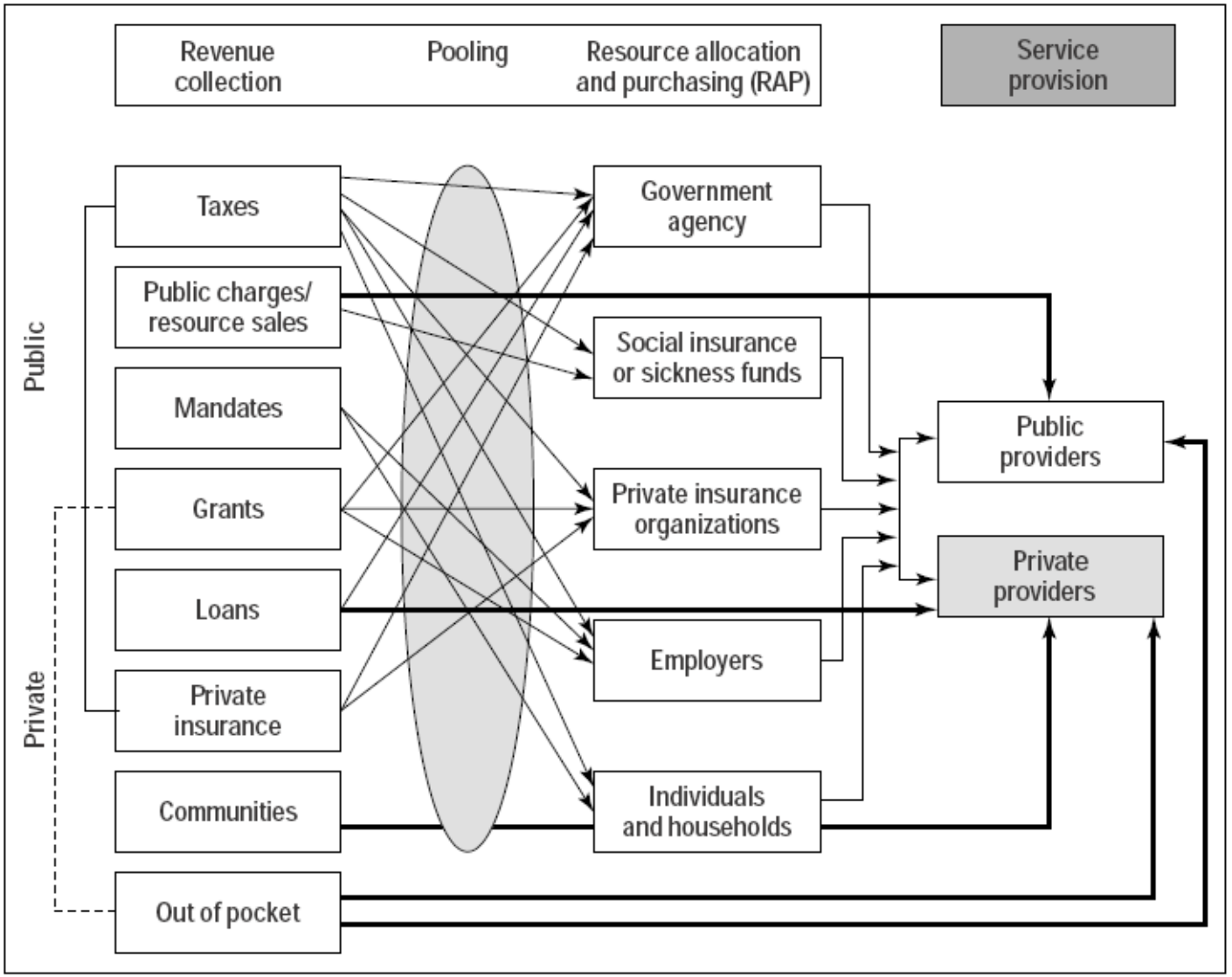
3 Stylized Health Financing Models

- *National Health Services (NHS):*
  - National general revenue financing
  - National ownership of health sector inputs
- *Social Insurance*
  - Social security (publicly mandated) system financed by employee and employer contributions
- *Private Insurance*
  - Employer-based or individual purchase of private health insurance
  - Private ownership of health sector inputs

Health Financing Functions

- Revenue collection: Process by which money is raised to pay health system costs
  - Raise *sufficient* and *sustainable* revenues in an efficient and equitable manner to provide basic package and financial protection
- Pooling of resources: Accumulation and management of financial resources to ensure that the financial risk of having to pay for health care is borne by all members of the pool, and not by individuals who fall ill
  - Manage revenues to *equitably* and *efficiently* pool health risks
- Purchasing: Mechanisms used to purchase and provide services from public and private providers
  - Ensure the purchase of health services in an *allocatively* and *technically efficient* manner

Health Financing Functions



Source: Schieber, G. et al. "Financing Health Systems" Chapter 12, pp 225-242 in Disease Control Priorities in Developing Countries, 2nd Edition. New York: Oxford University Press 2006.

1. Revenue Collection

- Revenue (or resources) can be collected through the following channels:
  - General or specific taxation
  - Compulsory health insurance
  - Voluntary health insurance
  - Community-based financing
  - Direct out-of-pocket payments (eg. user fees)
  - Donation
- Prepayment makes *risk sharing* possible, and is required if funds are to be pooled.

2. Risk Pooling

- *Risk pooling* refers to the collection and management of financial resources so that large individual and unpredictable financial risks become predictable and are distributed among all members of the pool.
  - The larger the pool, the greater the potential for spreading risks and the greater the accuracy in predicting the pool costs.
- Risk pooling needs to combined with *prepayment*.
  - Prepayment allows pool members to pay for average expected costs in advance, relieve them from uncertainty, and ensures compensation when a loss occurs.
  - Risk pooling and prepayment functions are used to create two types of cross-subsidies: risk-subsidy and equity-subsidy.

3. Purchasing

- Purchasing:
  - Process of paying for services and providers
- 3 main ways:
  - Integrating of purchasing and provision: Government provides budget directly to its own health service providers.
  - Purchaser-provider split: A separate purchasing agency (e.g. a health insurance fund) purchases services on behalf of a population.
  - Individuals pay a provider directly for services.

Universal Health Coverage (UC)

- Why universal health coverage?
  - "Best" way to achieve "the highest attainable standard of health" (according to WHO's Constitution)
- Key Elements of universal coverage
  - Financial access to crucial health services
    - Provide all people with access to essential services (prevention, promotion, treatment, and rehabilitation)
  - Extent of risk protection
    - Ensure that the use of these services does not expose the user to financial hardship.

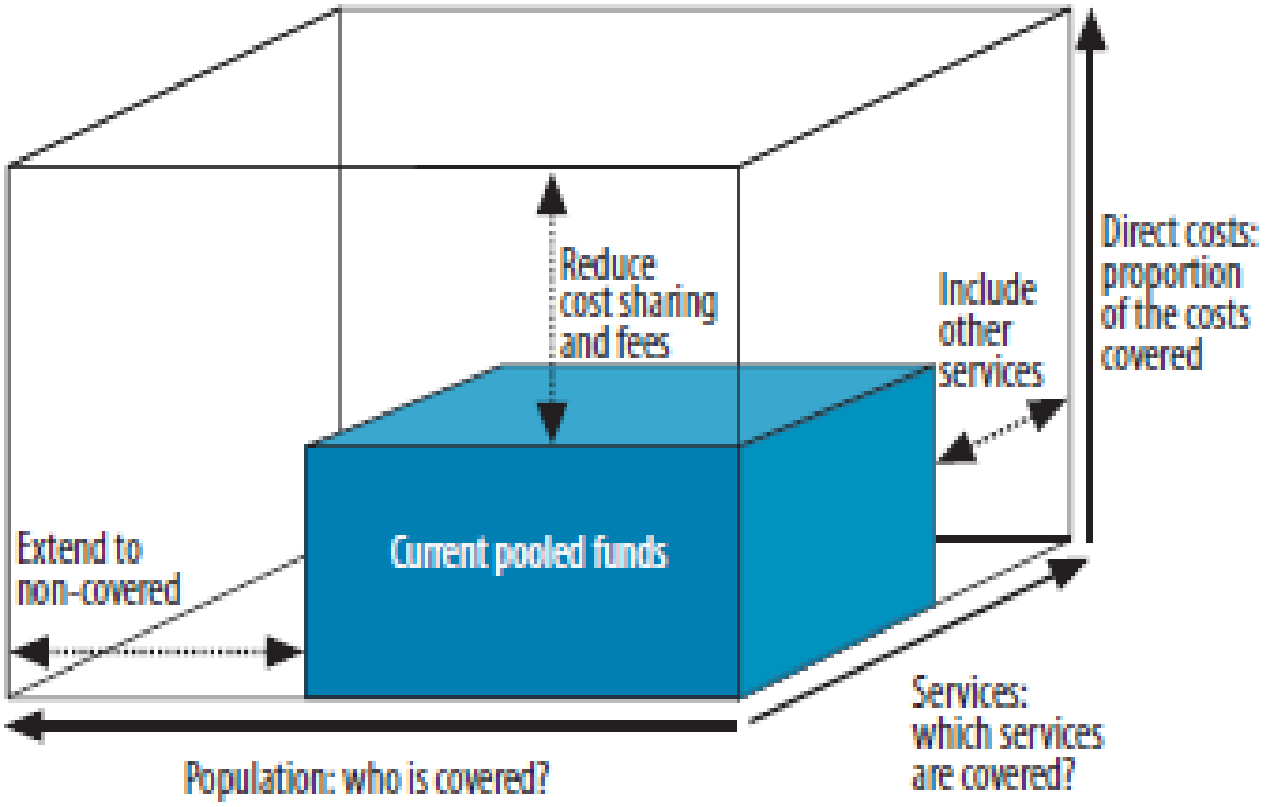
Health Financing Strategies for UC

- Moving away from direct payments to prepayment
  - Direct payments (or out-of-pocket payments) are payments paid at the time of receiving services, such as deductibles, co-payment, etc.)
  - Why are direct payments not desirable?
    - ✓Discourage people from using the services
    - ✓Hurt household finances.
    - ✓Cause inefficiency and inequity
- Pooling funds to increase access and to spread financial risks
  - Need to raise adequate funds from a sufficiently large pool of individuals.
    - The bigger the pool, the better able it is to cope with financial risks.

Where are We Now?

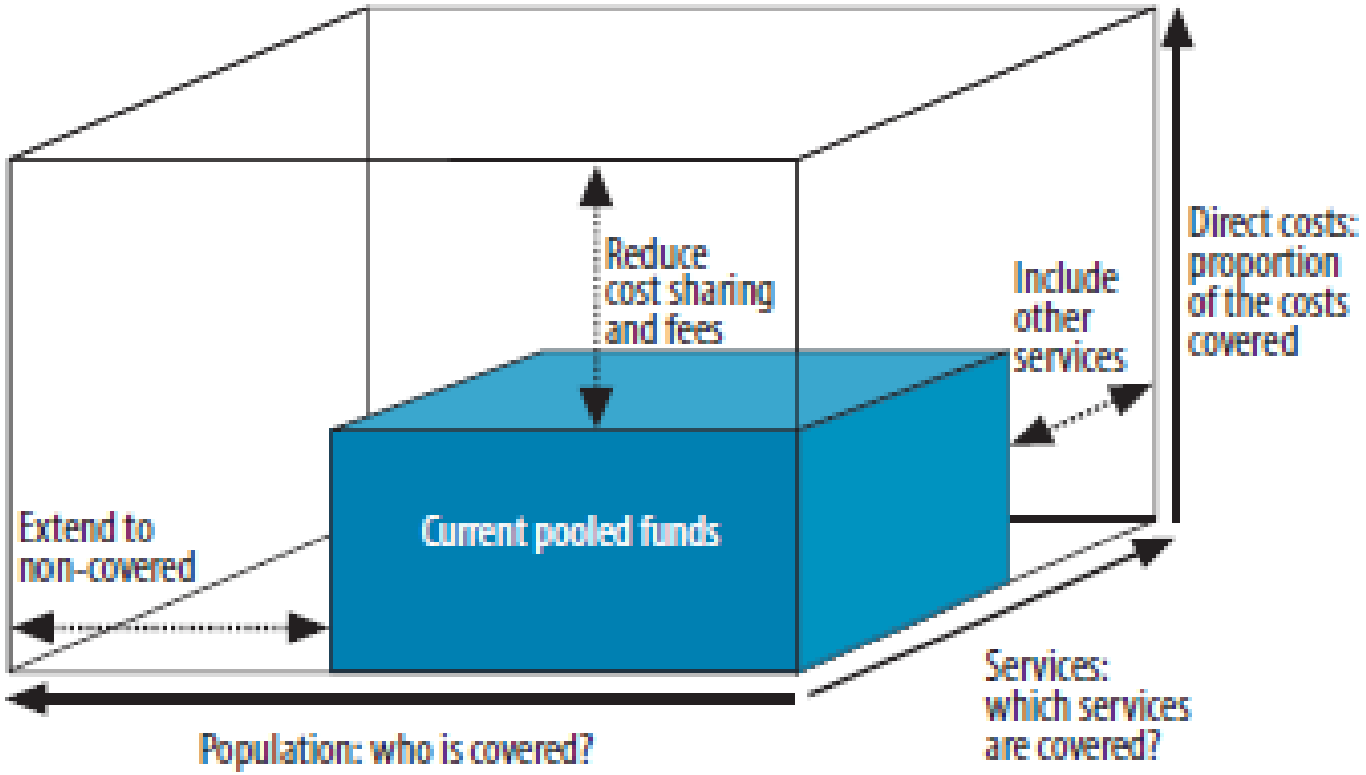
- Service coverage
  - Large variations across countries
    - E.g. Proportions of births attended by skilled health workers
  - Similar variations exist within countries:
    - Variation across income groups
    - Variation across population groups: e.g. migrants, ethnic , etc.
- Financial hardship
  - ~150 billion people globally suffer financial catastrophic costs in paying for their health care, while ~100 billion are pushed into below the poverty line.
  - Lost incomes (of the sick and the carers)
- Thus, we are still a long way from achieving universal health coverage, although some countries are making progress.

On the Path to Universal Coverage



3 dimensions to consider when moving towards universal coverage

What would the current Thai health care system look like?



Moving Forward (to Universal Health Insurance)

- Making the right choices to balance the trade-offs in 3 core areas:
  - Proportion of population to be covered
  - Range of services to be made available
  - Proportion of the cost to be met
- This involves making economic decisions (what and how to produce; how to allocate) to achieve the goals of efficiency, equity, and other social goals (quality, effectiveness, etc.).
- Other points to remember:
  - Health systems are "complex adaptive systems".
  - Countries need to first consider their current situation.
    - Political commitment? Social solidarity?