

Fourth Annual  
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# Private Health Sector Participation in Social Security in Latin America

“A pending legitimacy issue?”

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# Reform Trends in LAC

- ✓ Chile (1980)
- ✓ Colombia (1993)
- ✓ Argentina (1996)
- ✓ Mexico (1996)
- ✓ Peru (1997)
- ✓ Venezuela (2000 ?)
- ✓ Radical departure from traditional social security in health (MoH and Social Security Organization) to a competing health insurance system
- ✓ Formal Participation of Private Sector in Social Security in Health, usually coexisting with traditional public (“quasi-public) organizations

# Where are we now?

## ➤ Chile

- ❑ After exceptional growth and development since 1981, the ISAPRE system is under considerable financial and political pressure
- ❑ Risk and income segmentation of the market is being “blamed” on ISAPRE behavior only, inducing a generalized “anti-ISAPRE” attitude in the population

## ➤ Colombia

- ❑ Successful expansion of formal coverage (from 20 to more than 50% of the population).
- ❑ Financial sustainability issues (falling contributions, difficulties in enforcing POS, difficulties in transitioning from supply to demand side financing for public subsidies).
- ❑ Risk adjustment mechanism under the FOSYGA has still to prove its effectiveness. Preliminary signs of risk selection in the market.

# Where are we now? (2)

## ➤ Argentina

- ❑ Initial introduction of competition among “Obras Sociales” (sickness funds) triggered significant efforts by international private sector actors to enter the market.
- ❑ Difficulties in implementing effective regulation and the lack of transparency and possibly of effectiveness of the DGI managed redistribution fund set, the stage for fair competition and risk selection problems among “Obras”
- ❑ Recent government decision to return control of the the “High Complexity Fund” to unions is a serious thread to fair competition

## ➤ Mexico

- ❑ “Reversion de Cuotas” is still in a preliminary stage.
- ❑ Slow down of implementation until after presidential elections reflects the political complexity and difficulty involved
- ❑ Important regulatory issues not well developed at the moment of introducing reforms, particularly those related to risk and income selection behavior and segmentation of the market

# Where are we now? (3)

## ➤ Peru

- ❑ Slow implementation but, better than expected initial enrollment.
- ❑ Important regulatory issues not well developed at the moment of introducing reforms. The complexity of the model adds to the difficulties in introducing effective regulation, particularly those related to risk and income selection behavior and segmentation of the market
- ❑ A problem of political commitment?

# The Challenge

- The need to grow towards traditional social security markets?
  - ❑ Business
  - ❑ “Social Legitimacy”, it is perceived as an alternative only for the “rich”
  
- Is it possible?
  - ❑ Financial feasibility
    - Can private insurance offer a competitive benefit package at reasonable premium cost?
  - ❑ Political sustainability
    - Radical rationale differences with traditional Social Security schemes requires a significant change in governments, providers and consumers
    - Lack of Governments capacity to adapt to the new scenario to solve the resulting new problems: **the poor and the very sick**

# Radical Differences

(Using WHO Health System Performance evaluation Framework)

	<b>Traditional</b>	<b>Private</b>
<b>Spreading Risk</b>	Single Pool, non risk related contribution	Multiple pools, risk related contribution
<b>Subsidizing the poor</b>	Income related contribution and supply side public subsidies	Non-income related contributions. Limited access to public subsidies
<b>Autonomy from Gov.</b>	Often very little	Very high
<b>Accountability</b>	Significant to government	Significant to owners and consumers
<b>Unfunded Mandates</b>	Frequent and accepted	Infrequent, unaccepted
<b>Stewardship instruments (government)</b>	Command and Control, political overseeing	Regulation and financial incentives

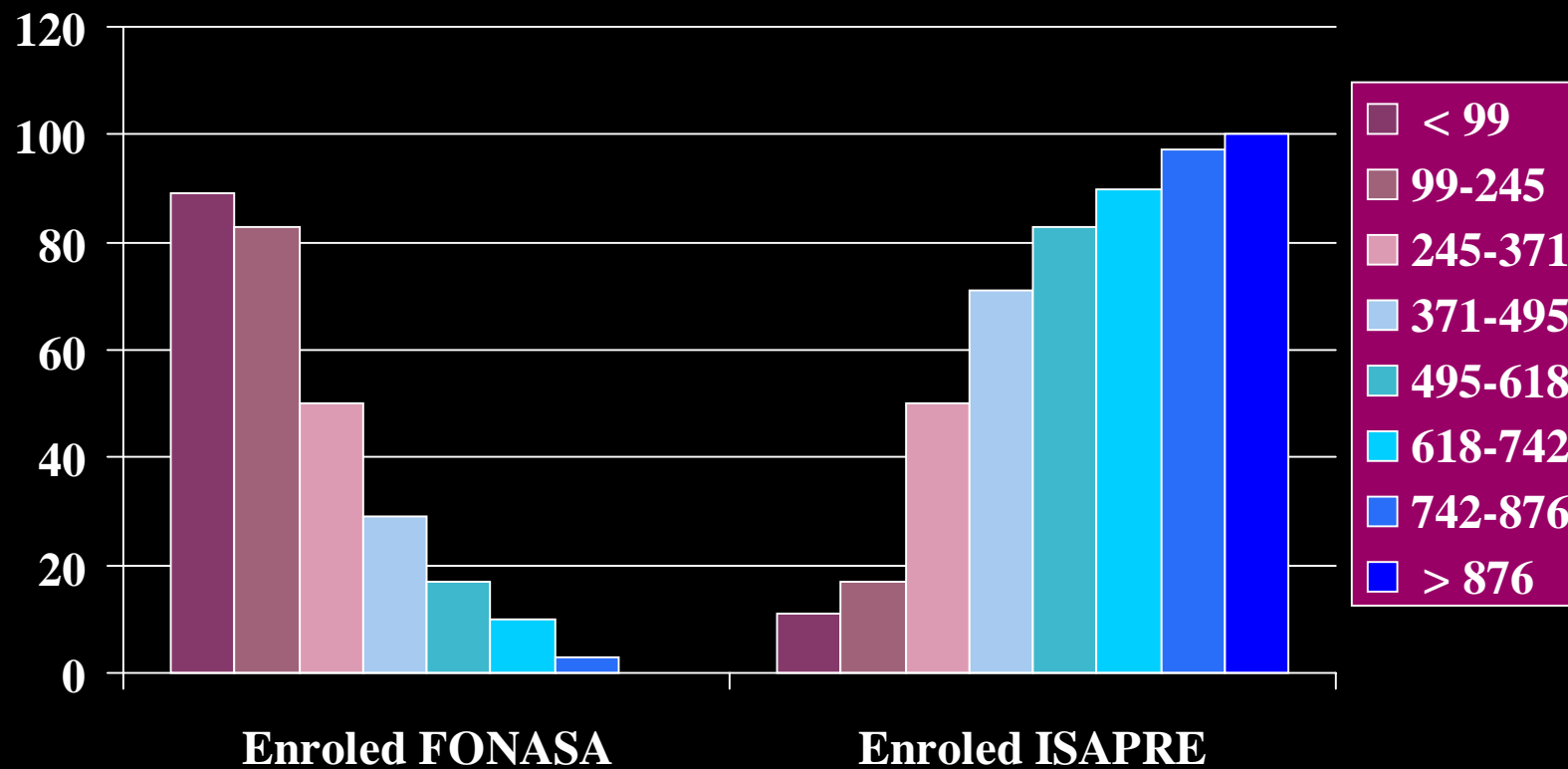
## Risk and Income redistribution are particularly critical differences

- ✓ All these differences and lack of appropriate regulation and financial incentives, forces private sector to concentrate on those who can afford it
  - High income
  - Low risk
- ✓ Public sector and traditional social security concentrating on the low and middle income and the high risk sub-populations

# FONASA and ISAPREs Population by income of principal (1994)

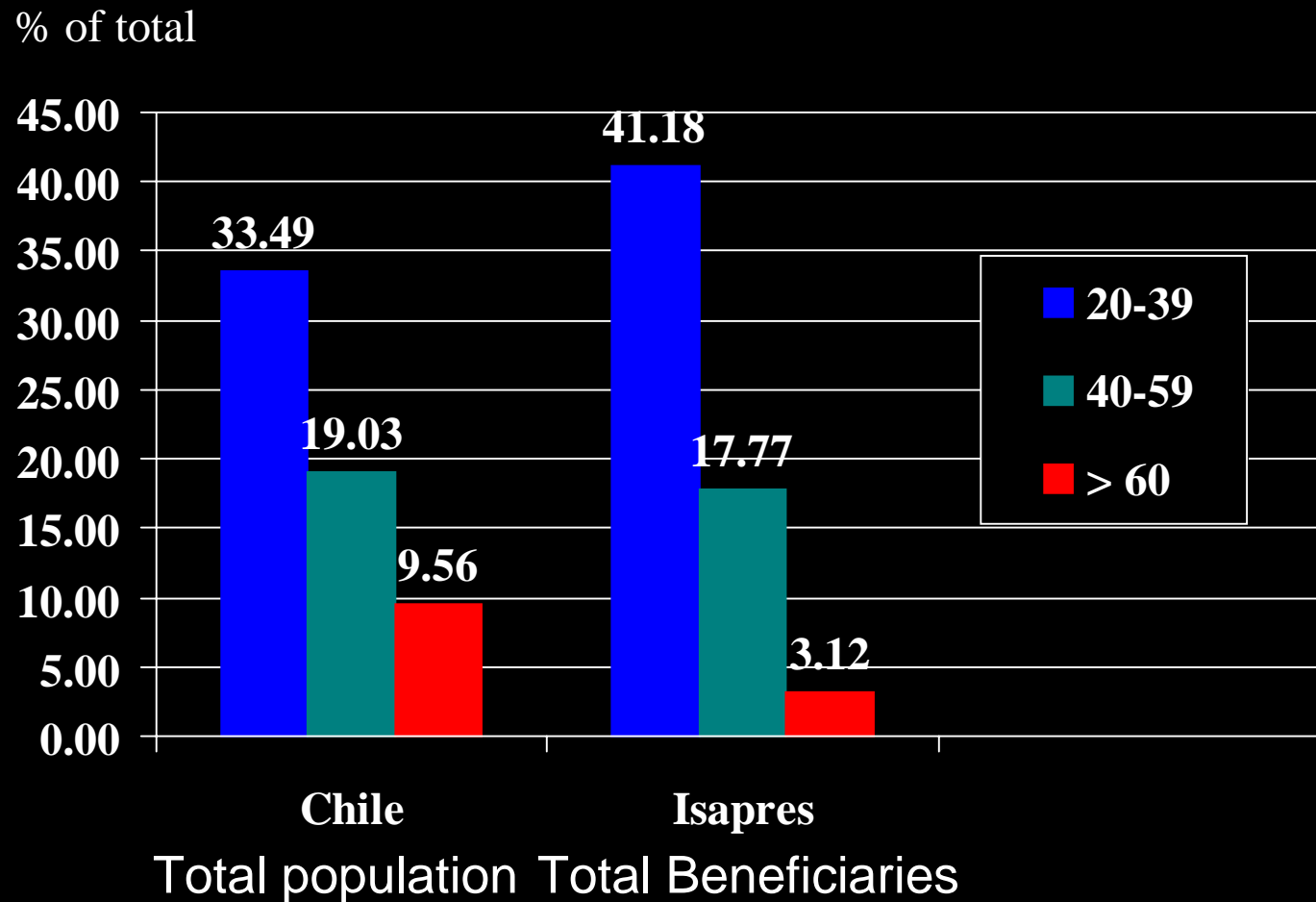
Source: ISAPRE Association and FONASA, 1995

% of all formal workers in the income category



# Age structure, Chile and ISAPREs, 1994.

(excluding population under 20 yr.)



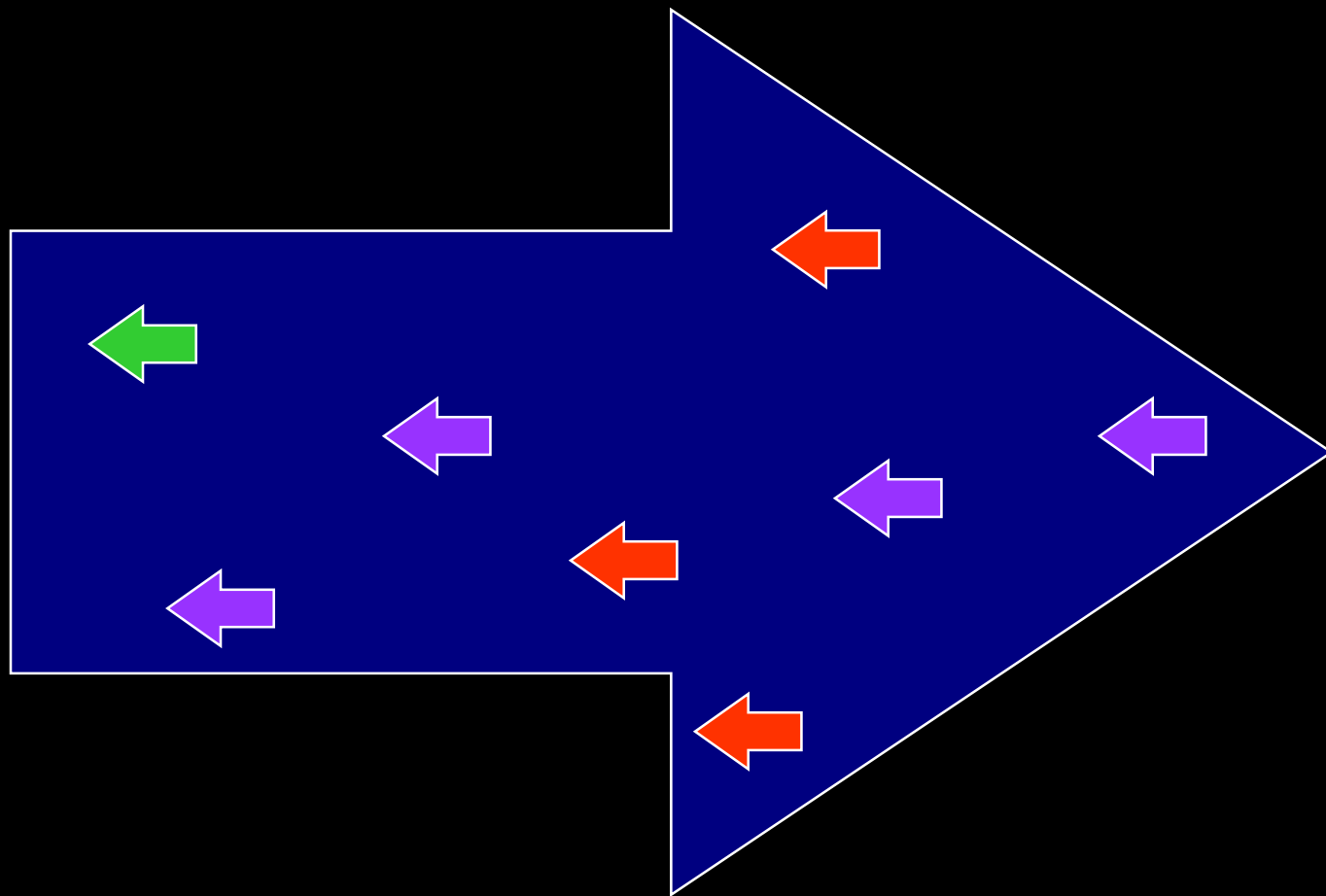
# And so What?

- What would be normally accepted in any other market in the region (“you get what you pay for”), is not usually accepted in the health sector in LAC and it is a very hard issue for politicians to defend.
- Lack of effective regulation (including adequate “risk” and “income” related public subsidy policy) is not an opportunity but a threat for those who are interested in long term business in LAC countries
  - ❑ Unfair competition
  - ❑ May result in too much Government discretionary power
  - ❑ May result in sudden unexpected “irrational” legislation reacting to unsolved market problems
- **Significantly reduces the perception of “Legitimacy” of private social security in health and makes it politically vulnerable**
- Not a problem for short term business. Significant problem for serious long term investments.
  - An issue for international companies in recent expansion to Latin America ?

# Effects of Managed Care

- ✓ Effective cost containment mechanisms can potentially allow for reaching a lower income market with more affordable premiums
- ✓ But, it might make things more difficult
  - ❑ If introduced at a moment of financial difficulties and is perceived only as a financial strategy
  - ❑ If regulators are not able to cope with the additional challenges of integrating health service provision issues to insurance regulation and consumer protection problems increase
  - ❑ If risk sharing payment mechanisms (capitation) “overexpose” providers resulting in financial sustainability, quality and/or risk selection problems

# Clear Consensus about Introduction of Managed Care in Latin America?



# A Call for Action

- The private sector needs to be much more proactive and effective in engaging in a policy dialog with governments and in supporting efforts to develop and implement effective regulation and financial incentives. Failing to do so exposes it to significant political instability
  - Better understand and support government – multilateral efforts for health sector reform
  - Engage in constructive dialog with different actors in Government, not only Ministries of Health or Ministries of Finance
  - Anticipate the need for regulation and be proactive in proposing it

**The future of private sector participation in social security is strategically linked to successful public sector reform in the region.**

# Main issues for a dialog with governments on “ Regulation and Incentives”

- ✓ The need for avoiding fragmentation of the pool
  - Minimum pool size
- ✓ Policies and mechanisms for spreading risk
  - Inter-pool risk Adjustment?
  - Demand side public subsidies for risk compensation?
- ✓ Subsidizing the poor
  - Demand side and contestability of public subsidies for the poor
- ✓ Opening public provision to private purchasing
  - The need for public health sector reform to be successful in shifting from supply side to “money follow the patient” provider payment mechanisms

# Implementing Social security reforms is not easy for Ministers of Health in Latin America

- ✓ Just after taking office: “All reforms should have been implemented a long time ago”
- ✓ After the first year in office: “Priority reforms will be implemented during the next months”
- ✓ After the second year in office: “Some reforms will be implemented after the elections”

