

Health Sector Financing

Trends and Options

Workshop on Health Sector Reform

Delhi, April 1999



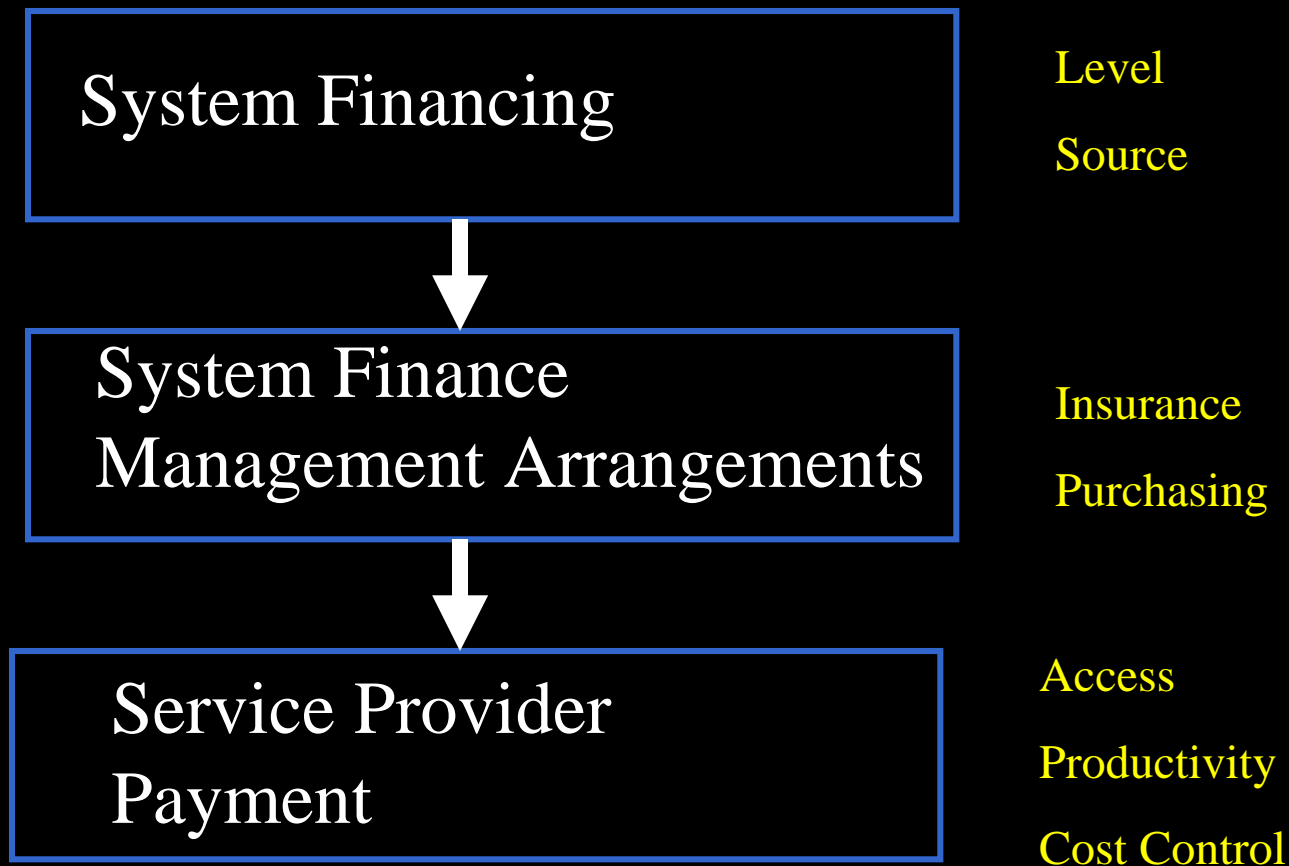
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Contents of the Presentation

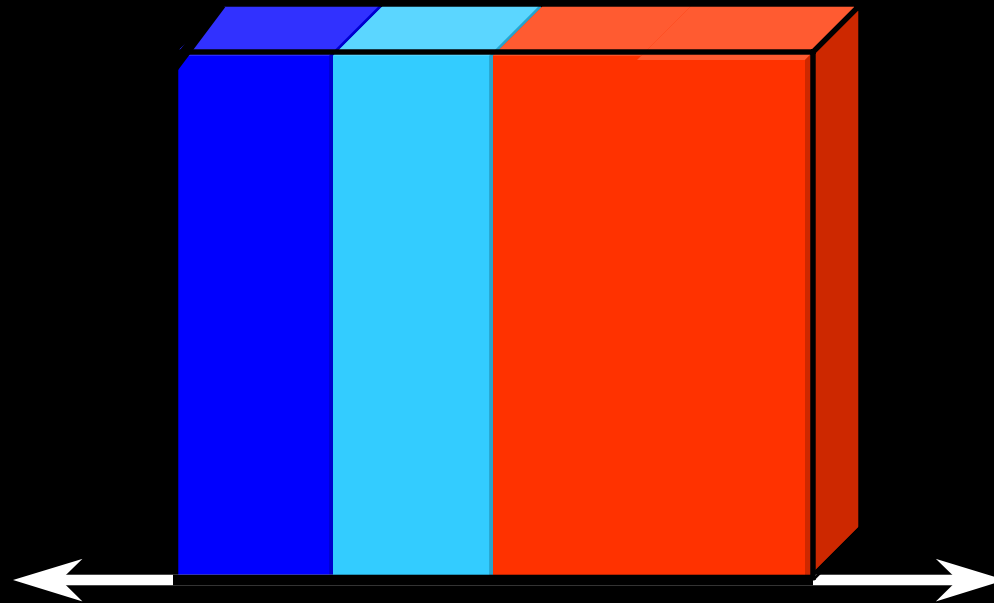
- Introduction
- Public financing and Public Policy
- Alternative arrangements for the Health Insurance / Purchaser function and its characteristics
- Trends, options and potential implications
- Lessons

Issues in Health Sector Financing



Alternative Sources: Public v/s Private

What Should be Publicly financed ?



Public Goods

**Private with
externalities or
agency issues**

Private Goods

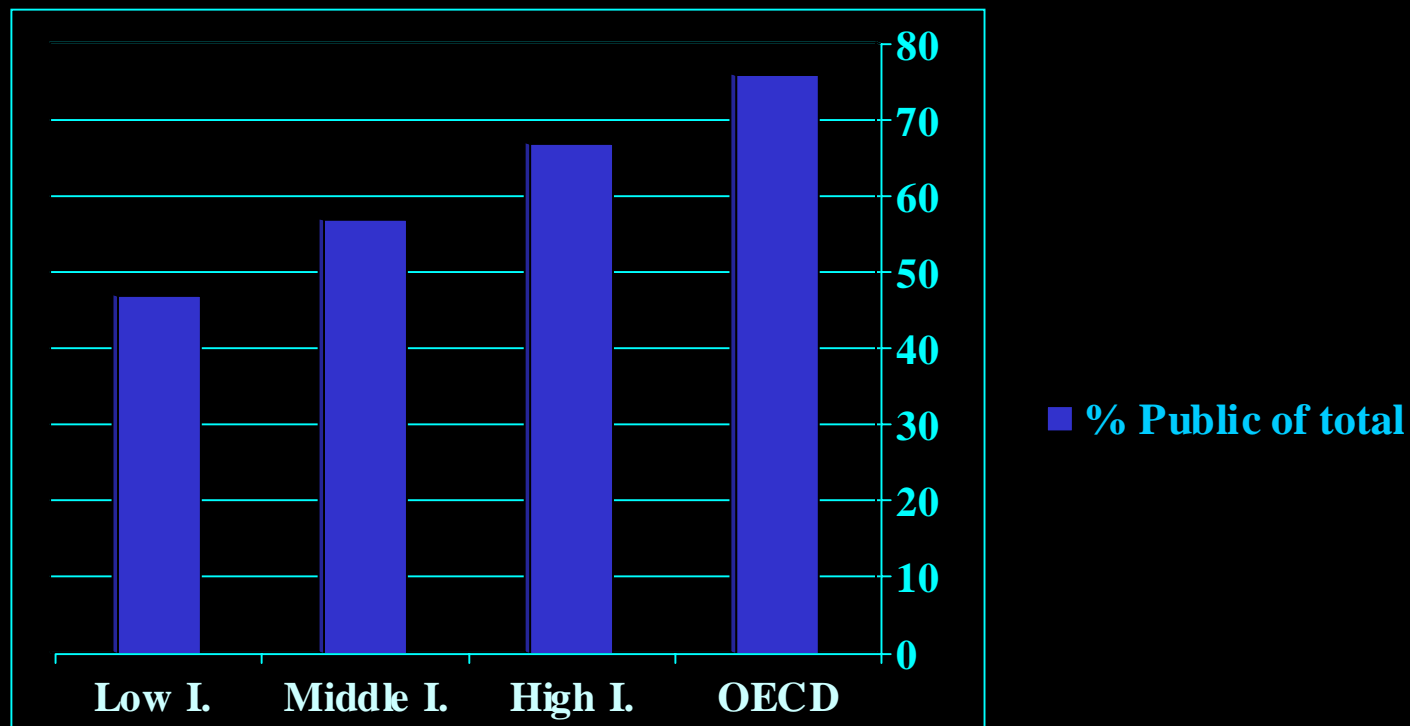
Public Policy regarding Private Goods financing

- ✓ Financing Private Goods for Equity reasons
- ✓ Intervening to solve Market Failure
 - Regulation
 - Incentives

Public Financing in Health

Per Country Income Category, 1994,

Adapted from Shieber & Maeda data

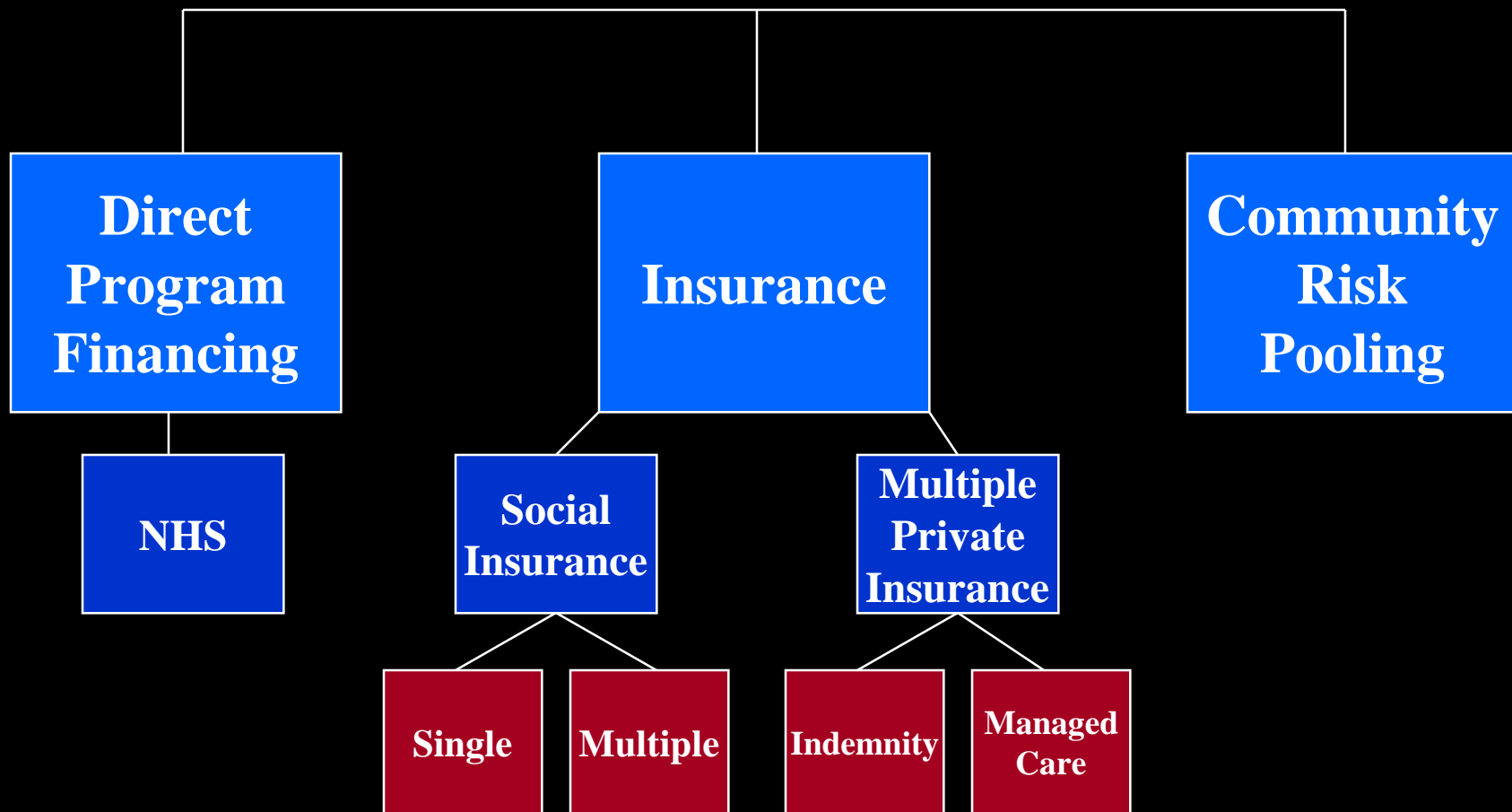


Health System Financing

Equity, efficiency and simplicity characteristics as health sector financing mechanisms

Type	Collecting Efficiency	Fiscaliz. Efficiency	Administ. Simplicity	Vertical Equity	Contrib. Incentive	Certainty as revenue for sector	Efficiency as a tax
General Taxation	++	++	++	++?	--	-	++
Pay-role Tax	-	-	-	-	+	+	-
Premium	--	--	--	--	++	+	
Out of Pocket	--	-	--	----	-	++	

Alternative Arrangements for System Finance Management



Main Characteristics of each alternative

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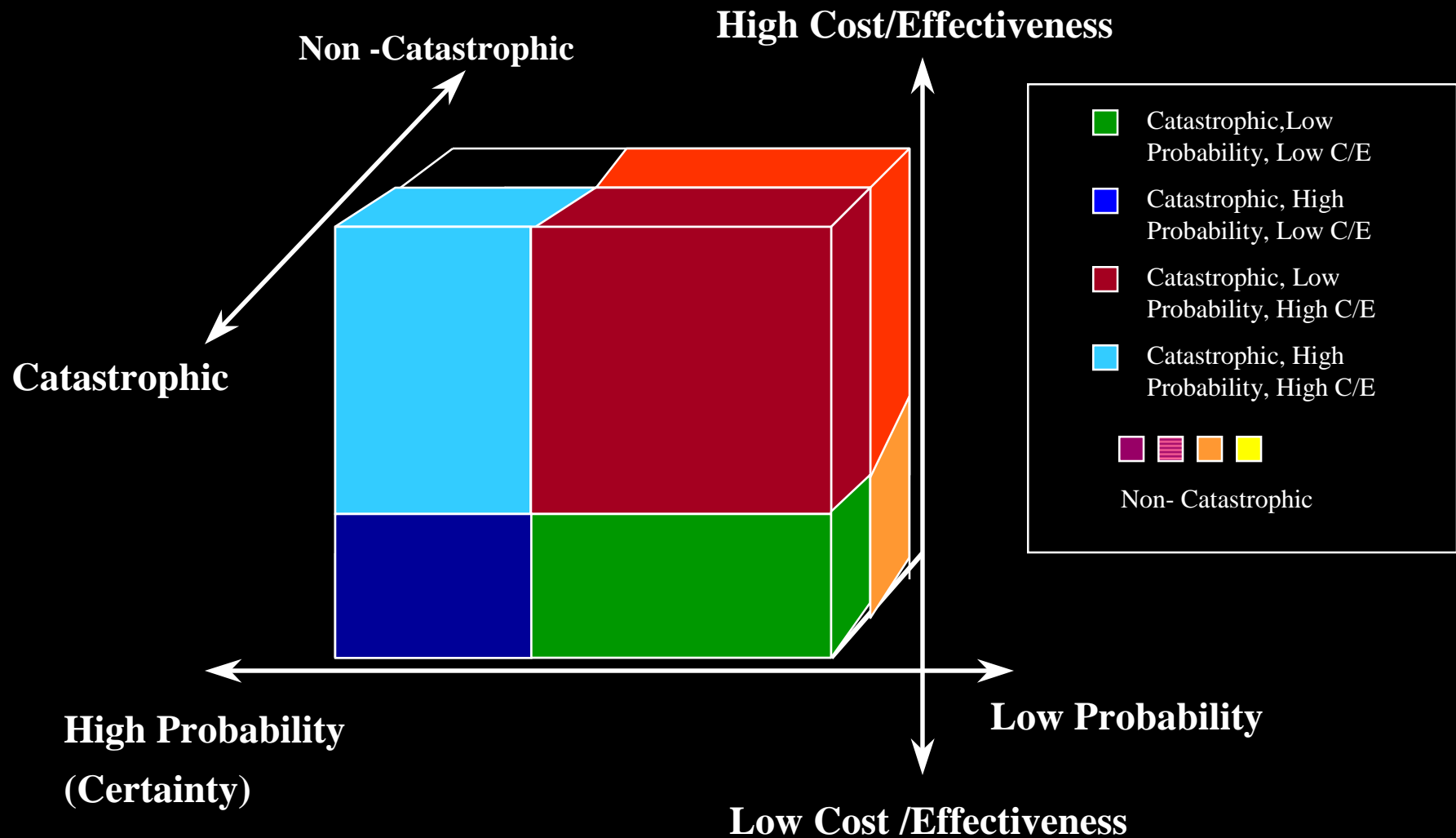
	System Financing	Risk manag.	Benefit package	Purchasing from	Provider Payment
NHS	General Tax	Population not related to Financ.	Implicit almost all, same	Usually from own (public) providers	Supply side type: Line Item Budgets
Social Insurance	Pay - role - Tax	Population Usually not related to Financ.	Often Explicit, non premium related , same	Usually from own providers	Supply side type: Line Item Budgets
Private Insurance	Premium P-R-T	Individual related to Financ.	Explicit, premium related	Usually from own and other private providers	Demand side type: FFS

Why Health Insurance ?

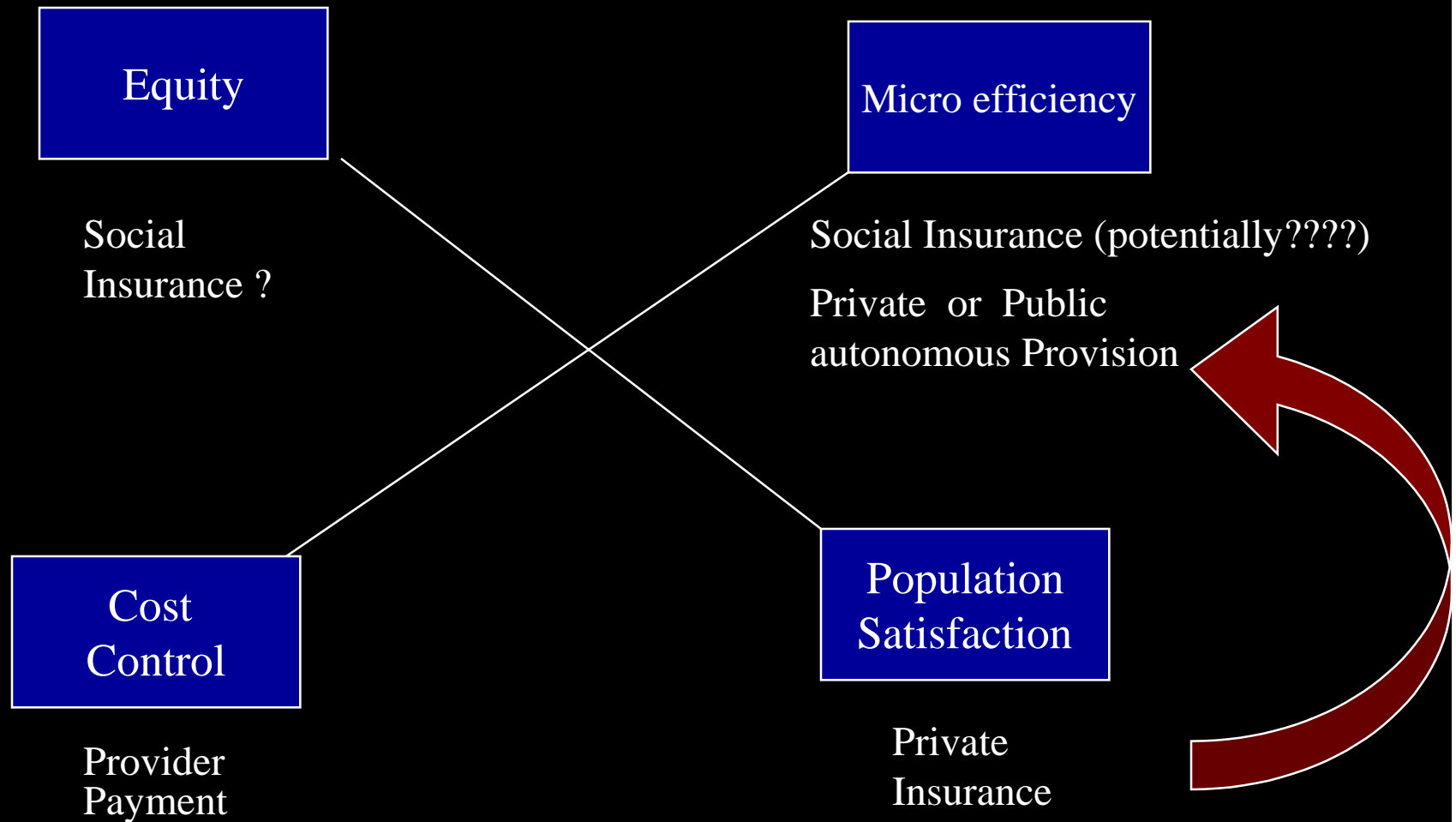
- Accept a small periodic and certain loss (premium) in exchange for eliminating (or substantially reducing) a large uncertain future loss
- Its main purpose is to protect against substantial loss that would make it unaffordable by the individual or family (catastrophic)
- It can play a significant role in protecting against poverty

Using Insurance for what?

Purchasing Arrangements for Private Goods

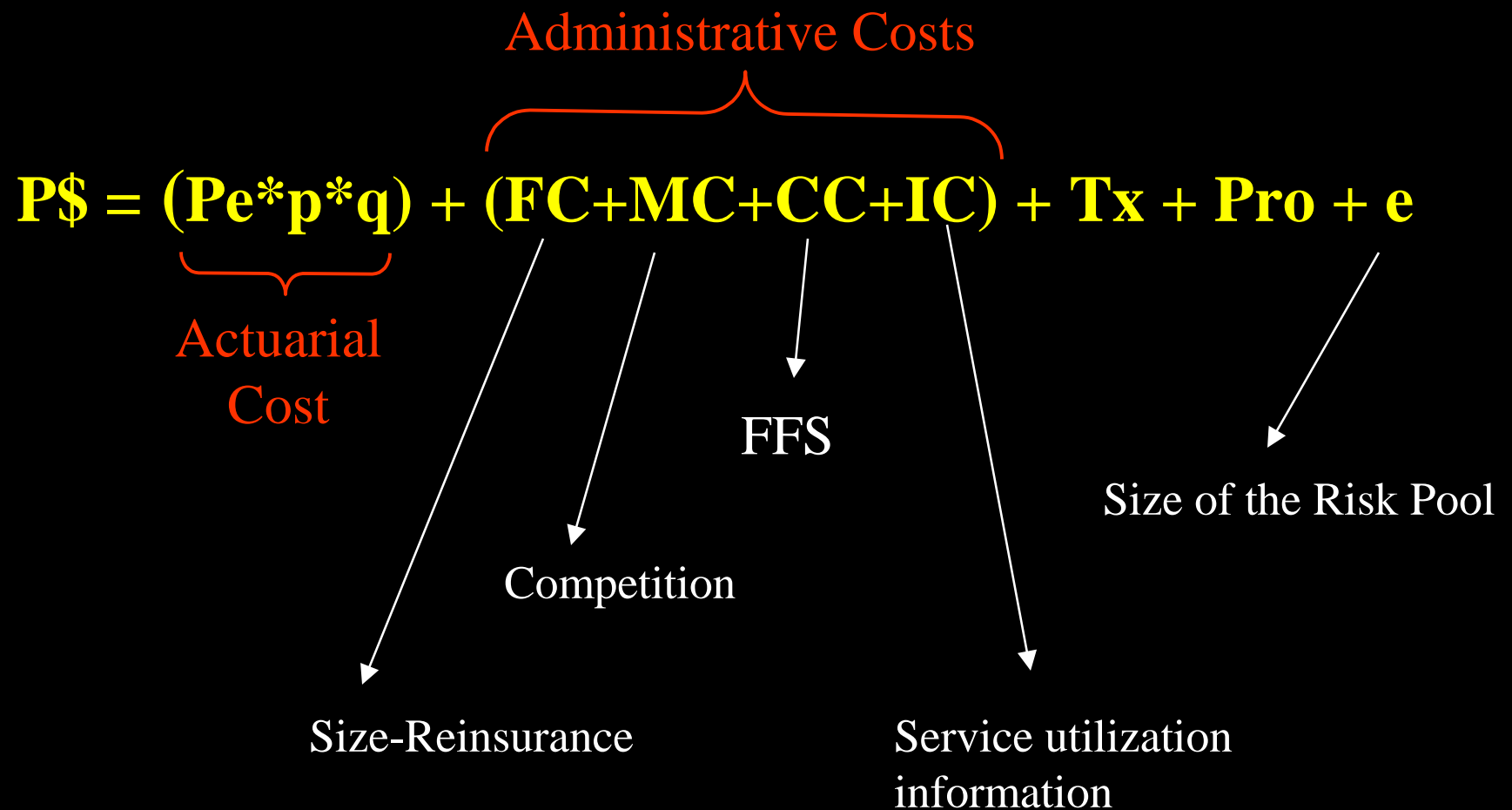


Social v/s Private Health Insurance and Insurance Competition

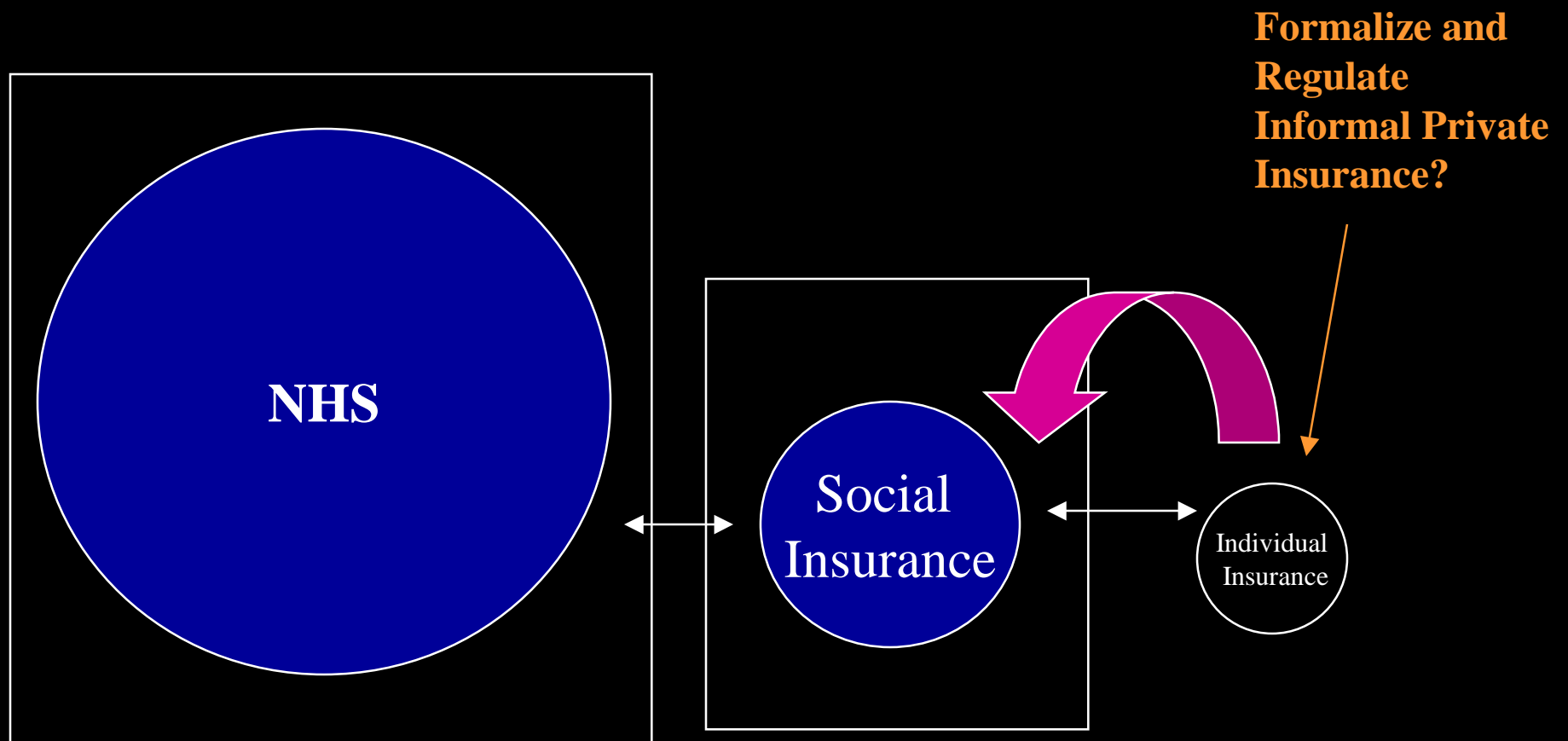


Premium determinants

Micro Efficiency Single Social v/s Multiple Competing



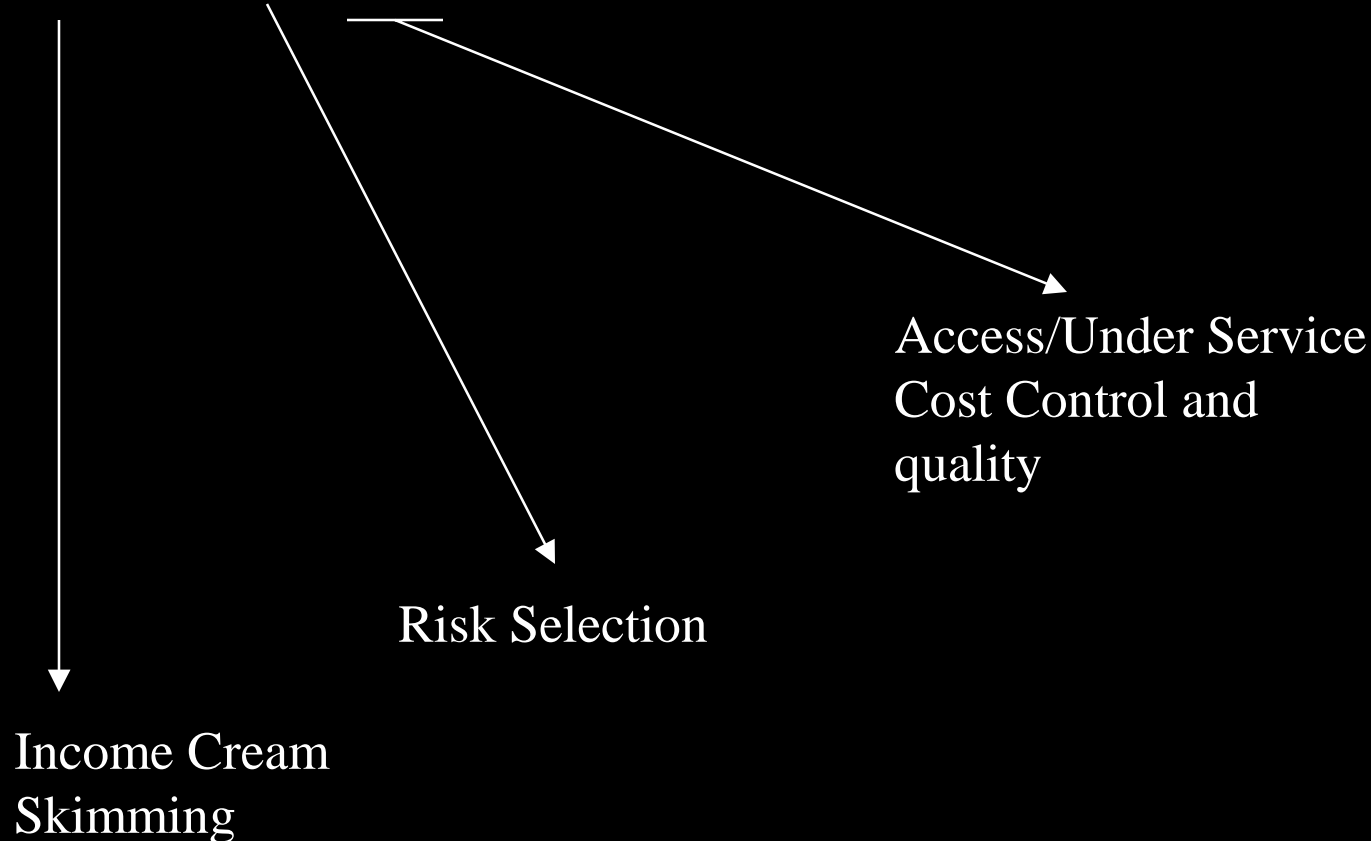
Most of the Time countries do not have the option to choose one or the other



Premium determinants

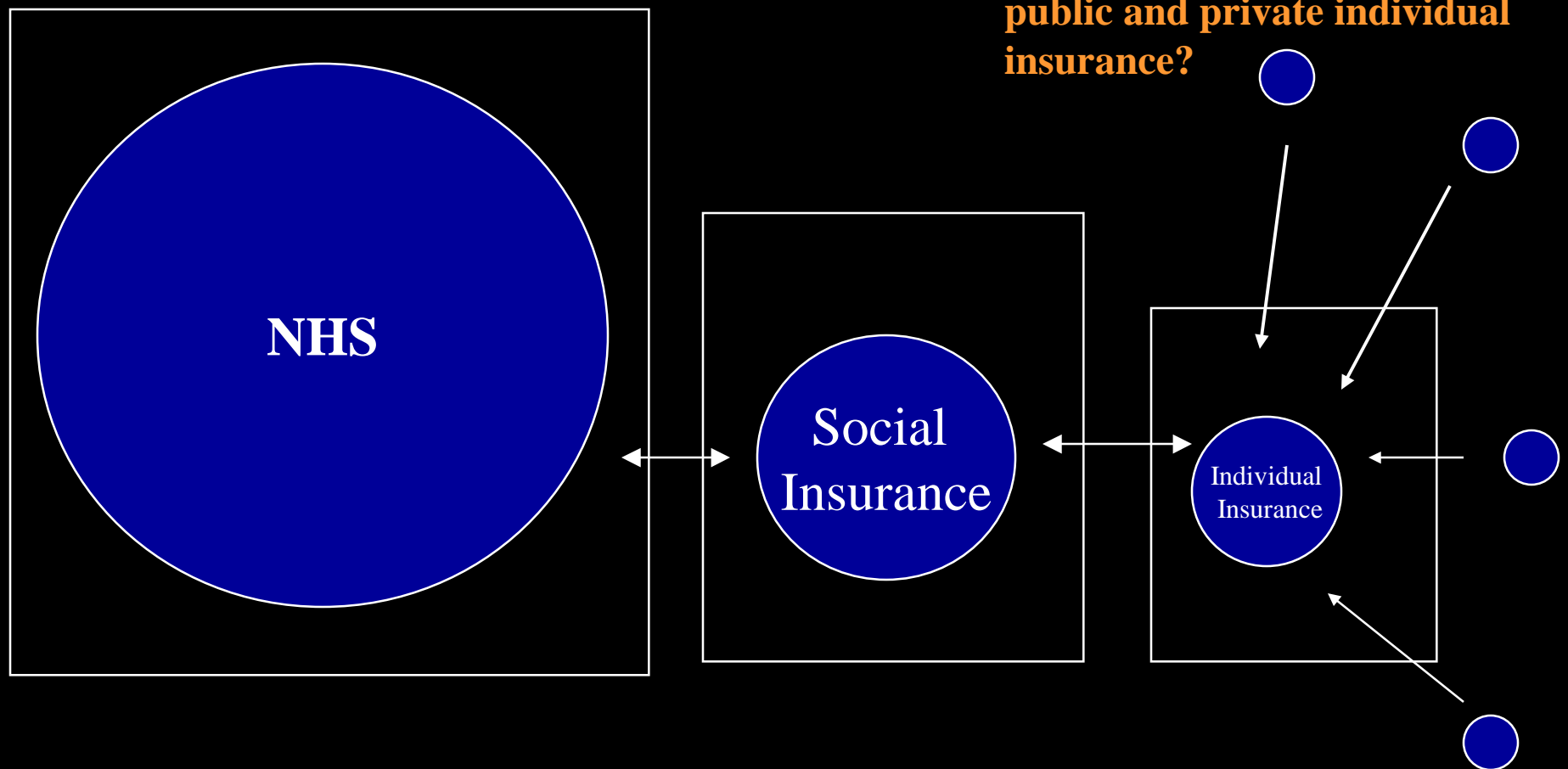
Insurance Issues: Single v/s multiple competing

$$P\$ = (Pe * p * q) + \text{Adm. Costs} + \text{Tx} + \text{Pro} + e$$



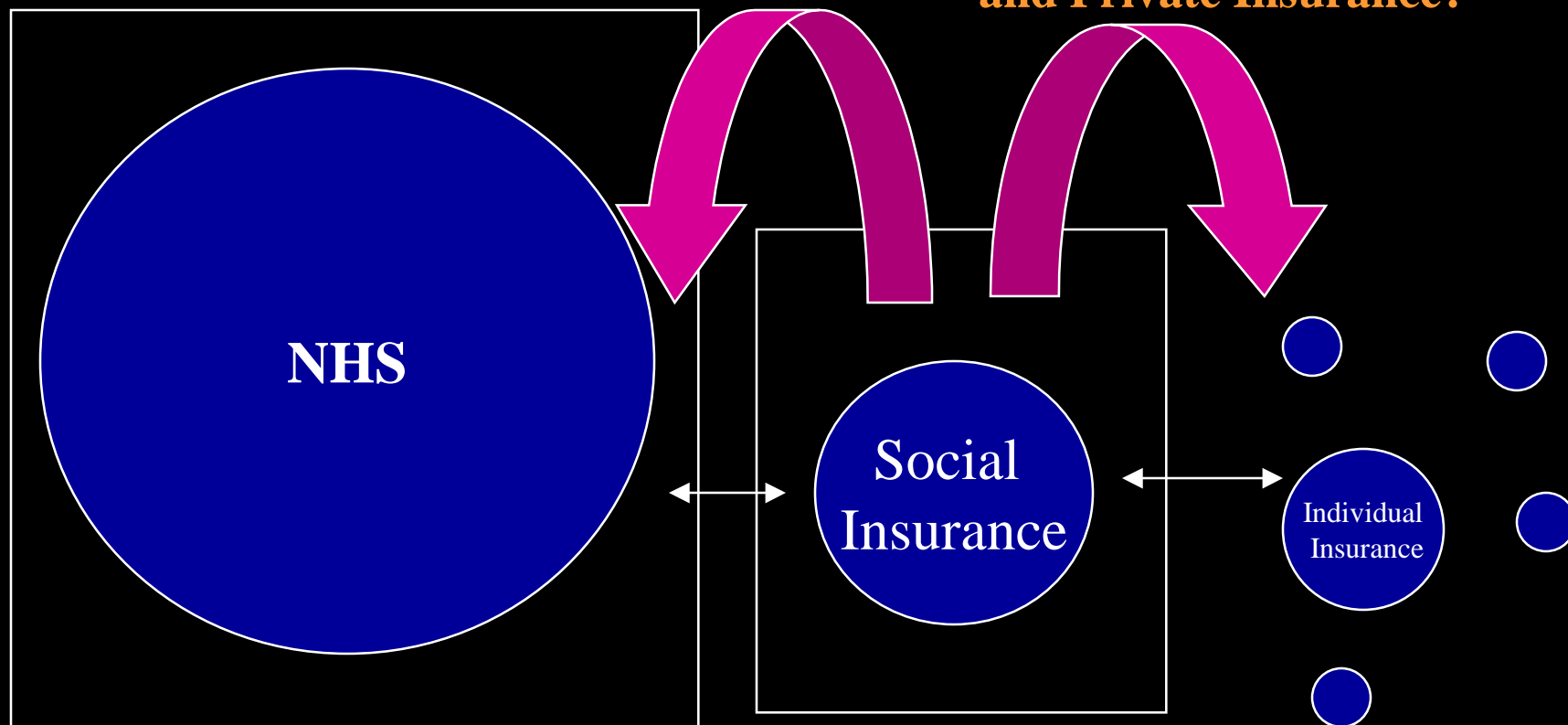
Most of the Time countries do not have the option to choose one or the other

Open Competition between public and private individual insurance?



Most of the Time countries do not have the option to choose one or the other

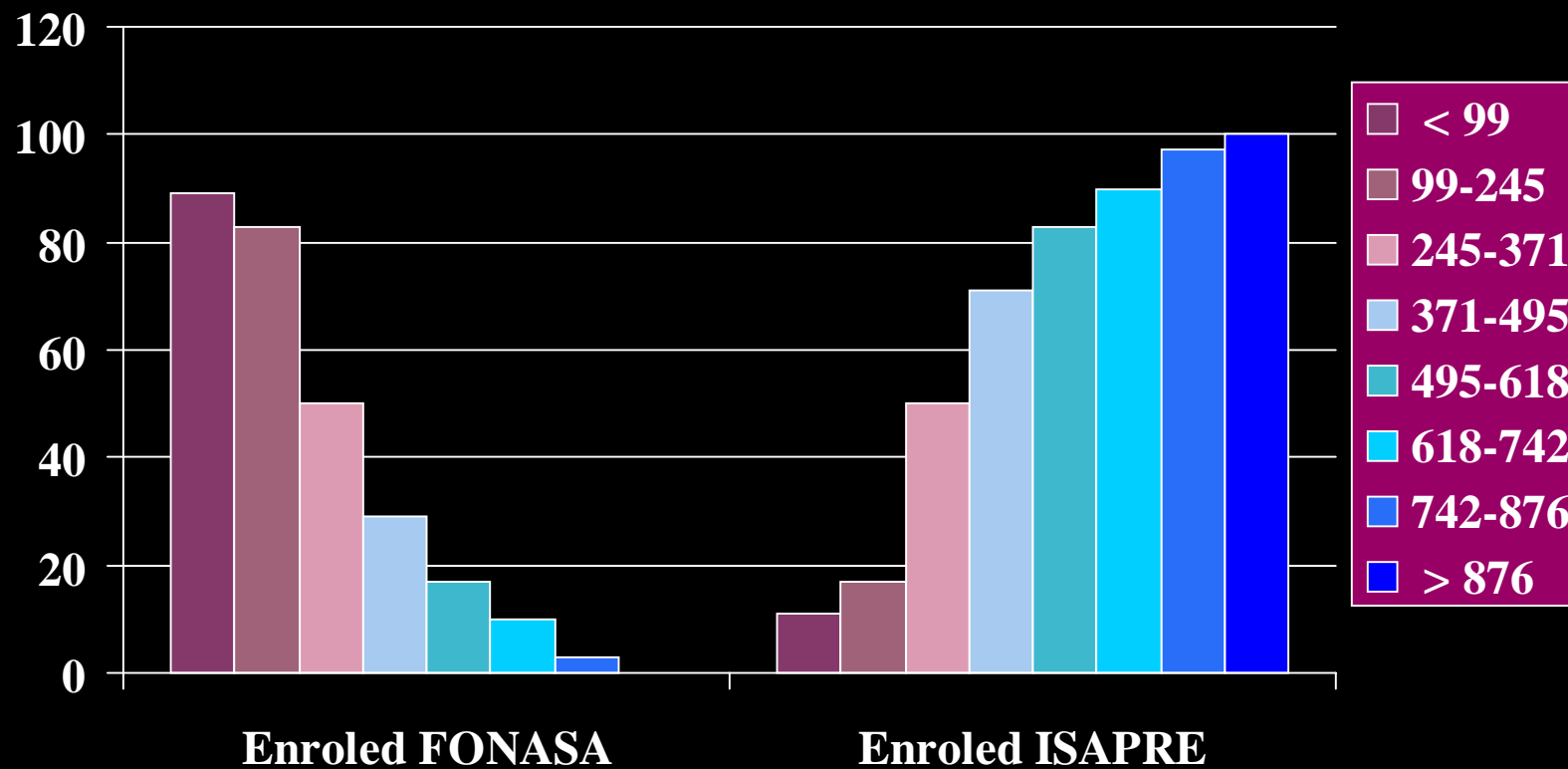
Open Competition between Social and Private Insurance?



FONASA and ISAPREs Population by income of principal (1994)

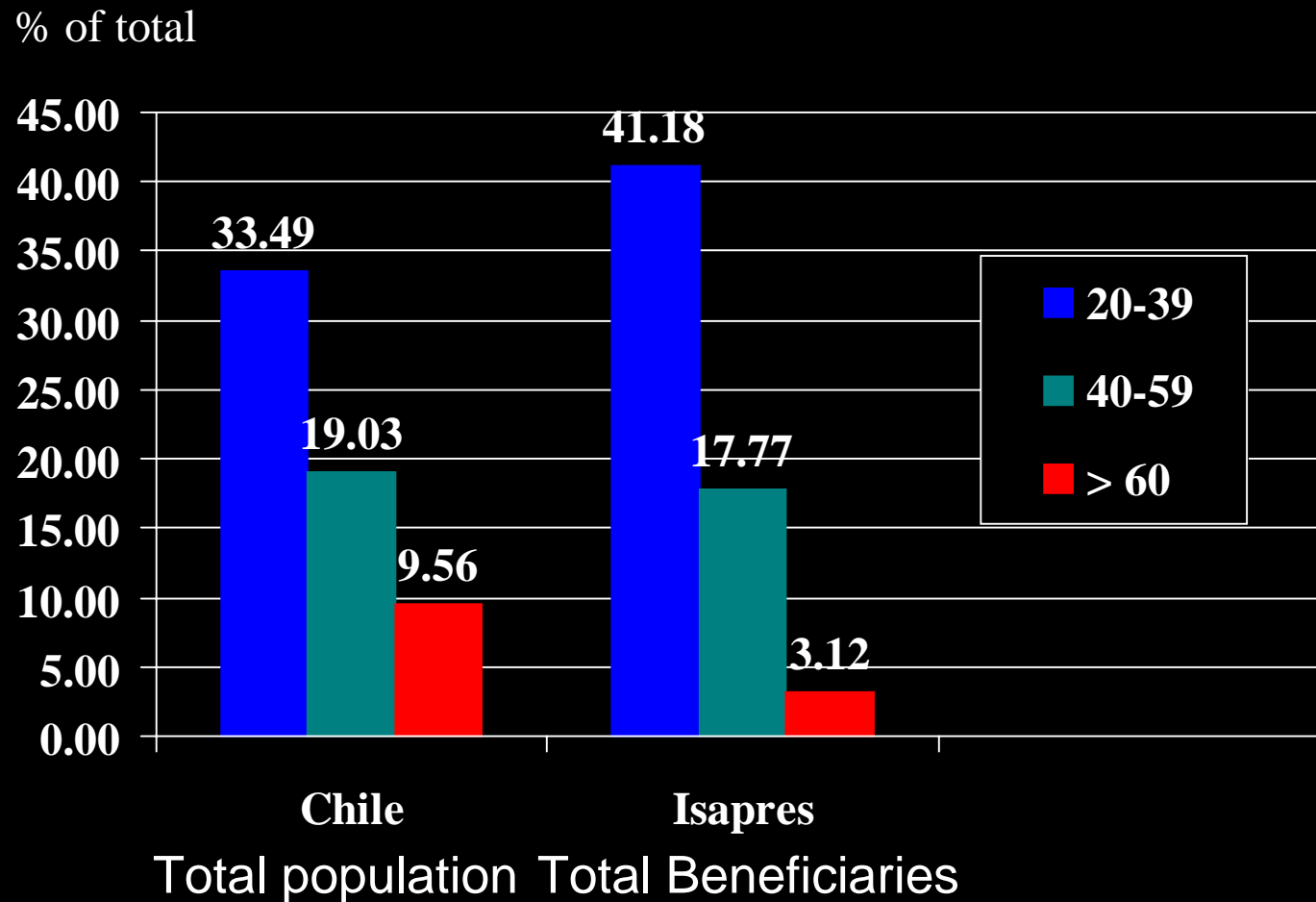
Source: ISAPRE Association and FONASA, 1995

% of all formal workers in the income category



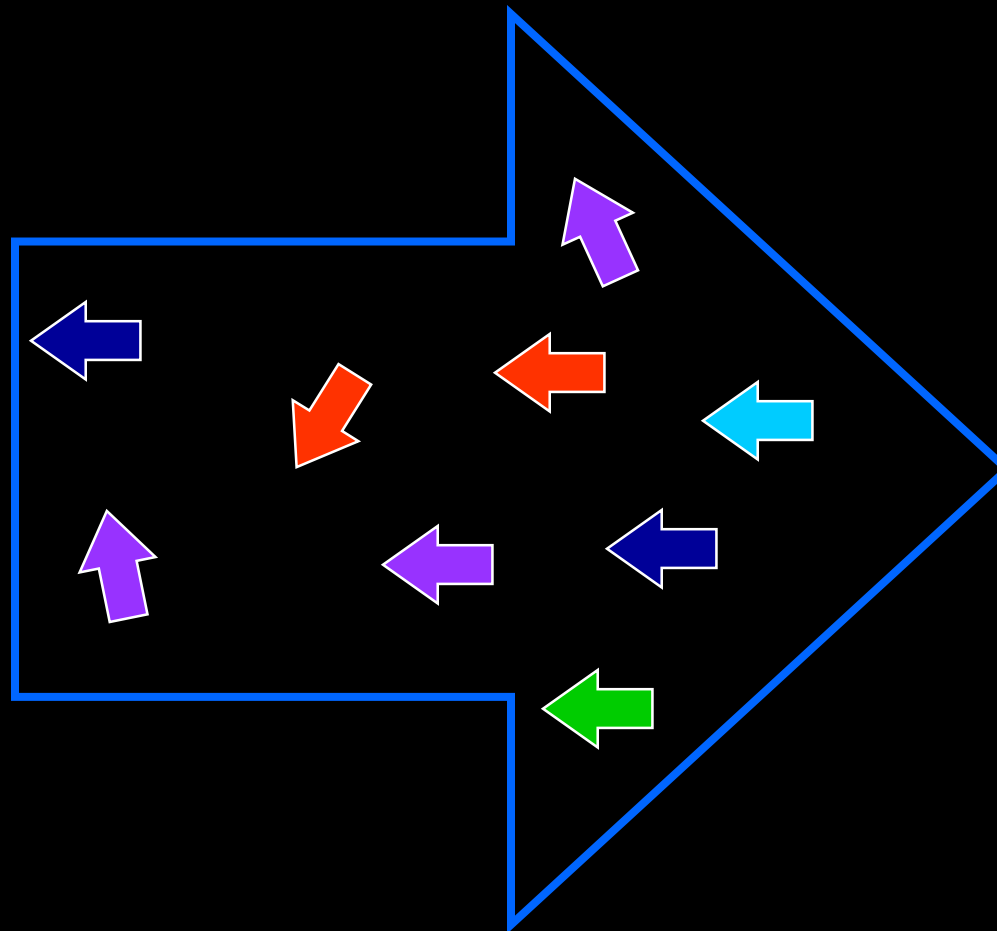
Age structure, Chile and ISAPREs, 1994.

(excluding population under 20 yr.)



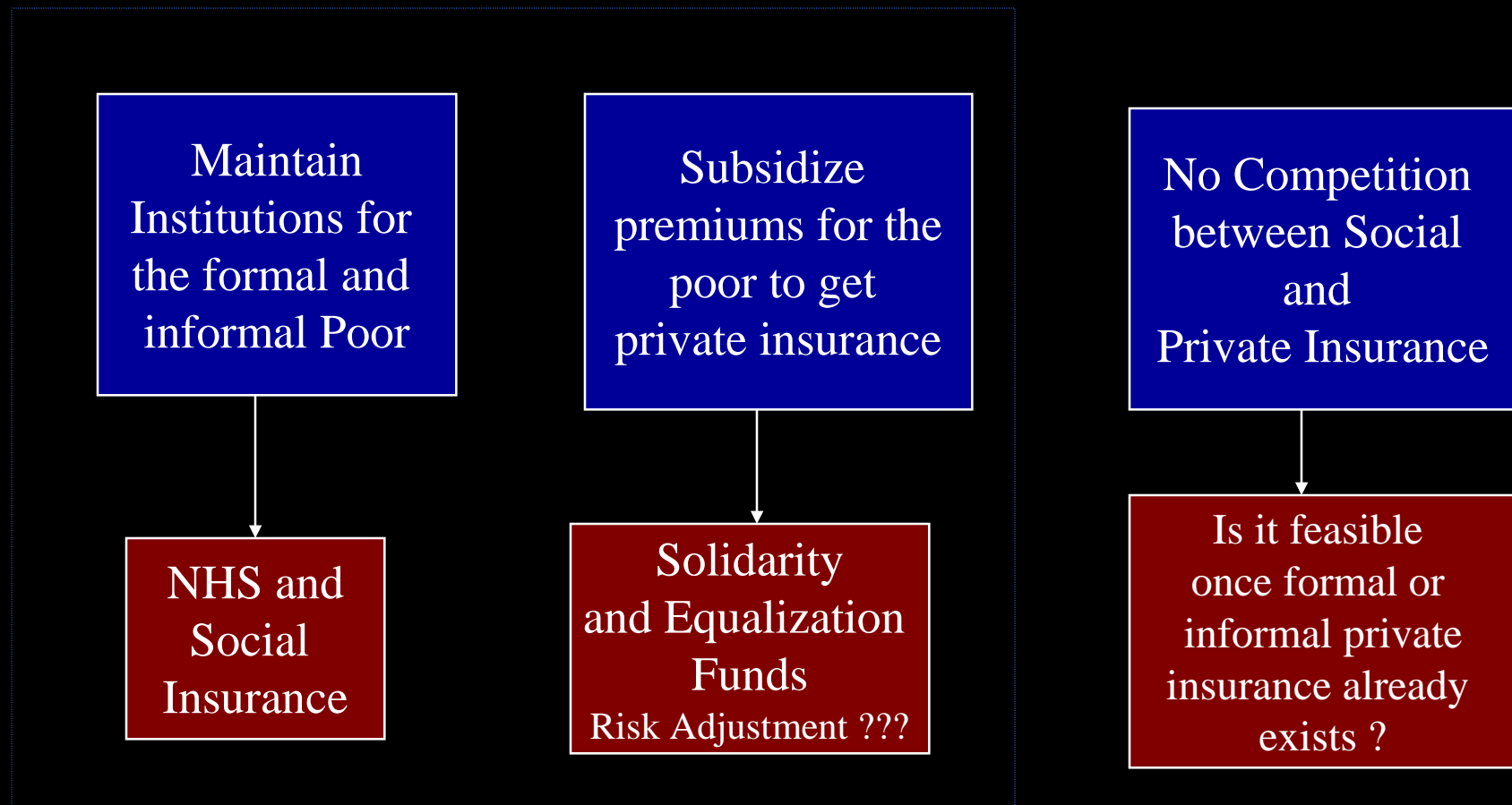
Clear Trends in the 80's and early 90's in middle Income Countries in LAC and EU

**Social
Insurance**



**Private
Competing
Insurance**

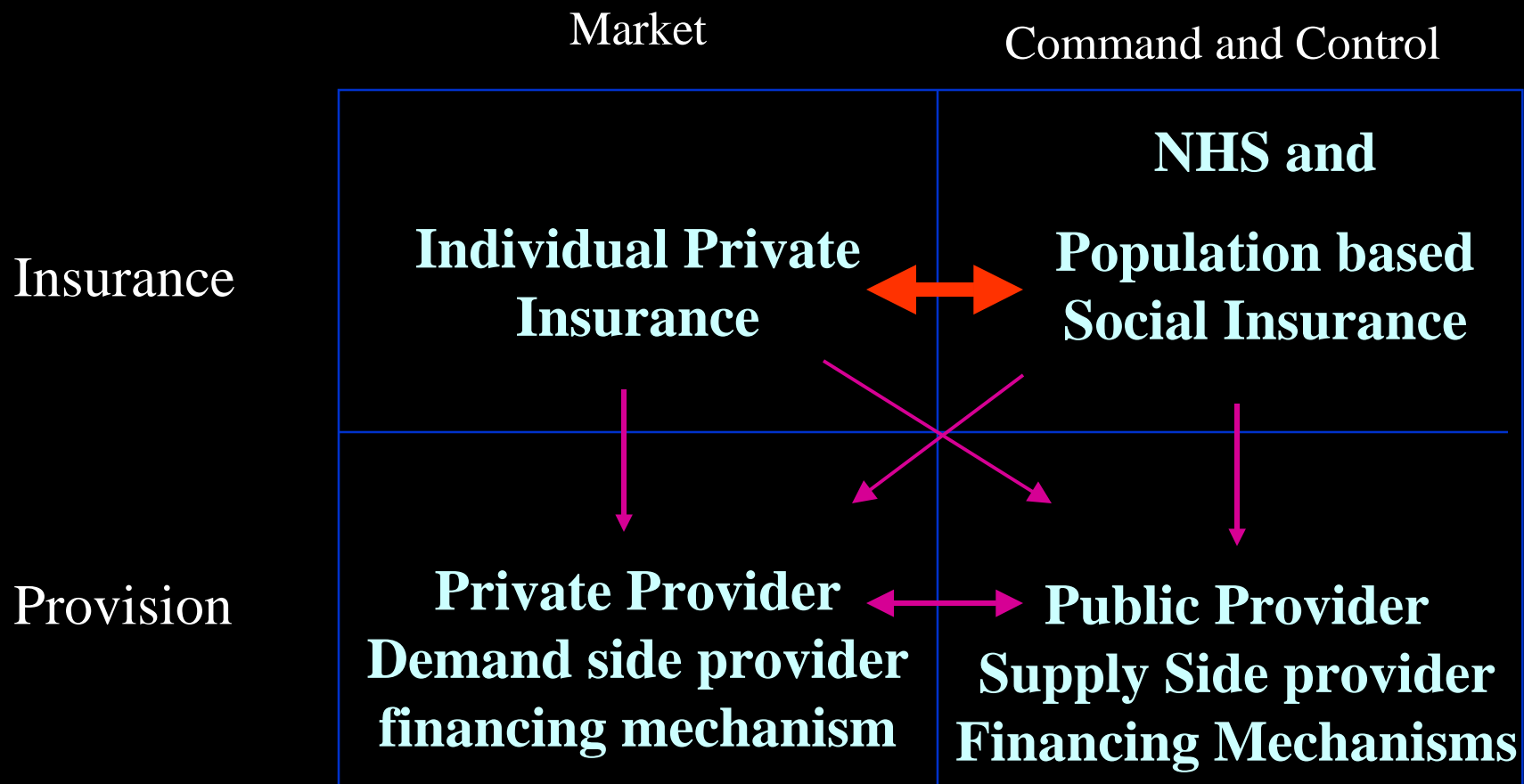
Options for the public financing for the formal (and informal) poor under full insurance competition



Lessons?

- ✓ Inefficiency and lack of responsiveness to consumers by single social insurance is tempting / forcing policy makers to introduce private insurance competition
- ✓ It is not difficult to get into multi private insurance competition but it is extremely difficult to control its problems and even more difficult to get out of it.
- ✓ It is almost impossible (mostly for political reasons) to significantly change the regulatory framework, incentives and institutional arrangements after the system has been introduced. It has to happen simultaneously
- ✓ The coherence of the incentive structure and the functional organization is even more important than the specifics of which model we choose: “The devil is in the details”.

Private - Public Interaction



This Options have made life very difficult for Secretaries of Health

- ✓ 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”



To be continued...

For many years...

