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How healthcare is  
funded internationally

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# Overview

- Define Healthcare & Healthcare systems
  - Demographic changes and disease burden
  - Epidemiological transition
  
- Alternative financing mechanisms of healthcare systems
  - Public / private mix / community-based
  - Raising finances (revenue collection, risk pooling/  
problems prevalent)
  - Methods of purchasing and paying healthcare  
providers

# Learning Objectives

By the end of the session, students should be able to:

- Understand health systems in terms of approaches to revenue collection, risk pooling, purchasing and paying healthcare providers
- Discuss the alternative sources of funding for healthcare systems

# Why look at financing mechanisms?

- A way of distinguishing between healthcare systems
- Help understand roles private & public sector play in healthcare sector
- Help understand govt. policy in healthcare sector (up to 16% of GDP spent on Healthcare)

# Defining healthcare

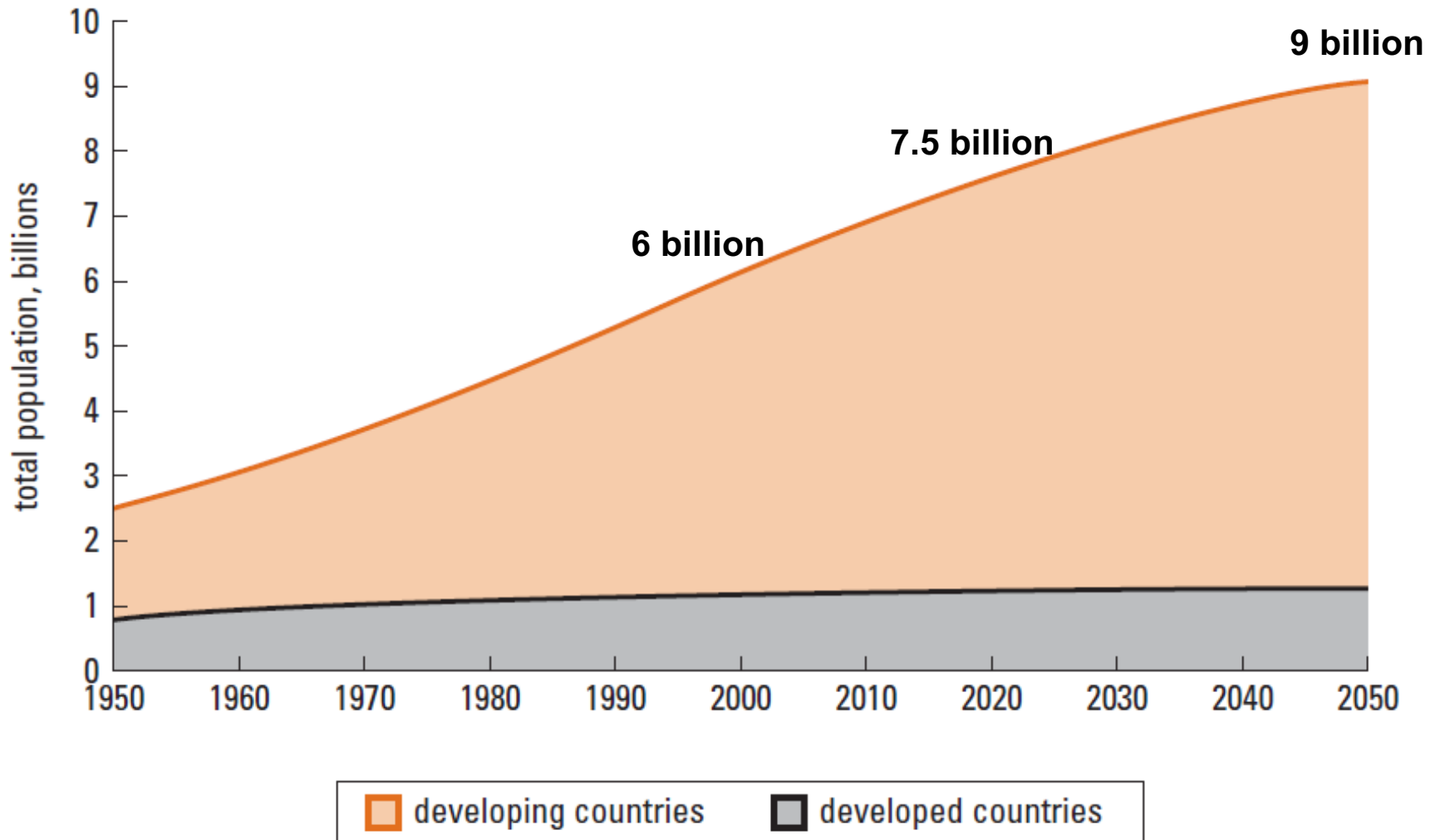
- *“All goods and services designed to promote health, including “preventive, curative and palliative interventions, whether directed to individuals or to populations” (WHO)*
- Healthcare is provided through healthcare systems

# Defining healthcare systems

- *all activities whose primary purpose is to promote, restore or maintain health (WHO)*

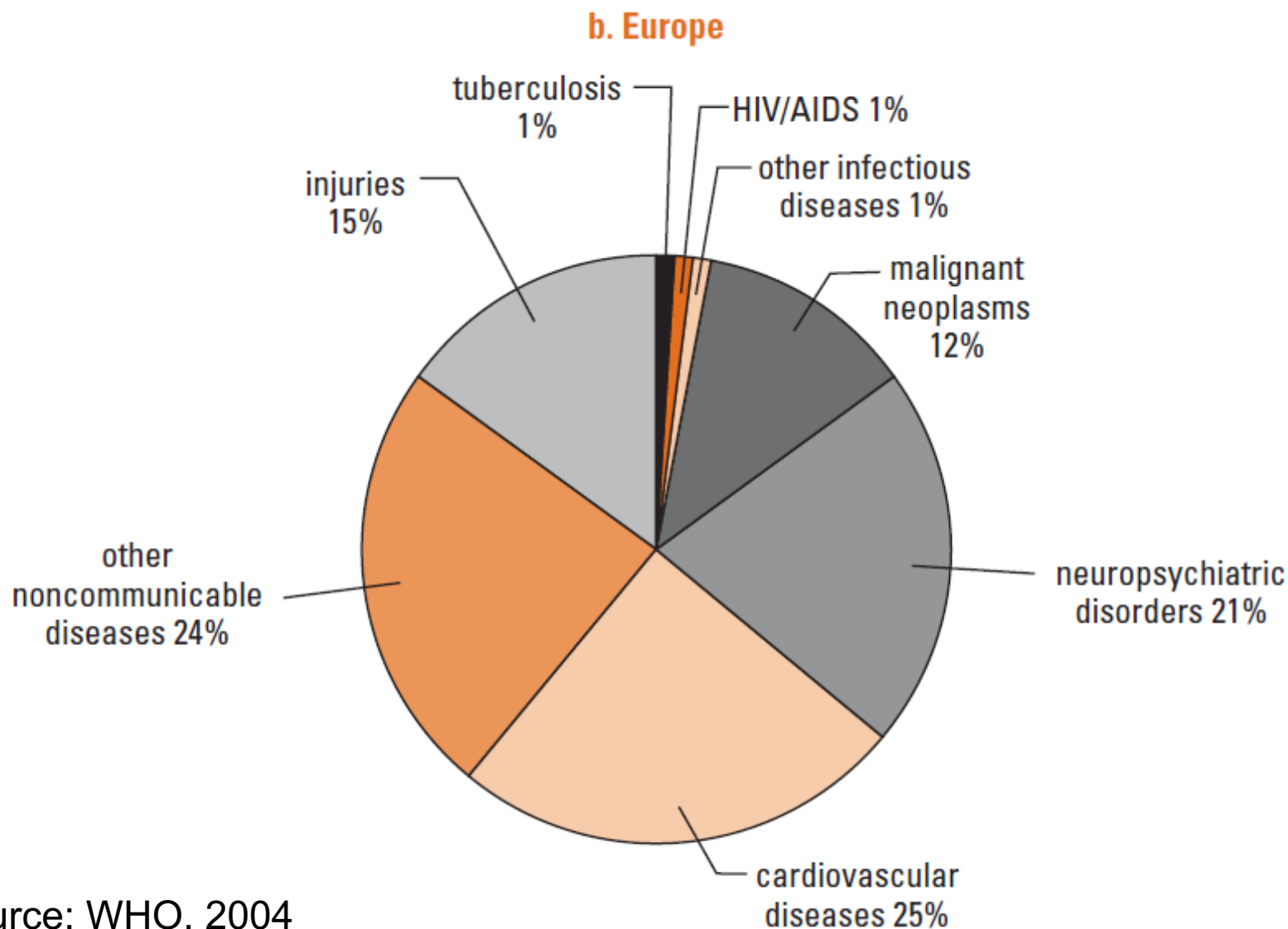
# Health financing, demographic changes and epidemiological transition

# Health financing, demographic changes



Source: United Nations 2005

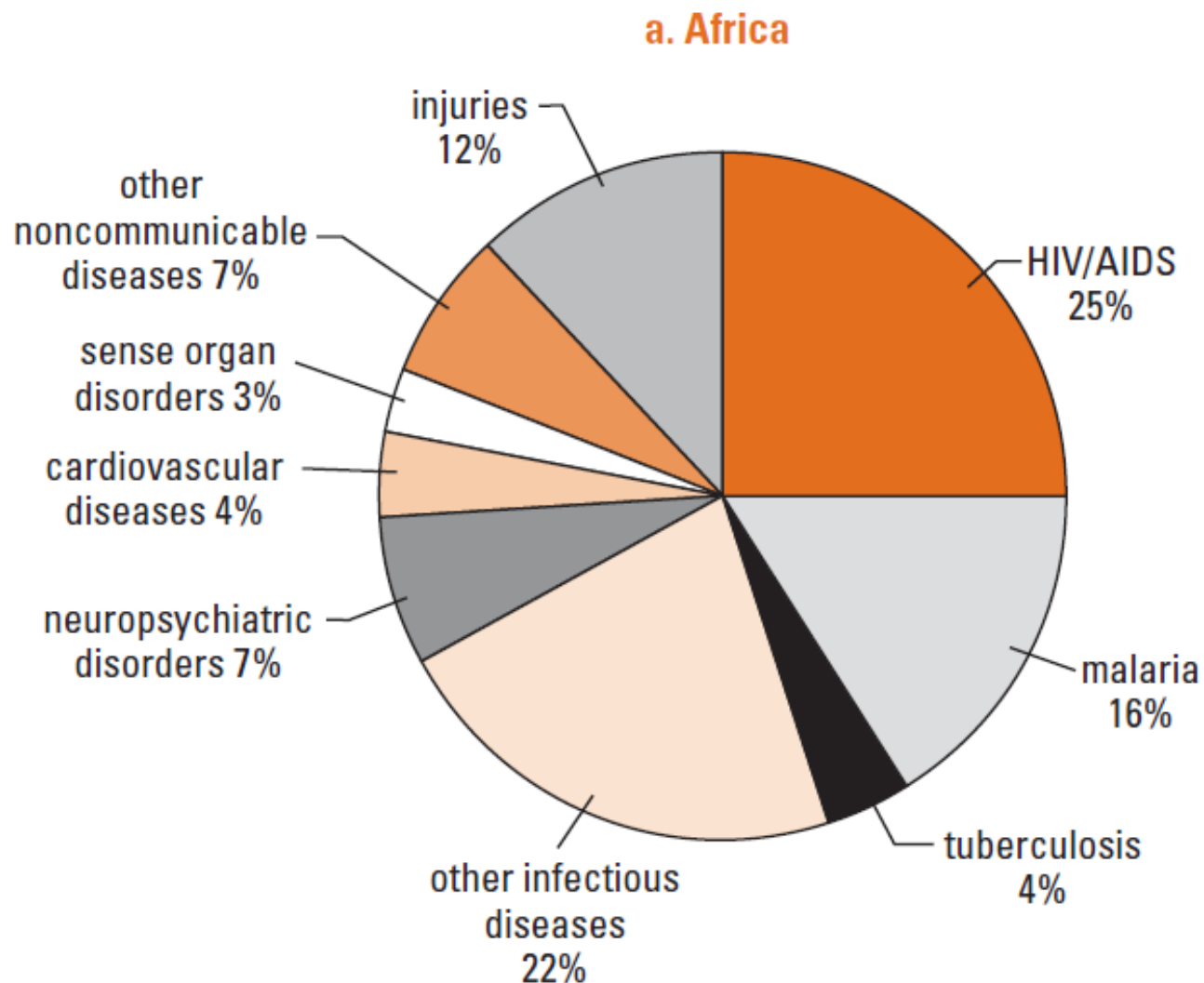
# Health financing and epidemiological transition



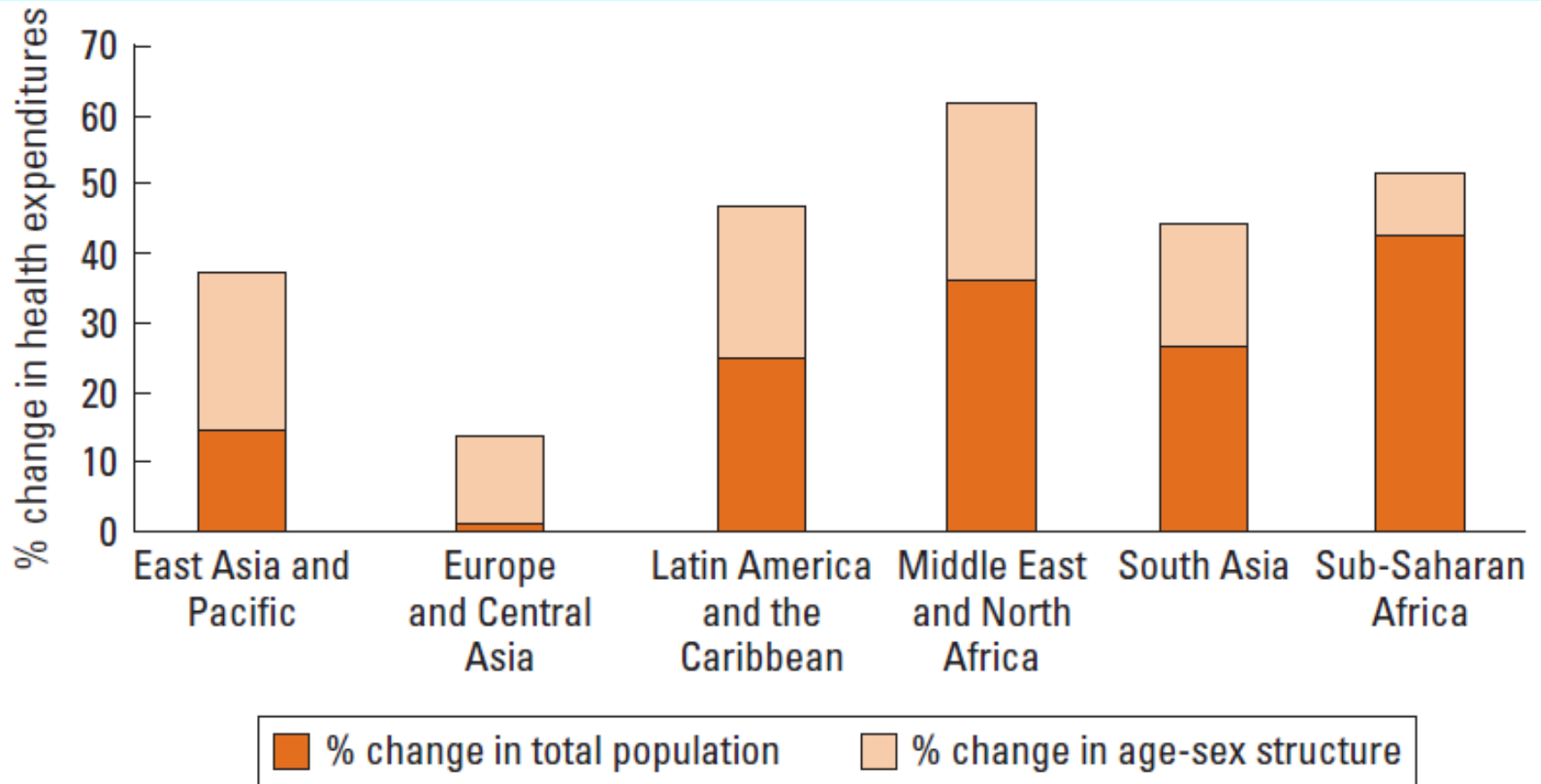
Source: WHO, 2004



# Health financing and epidemiological transition



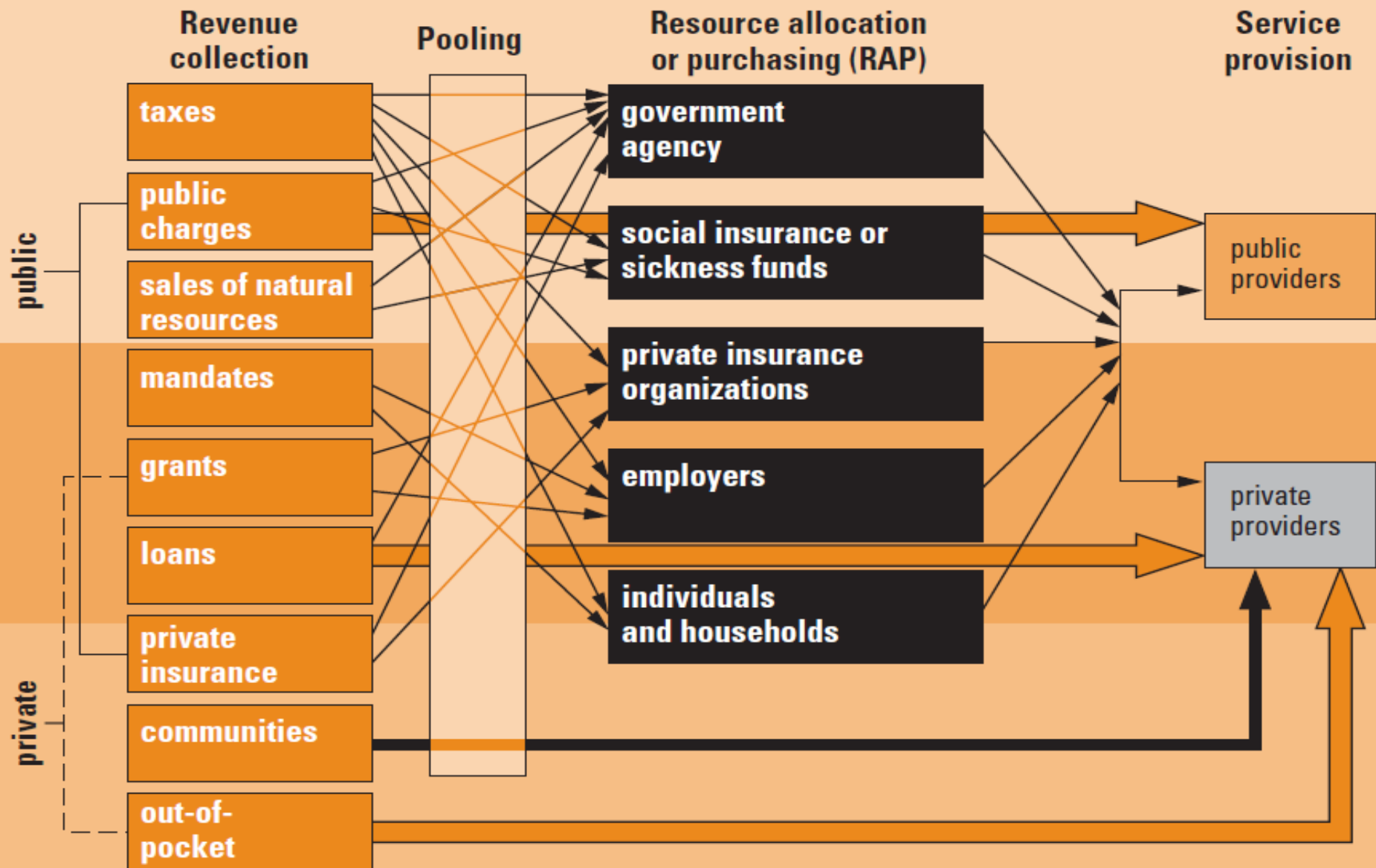
# Implications of demographic changes for health financing (projections 2005-25)



Source: Gottret & Schieber. The World Bank 2006

# Health financing

# Health financing functions

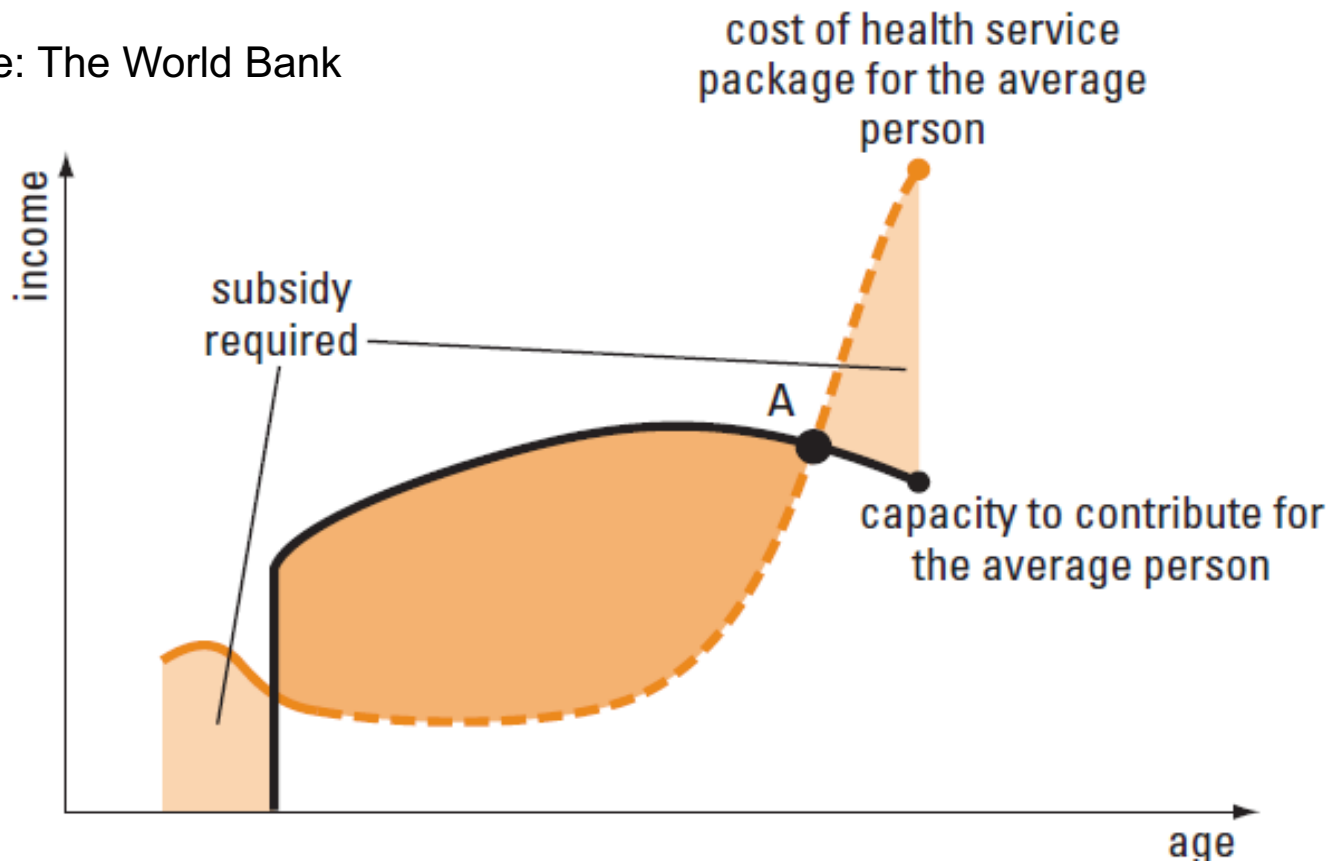


Source: Schieber and Maeda 1997, The World Bank

# Risk pooling

- Collection and management of financial resources in a way that unpredictable individual financial risks become predictable, and are distributed among all the members of the pool

Source: The World Bank



# Risk pooling mechanisms

Four types of health insurance are widely used to pool risks, raise revenues, purchase services and pay to providers:

- National health service
- Social security
- Voluntary private health insurance
- Community-based health insurance

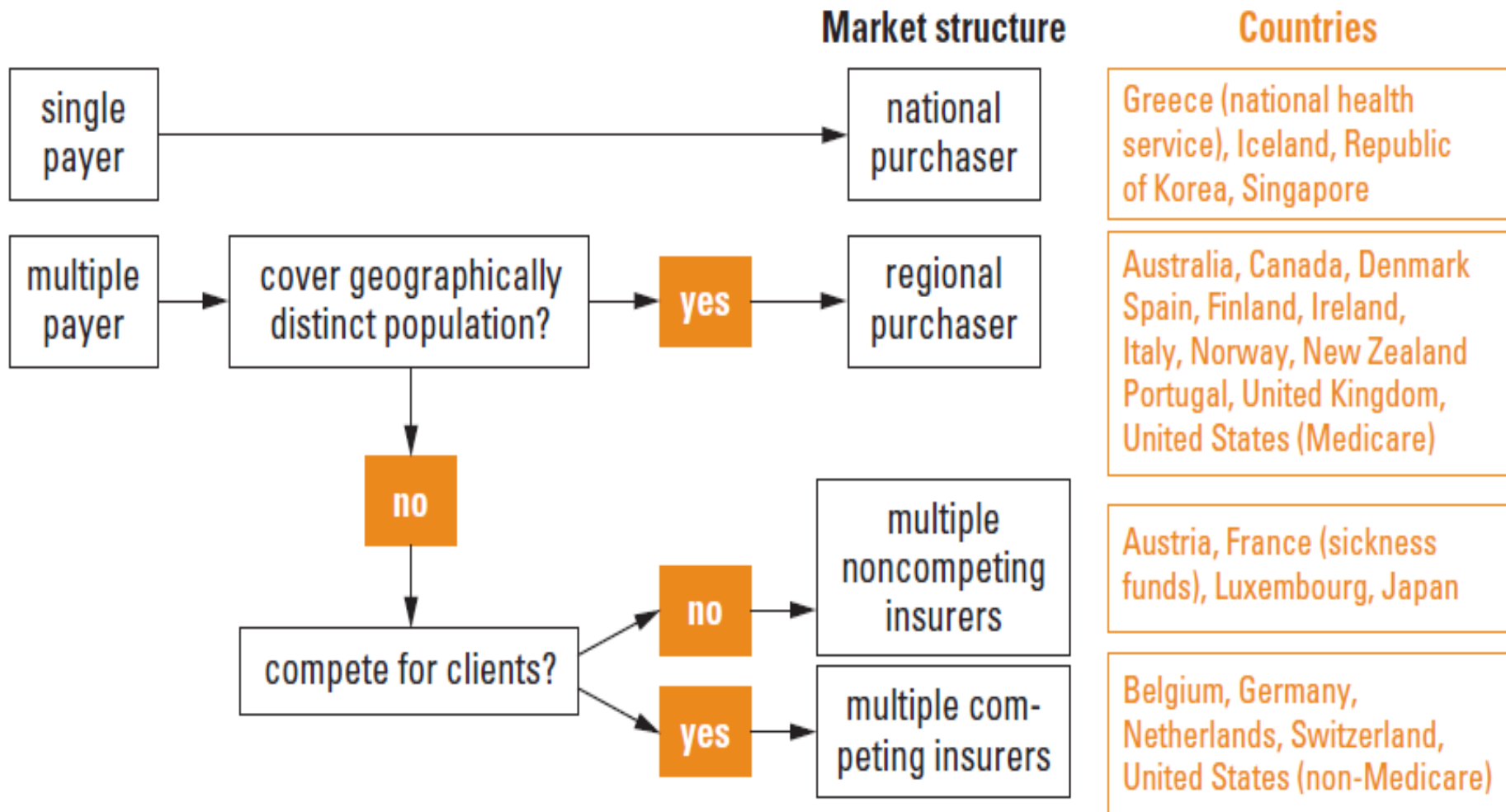
***No pure mechanism, usually a mix of two or more methods***

# Purchasing

Large variety of arrangements:

- National health services and Social Security organizations provide services in publicly owned facilities (staff members are public employees)
- Individuals or organizations purchase services through direct payments or contracting arrangements from public and private providers (or combination of the previous two)
- Resource allocation and purchasing decisions have important implications for cost, access, quality, and consumer satisfaction

# Market structures for purchasing and remuneration of providers



Source: The World Bank, adapted from Kutzin 2001.



# Health systems

# National (state-funded) health care system

- **Characteristics:** funding comes from general revenues, universal coverage, a public health delivery system
- **Strengths:** comprehensive coverage of the population, and large scope for raising resources
- **Weaknesses:** unstable funding; disproportionate benefits for the rich; potential inefficiency in health care delivery; and sensitivity to political pressures

# Social health insurance (Bismarckian system)

- **Characteristics:** funding from employee and employer contributions; management through sickness funds; benefit package for all members (fully or partially cover)
- **Strengths:** more resources in the system; less dependence on budget negotiations; high redistributive dimension (cross subsidies)
- **Weaknesses:** possible exclusion of the poor; negative economic impact on payroll contributions; complex and expensive to manage; escalating costs; poor coverage of chronic diseases and preventive care

# Voluntary (private) health insurance

- **Characteristics:** affiliation is voluntary; it plays as the primary or additional source of healthcare funding; it may be the main source of health coverage, or duplicate health benefits or cover services not included by the public service
- **Strengths:** affords financial protection; enhances access to health services; increases service capacity and promotes innovation; helps finance health care services not covered publicly (OECD, 2004)

# Voluntary (private) health insurance

- **Weaknesses:** financial barriers to access; differential access to health care; not served to quality improvement; increased total health expenditure; high administrative costs; removed very little cost pressure from public health financing

# Community-based health insurance

- **Characteristics:** community membership; high community involvement in managing the system; beneficiaries are excluded from other kinds of health coverage; members share a set of social values (voluntary affiliation, participation and solidarity)
- **Strengths:** better access to healthcare for low-income people; complete or fill the gaps of other health financing schemes
- **Weaknesses:** limited protection for members; sustainability is questionable; limited benefits to the poorer part of the population

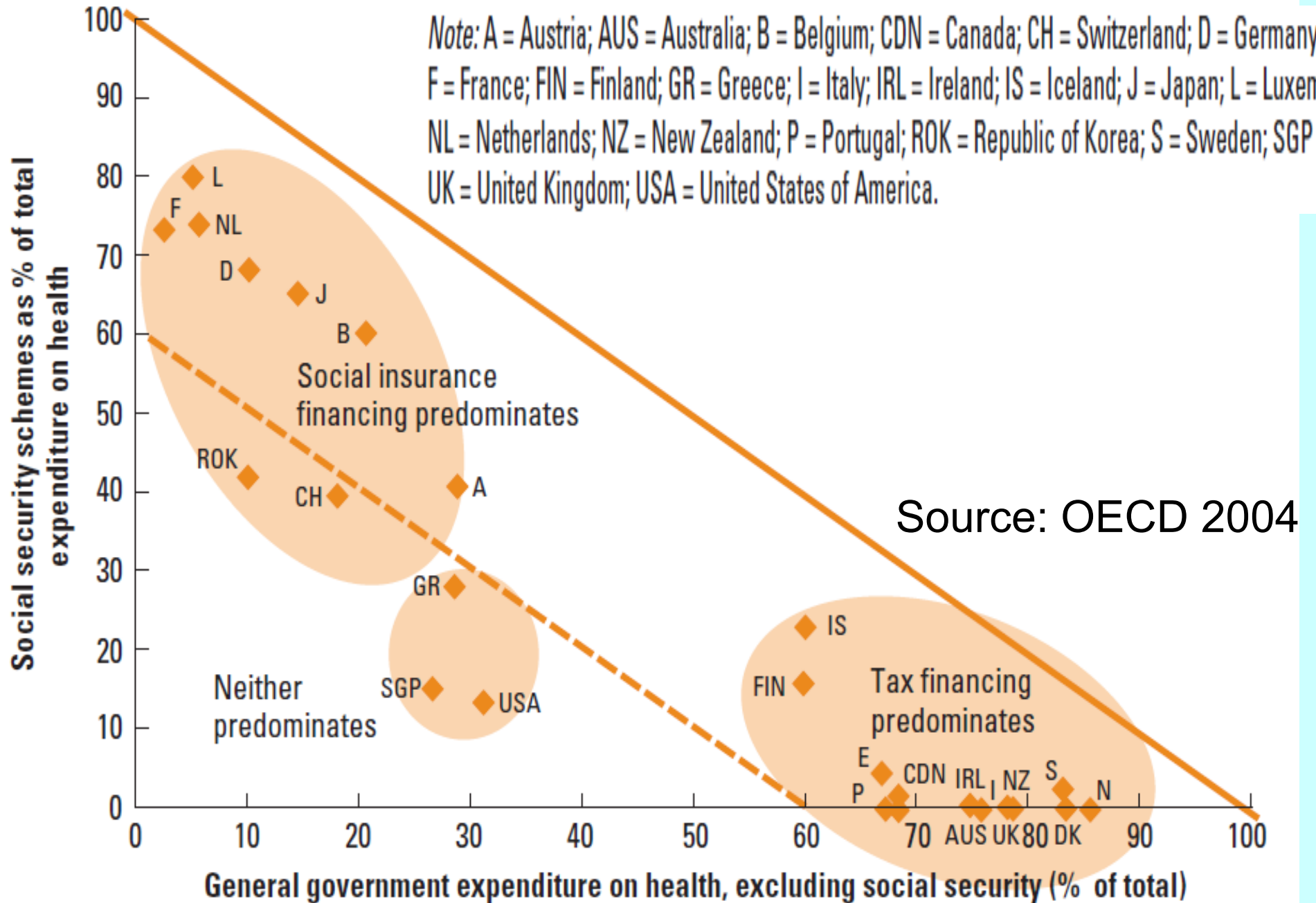
# Aspects of the healthcare market to be controlled

- Consumer moral hazard
  - *A zero (or reduced) price at the point of use encourages a higher rate of use than would otherwise be considered efficient*
  
- Adverse selection
  - *The process whereby the ‘best risk’ individuals are selected out of a general insurance pool*
  
- Provider moral hazard (SID)
  - *Incentives on suppliers (e.g. physicians) to provide care in excess of (or short of) that which would be arrived at by trading with fully informed consumers*

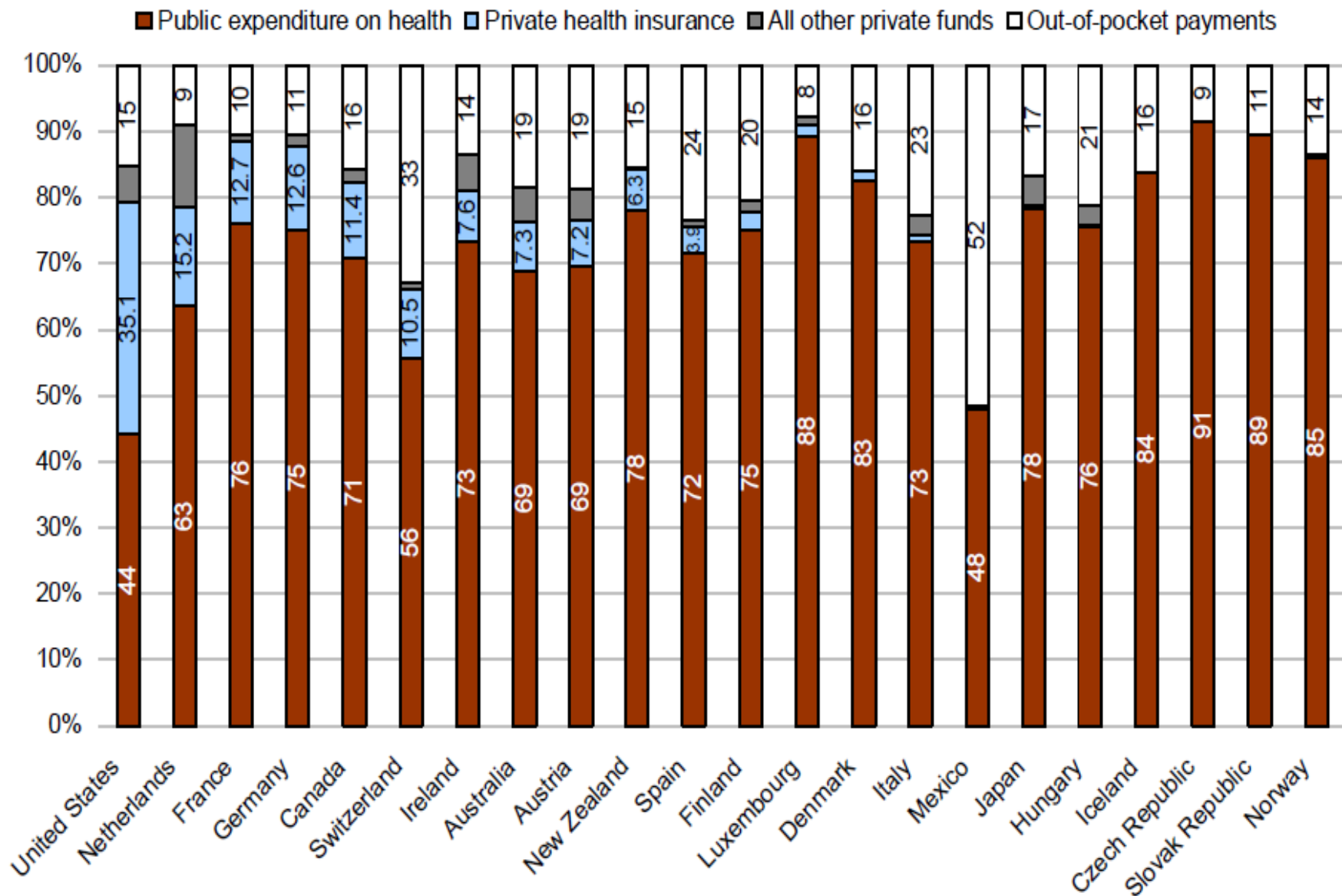
Some topics of interest



# Financing mechanisms in high-income countries



# Private Health Insurance in OECD countries



Source: OECD Health Data 2003, 2nd edition.

Note. Countries are ranked by decreasing size of PHI

# What we have done in this lecture...

- Defined Health care & Healthcare systems
- Depicted the different health systems with examples from around the world
- Considered ways of revenue collection, risk pooling, purchasing and paying providers
- Discussed Methods of raising finances for healthcare systems (no pure mechanism)

# Conclusions

- All health systems characterised by public / private mix.
- Different methods of risk pooling, purchasing services, paying providers – not devoid of problems
- Broadly 3 alternative financing approaches (No pure mechanism).

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