



# Equity and Risk spreading in “Pooling”

Two separate objectives: Do we need for two separate instruments?

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# Health Financing Functions WHR 2000

- **Collecting** Revenues
- **Pooling** resources
- **Purchasing** Services



# Pooling

- Pooling is the accumulation and management of revenues in such a way as to ensure that the risk of having to pay for health care is borne by all members of the pool and not by each contributor individually.



## Traditionally in LAC: two objectives of “pooling”

- Develop the broadest possible financial pools to spread risks among people (**Spreading risk**).
- Make financial contribution proportional to capacity to pay, not need/risk (**Equity**).

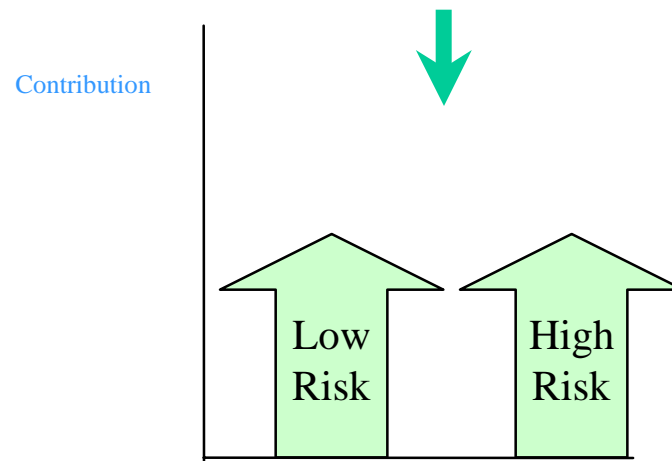
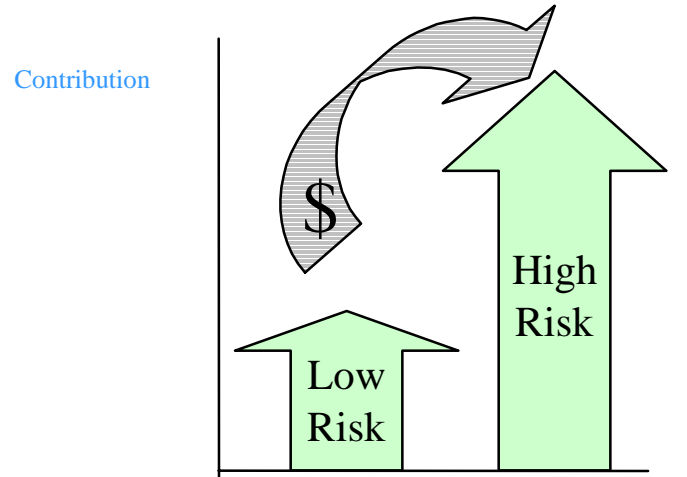


**Pooling resources**



# Pooling: Spreading Risk

CROSS SUBSIDIES FROM  
LOW TO HIGH RISK





# Efficiency gains of Pooling and large pools from reducing uncertainty

$$P\$ = \overbrace{\sum(Pe * p * q)}^{\text{Actuarial Costs}} + \mathbf{e} + \overbrace{(CF + CM + CC + CI)}^{\text{Administrative Costs}} + T_x + U$$

Size of the Risk Pool



# Efficiency gains of Pooling and large pools from economies of scale

$$P\$ = \underbrace{\sum(Pe * p * q)}_{\text{Actuarial Costs}} + \underbrace{e + (CF + CM + CC + CI)}_{\text{Administrative Costs}} + Tx + U$$

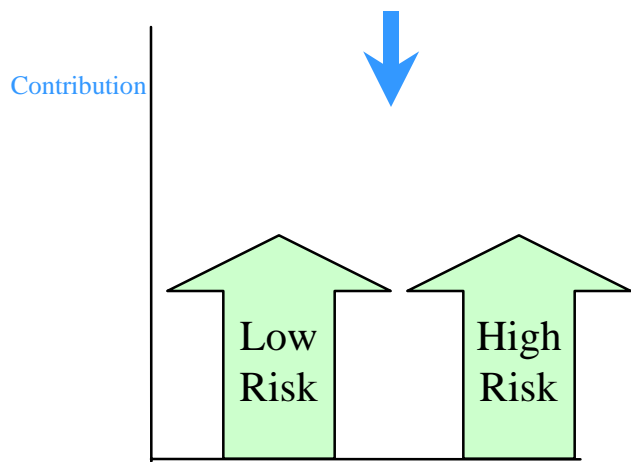
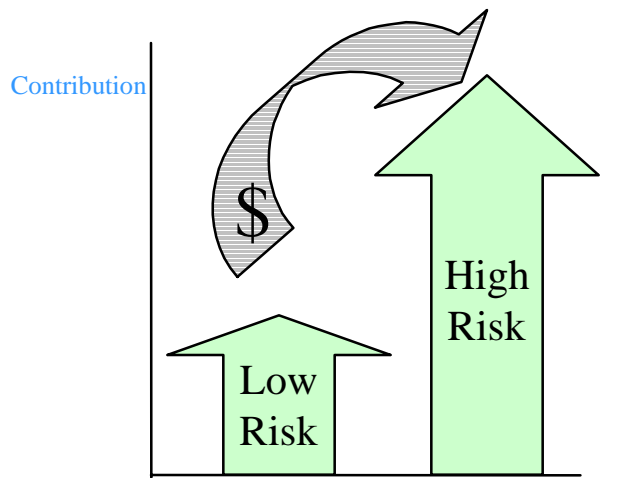
Bargaining capacity with providers

Claim Processing      Service utilization information



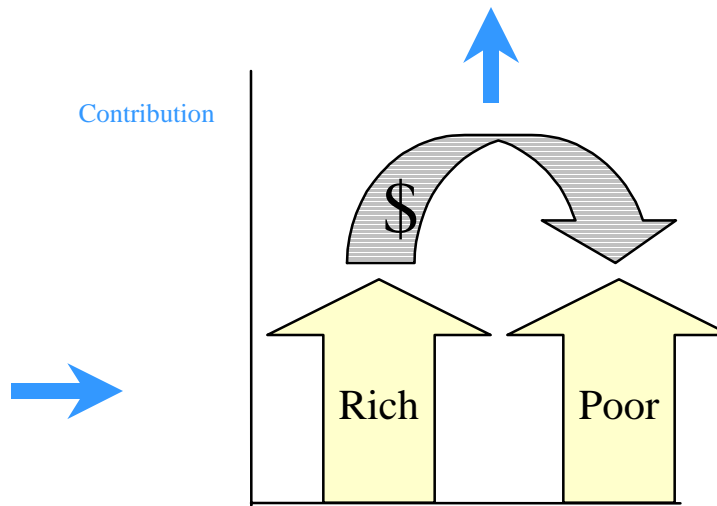
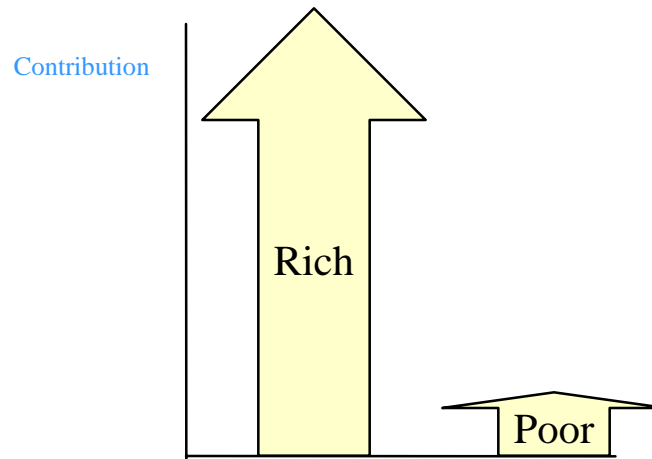
# Spreading Risk

CROSS SUBSIDIES FROM  
LOW TO HIGH RISK



# Equity

CROSS SUBSIDIES FROM  
RICH TO POOR





# Pooling to redistribute risk, and cross-subsidy for greater equity

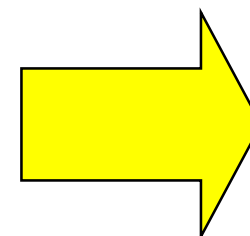
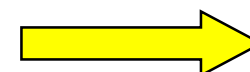
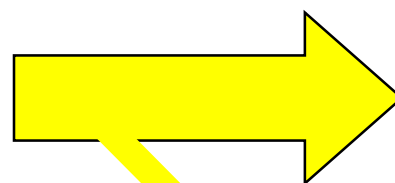
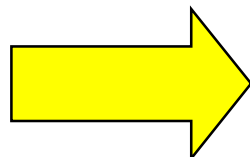
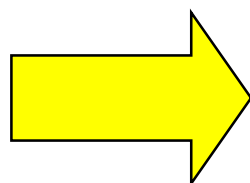
**Contribution**

**Net transfer**

**Utilization**

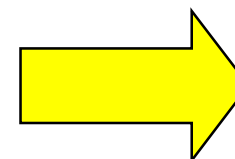
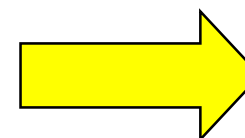
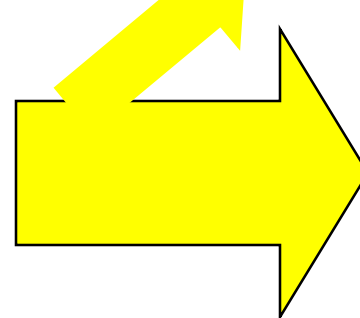
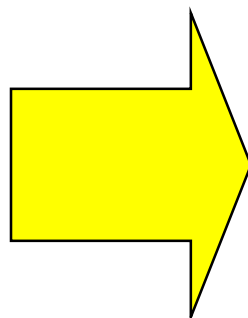
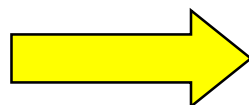
**Pooling (across equal incomes)**

Low  
Risk  
High



**Subsidy (across equal risks)**

Low  
Income  
High





# Social Security in health today: One instrument for two objectives

- Develop the broadest possible financial pools to spread risks among people (**Spreading risk**).
- Make financial contribution proportional to capacity to pay, not need/risk (**Equity**).



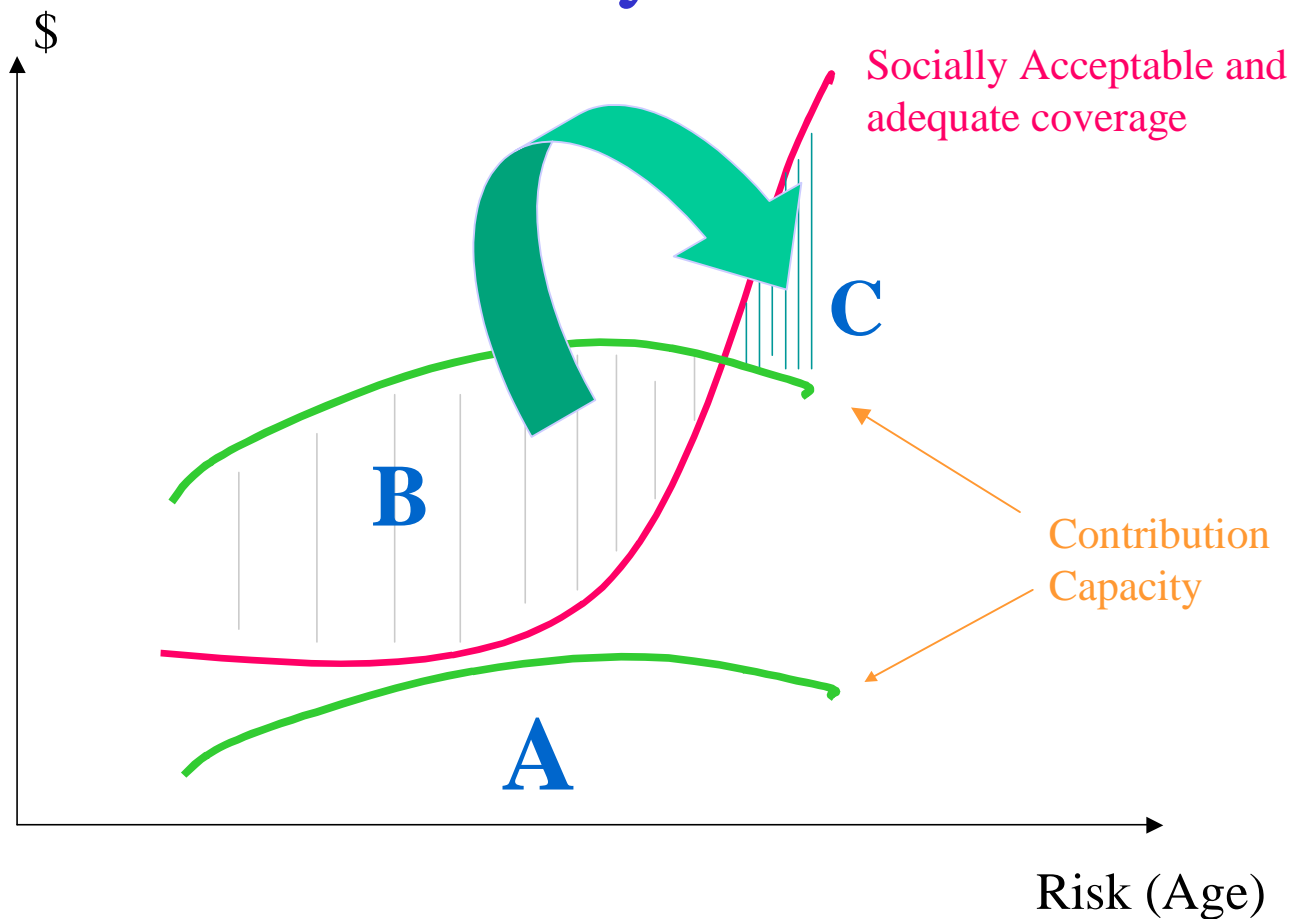
**Pooling** resources



**Salary or Income related  
Contributions**



# Cross Subsidies in Traditional Social Security in health



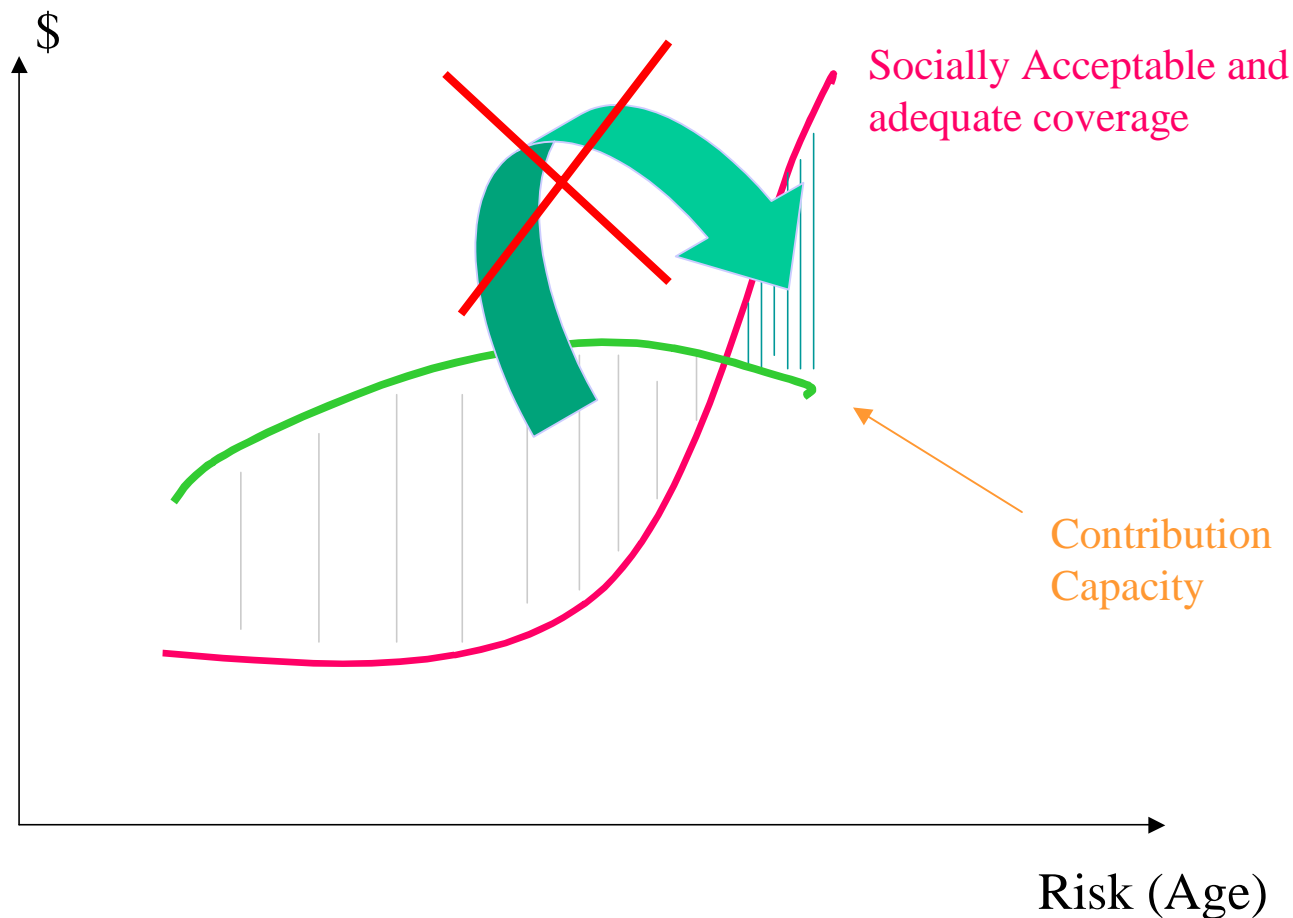


## The Challenge to Traditional single “Pool” systems in the region

- Cross subsidization occurs within the pool
- Incentives not to contribute/participate particularly in the so often case of single benefit packages: pressure from higher incomes to fragment the system
- Monopoly behavior and “capture” issues: the ‘virtues of competition’
- Informal sector is excluded or does not participate: not enough to make it compulsory (the contribution-benefits matching)
- Multi-pool settings are emerging / consolidating



# Selection Behavior in Multi-pool settings



**Above “normal” selection incentives exist when expected contribution is less than expected expenditures**



# Against traditional policy advise?

- If multi-pool settings in LAC are inevitable / desirable:
- Is there need for having two separate instruments for two separate objectives?:
  - Risk related contributions (discrete community rating estimations of premiums), for spreading risk
  - Explicit subsidies for equity reasons
- Is it technically feasible?



# Two instruments for two objectives?

