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Financing Models including Health Insurance

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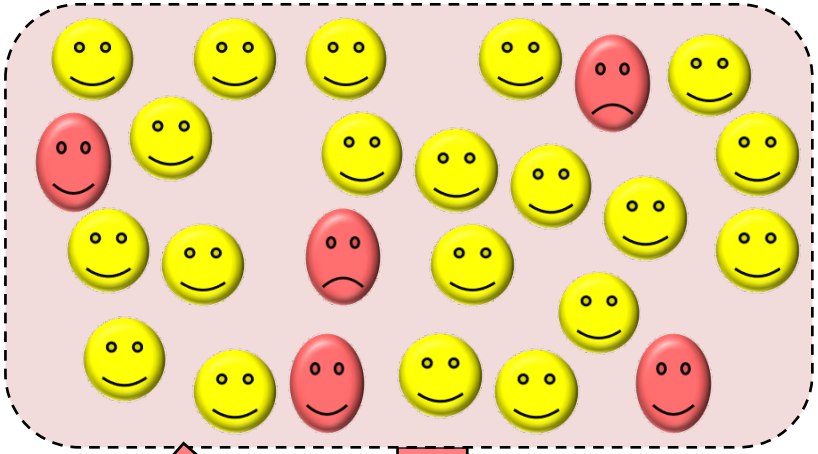
Asian Development Bank

concentration of health expenditures

Not all individuals are sick

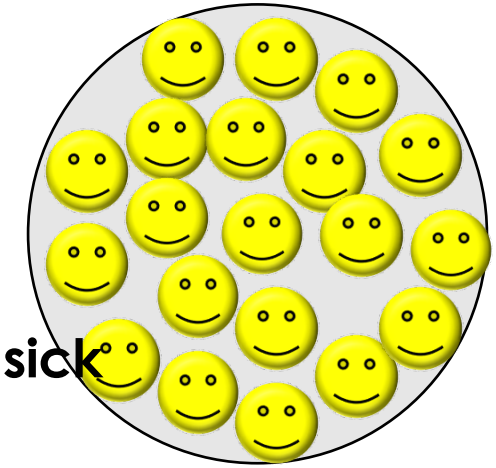


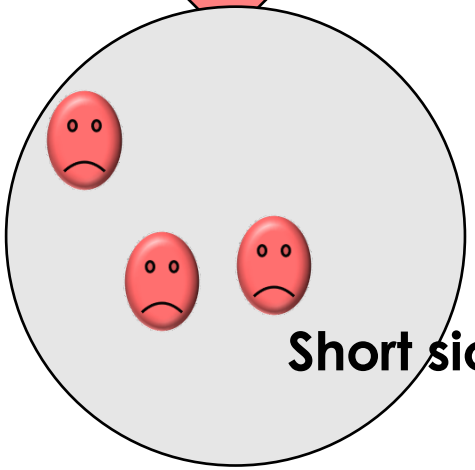
Healthy = 20
Sick = 5
Sick/total = 5/25 = 20%

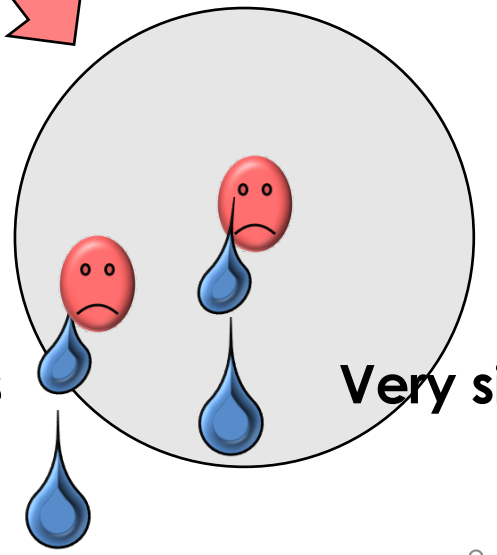
Costs = 0
Healthy/All=20/25 = 80%
Costs/total=0/112 = 0%

Costs = $10 x 3 = $30
Sick/All=3/25= 12%
Costs/total= 30/250 = 12%

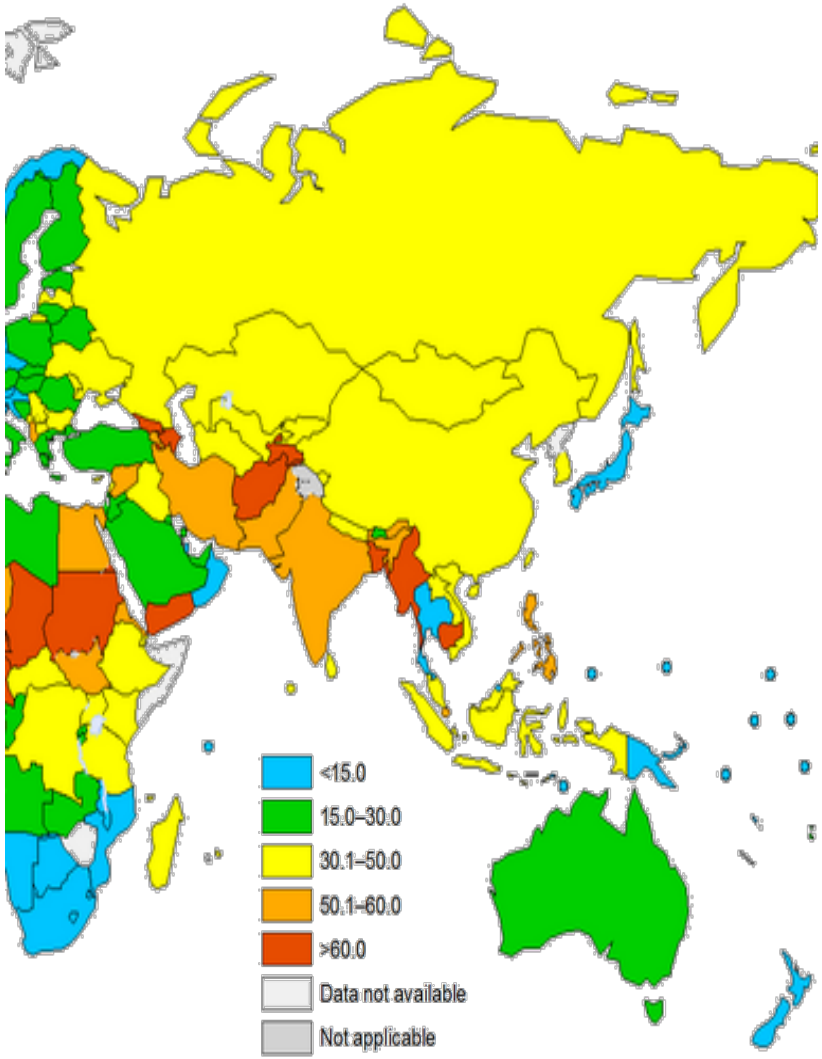
Costs = $110 x 2 = $220
Sick/All= 2/25= 8%
Costs/total = 220/250 = 88%







Not sick **Short sickness** **Very sic**



Out-of-pocket Expenditure on Health

Out-of-pocket expenditure as a percentage of total expenditure on health (%): 2012 (WHO Global Health Observatory)

*Based on data updated in August 2014

Out of Pocket expenditure in Asia and the Pacific is generally high with countries having as high as >60% OOP as percentage of GDP

How should individuals finance health care?

- NEED TO PRE-PAY
- NEED TO POOL PRE-PAID FUNDS

How are individuals financing health care?

PRE-PAID

- Through payment of taxes/fees (can be complemented by other non-tax revenues and external financing)
- Mandatory health insurance premiums
- Voluntary health insurance premiums
- Mandatory individual savings (NOT POOLED)

POST-PAID (point of care payment)

- Direct payments /out of pocket payment

Who pools the pre-payments and them purchases health services?

PRE-PAID

- Through payment of taxes/fees **(Government)**

- Mandatory health insurance premiums
  - **Government**
  - some countries outsource insurance functions (which may include purchasing) to the private sector

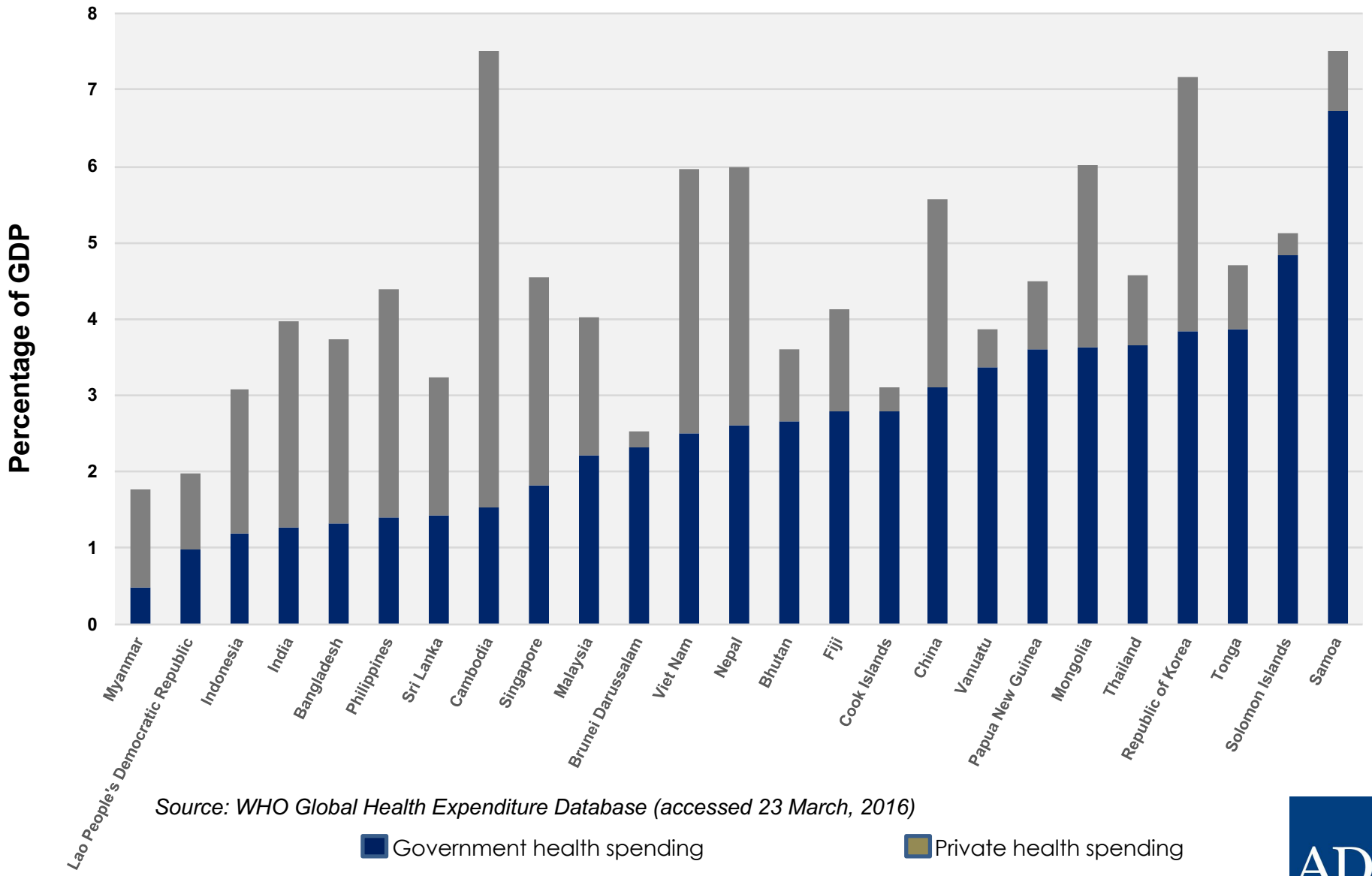
- Voluntary health insurance premiums
  - **Private** – including community based schemes
  - **Government** in voluntary informal sector membership in government schemes

- Mandatory individual savings (no pooling but government purchasing)

POST-PAID (point of care payment)

- Direct payments /out of pocket payment (no pooling but private purchasing)

Health Expenditure as a % of GDP (Asia), 2013



Source: WHO Global Health Expenditure Database (accessed 23 March, 2016)

What are advantages and disadvantages of payment of point of care?

Advantages

- Raise funds: extend 'fiscal space'
- User controls their own contract with provider (purchase on own behalf)

Disadvantages

- Information problems – these may not be trivial demands (purchasing decisions may not reflect preferences)
- **Household economic impacts – expenditures can be 'catastrophic': long term impacts on household economic wellbeing; commonly estimated as >40% non-food expenditure**
- No pooling
- Does not address inequity

Paying through taxes

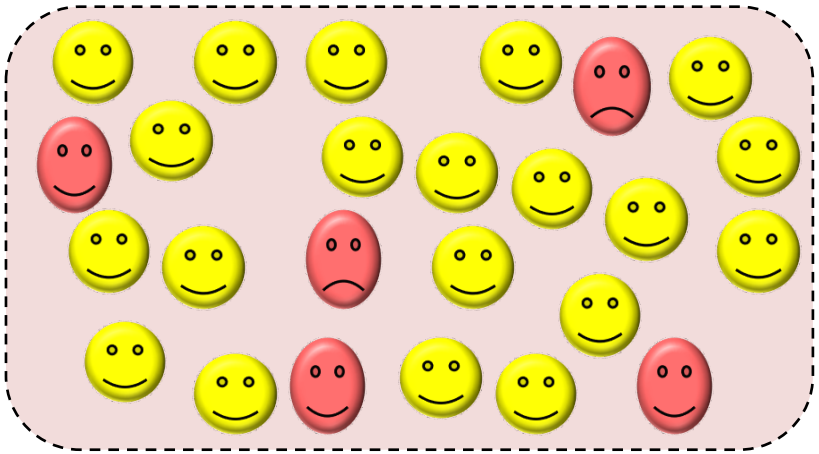
- Second oldest form of healthcare financing
- Types
  - Direct taxes: personal income taxes, corporate profit taxes, property taxes
  - Indirect taxes: sales taxes, VAT, excise taxes, trade taxes
- General features
  - Traditionally channeled via health ministry budgets and used to pay for line item inputs
  - **Increasingly used to subsidize the informal sector to health insurance schemes**

Social/national health insurance

- Features
  - **Mandatory: no choice**
  - **Organized by government**
  - **Nature of social compact**
- Risk Pooling
  - Coverage depends on size of risk pools and provision of government subsidies for poor and other informal sector populations
  - Typically starts with coverage of formal sector workers
- Implementability / sustainability
  - Requires administrative / technical capacity
  - Accountability and control may be issues

Voluntary: Adverse selection

When insurance is voluntary:

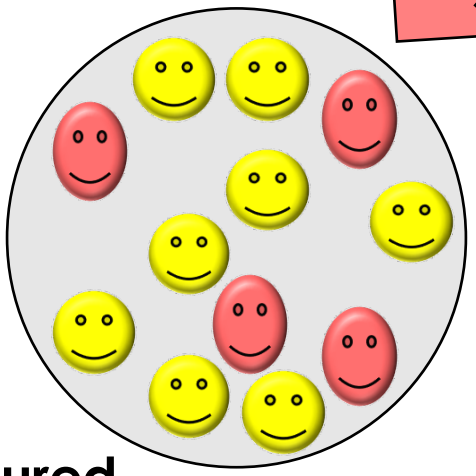


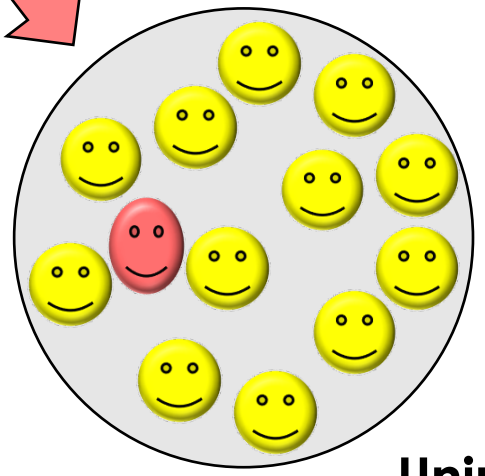
Healthy = 20
Sick = 5
Sick/total = 5/25 = 20%

Healthy = 8
Sick = 4
Sick/total = 4/12 = 33%

Those who have or expect to have poor health are more likely to insure

Healthy = 12
Sick = 1
Sick/total = 1/13 = 7.7%



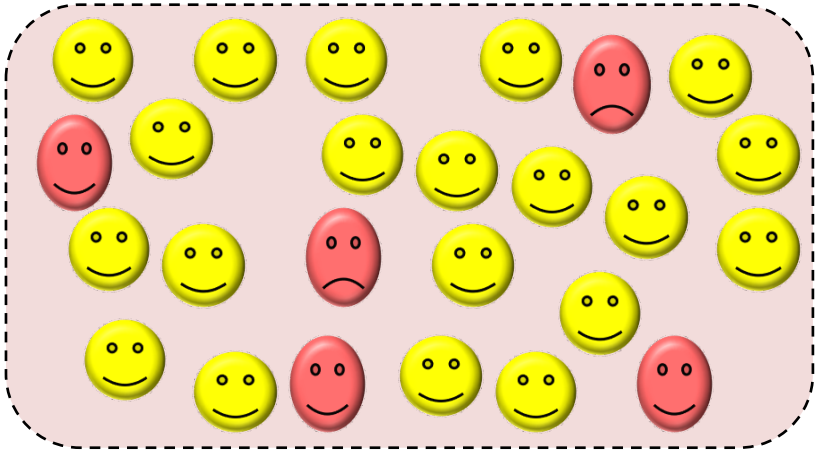


Insured

Uninsured

Voluntary: Risk selection

When the insurer decides who to insure:

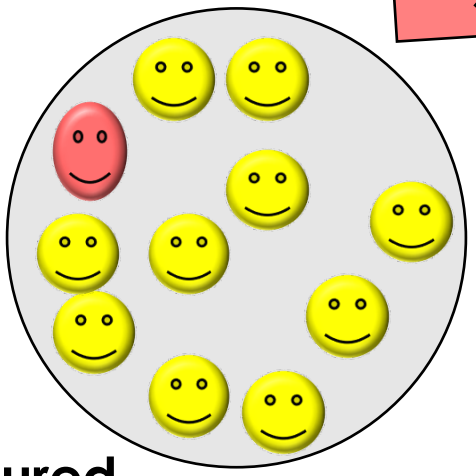


Healthy = 20
Sick = 5
Sick/total = 5/25 = 20%

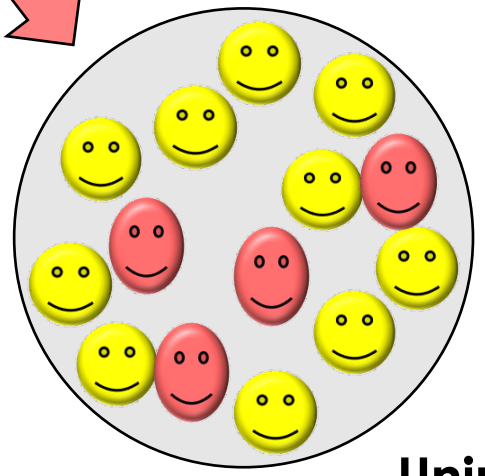
Healthy = 10
Sick = 1
Sick/total = 1/11 = 9%

Healthy = 10
Sick = 4
Sick/total = 4/14 = 29%

It may avoid insuring those who are less healthy



Insured



Uninsured

Voluntary contributions (private/ informal sector in SHI/ CBHI)

Advantages

- Provides financial protection to those who are insured
- It pools medical risks for those who are insured
- It provides people with choice of whether to have insurance or not

Disadvantages

- It can result in adverse selection
  - Waiting periods, exclusion of pre-existing conditions, adjustment of premium according to risk
- It can result in risk selection – and also moral hazard
  - Open enrolment where insurers cannot reject applicants
- It can have high administrative costs
  - Solution: Regulation of costs
- Not everyone can afford to pay the insurance premium
  - Solution: Public subsidies

Philippines

- National Health Insurance enacted in 1995
- **PhilHealth (*a government corporation/parastatal*) was established to run the NHI with policies set by its governing board**
  - **Minister of Health is the chairman of the board of PhilHealth**
- In 1997, the two health funds (*private formal sector and government formal sector*) were consolidated into one
  - The third fund (the overseas Filipino health insurance fund) was incorporated in 2005
- Poor (*individually determined by the national government*) are subsidized by the national government (*increased subsidies by 2012/13 with sin taxes earmarked to increase/sustain the subsidies*)

Indonesia

- In 2004, decided to have a single health insurance fund
- Started implementation of national health insurance program (JKN) in 2014
  - All five health insurance funds pooled into a single fund
- Targets universal health insurance coverage by 2019
  - Currently, 63% (151.5 million people) are covered
  - Poor (*individually determined by provinces*) are subsidized by the government
- **JKN's policies by Ministry of Health (MoH) with the government subsidies incorporated in the annual budget of the MoH with BPJS-K (*a government corporation/parastatal*) is tasked to implement JKN and its policies**
- Government and private providers are contracted

Viet Nam

- Latest amendment in Health Insurance law in 2014 now calls for Universal Health Insurance (UHI)
- **MoH sets policies with the Vietnam Social Security implementing UHI**
  - Similar to Indonesian approach
- Poor (and other populations – war veterans, soldiers, widows) are subsidized by the government
- Government and private providers are contracted
- VSS maintains separate accounting for different types of membership but expected to consolidate into a single fund and accounting soon
  - Similar to PhilHealth until single fund/accounting done by 2001.

Singapore

- Medisave (mandatory savings)
- MediShield (a compulsory health insurance scheme)
- MediFund (endowment financed by tax revenues)

Emerging role of Private Health Insurance in Asia and the Pacific

- Complementary and supplementary
- Tasked to implement selected health insurance functions and paid by government (through health purchasing fund)