Imperial College London

Health Care Financing

Lecture 2: Pooling of Funds

LESONG CONTEH
l.conteh@imperial.ac.uk

Centre of Health Policy
Institute for Global Health Innovation, ICL

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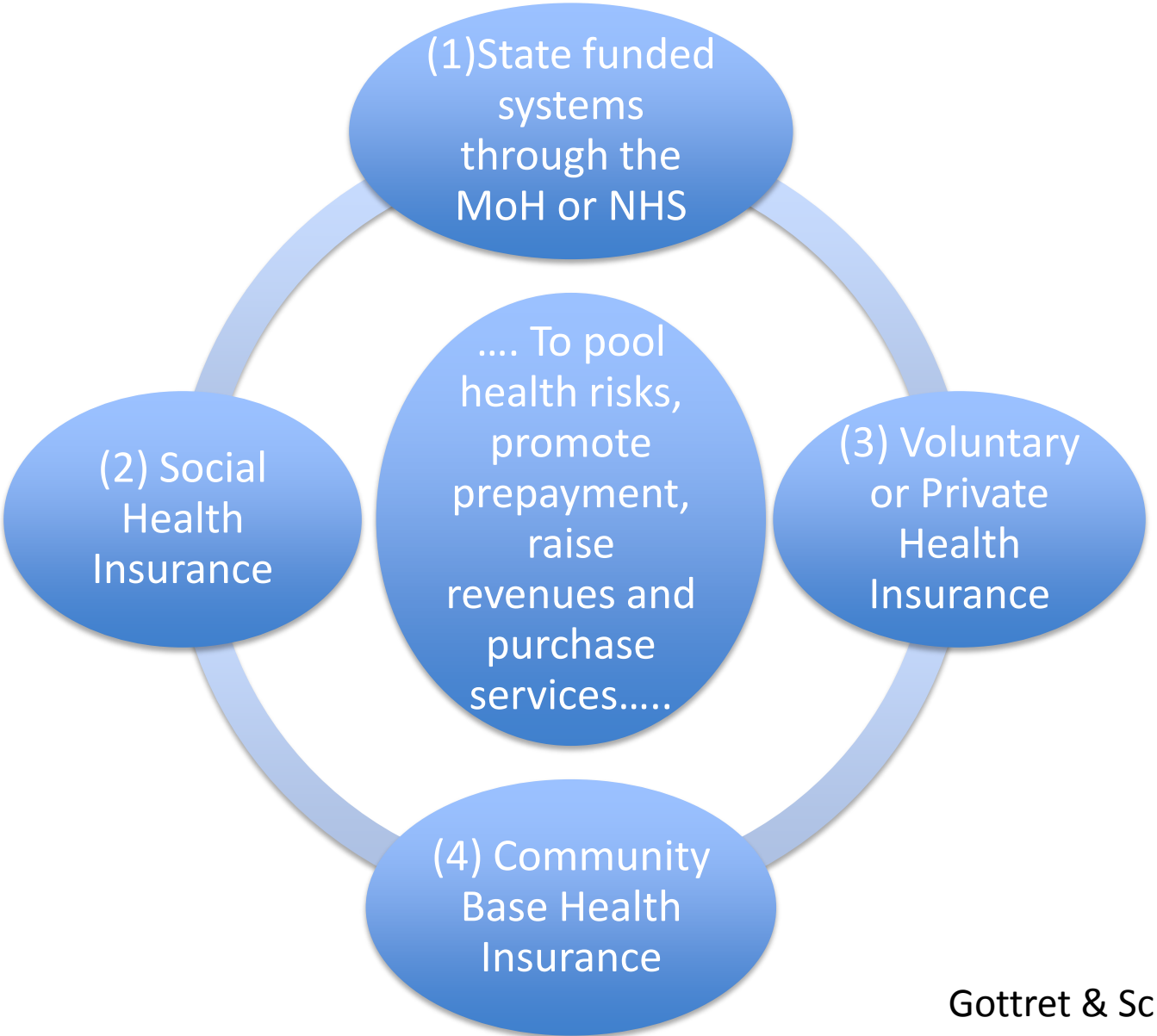
Pooling of Funds

- Pooling of funds allows for financial protection against the risk of illness
- Taxation and insurance are both ways of pooling revenue

Possible criteria for organising public insurance programmes

- Equity
- Efficiency
- Sustainability
- Administrative feasibility and cost

4 Main Insurance Mechanisms….



Gottret & Schieber (2006)

(1)State funded systems through the MoH or NHS

MoH or NHS systems key characteristics

1. Principally funded from general revenues
2. Provide Universal Coverage
3. Services are normally provided through a network of public providers

(2) Social Health Insurance (SHI)

Principles of SHI

Definition

- Social Health Insurance (SHI) is insurance operated by a public agency

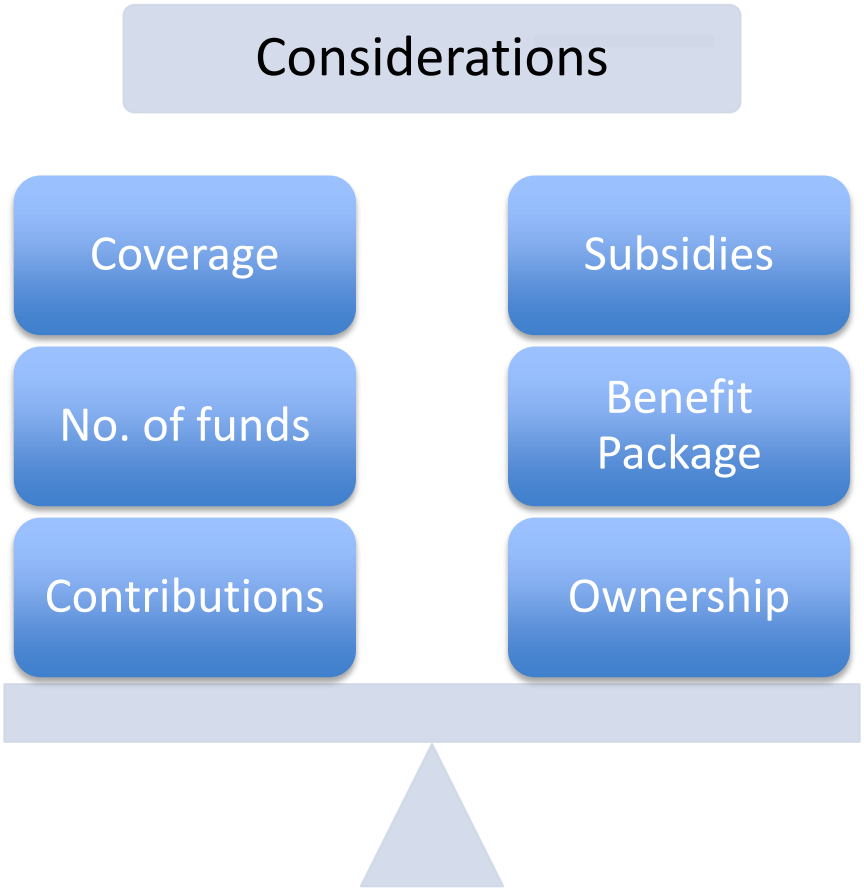
Key Terms

- Redistribution
  - A government intervention to transfer income and wealth between groups of the population
- Formal Labour
  - Employment with taxable income
- Payroll deduction
  - Contributions paid as part of the wages

Characteristics of Social Insurance

- Compulsory membership
- Payroll deduction of contributions
- Run by public bodies, either single or multiple organisations
- Re-distribution policies
- Clearly defined earmarked resources
- Complex administration, relative high costs
- Can mobilise additional recourses for the health sector

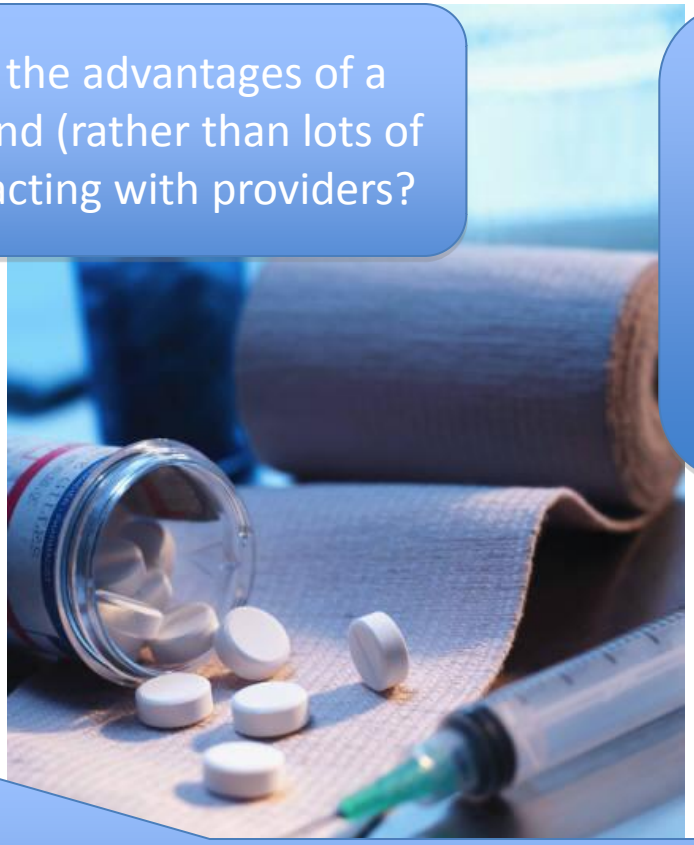
Wide Variety of SHI Schemes across countries



Advantages of SHI?

What do you think are the advantages of a large single insurance fund (rather than lots of small ones) when contracting with providers?

How might you stop insurers avoiding unhealthy, high risk people enrolling in SHI?



Imagine a country with several SHI funds subject to government regulation. What provisions would a government need to take to avoid adverse selection?

Conditions to help successful implementation of SHI….

- Level of income and economic growth
- Dominance of formal sector over informal sector
- Population distribution
- Room to increase labour costs
- Strong administrative capacity
- Quality health care infrastructure
- Stakeholder consensus in favour of SHI, and political stability and rights
- Ability to extend the system

Gottret & Schieber (2006)

(3) Voluntary or Private Health Insurance (PHI)

Characteristics of PHI

- Voluntary contributions in the form of premiums by individuals (largely employed people) to private insurance companies or insurers who purchase health care on their behalf.
- Contributions are not related to income
- Insurance company acts as a financial intermediately between service provider and user

Several Roles of P/Vol HI

- Primary
  - Main source of coverage for a population or subpopulation
- Duplicate
  - covering the same services or benefits as public coverage, but differing in the providers, time of access, quality and amenities
- Complementary
  - cost sharing under the public programme
- Supplementary
  - Offering services not covered by the public programme

Traditional problems of insurance

- Adverse selection
  - Those who are sick enrol more and those who are not opt out of insurance
  - high risk amongst members
  - high costs (low coverage) or bankruptcy

- Moral hazard
  - If health care is free (covered) people tend to over-consume
  - Premiums (revenues of the scheme) are not high enough to cover higher costs due to over-utilization

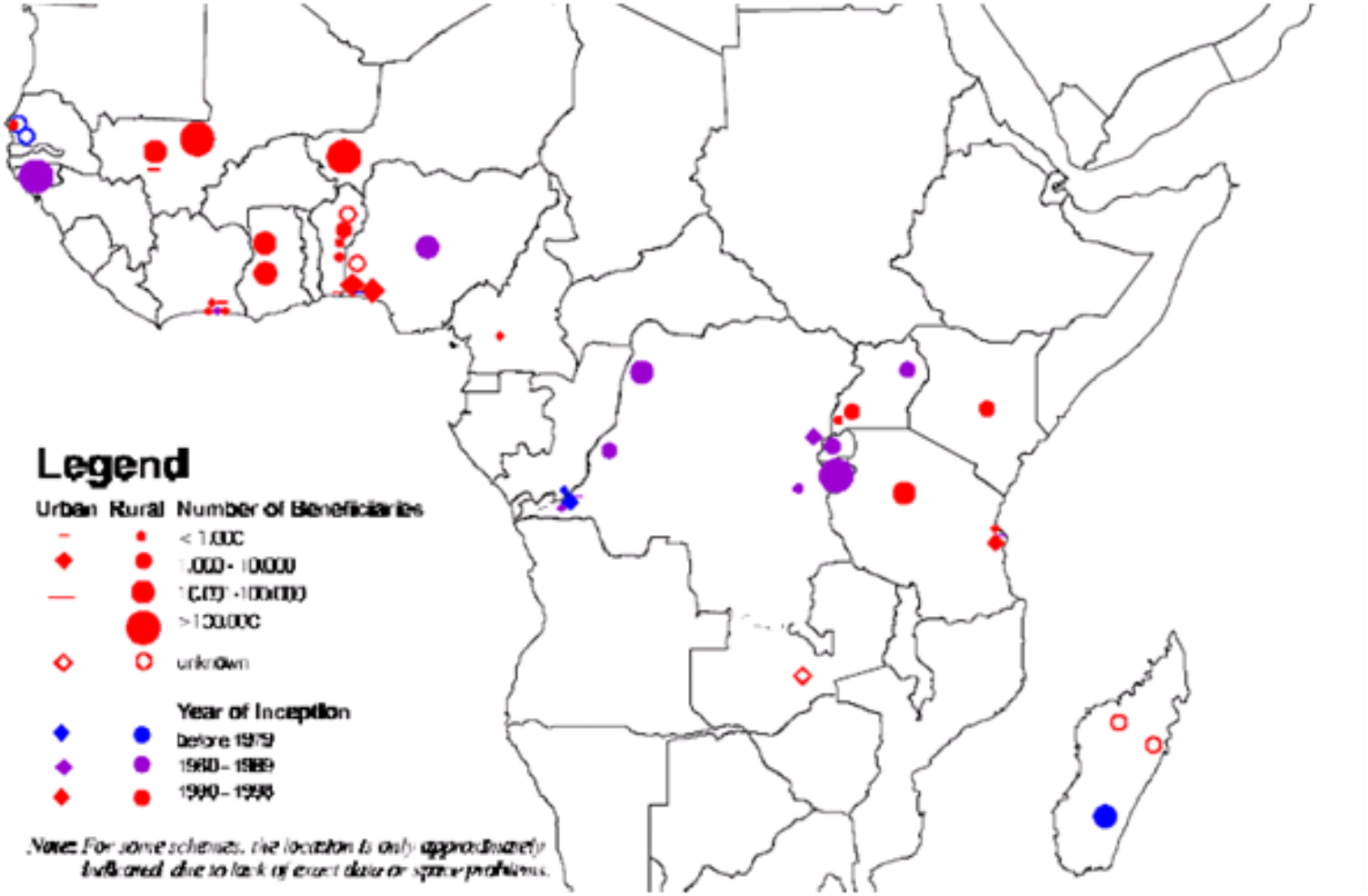
How can these problems be minimised?

(4) Community Base Health Insurance (CBHI)

Characteristics

- Often a precursor to many of the current SHI systems, such as Germany, Japan and Rep of Korea. Currently prevalent in sub-Saharan Africa
- Scheme generally not for profit prepayment plans controlled by a community
- Voluntary membership
- Most operate according to core social values (solidarity)

The development of CBHI



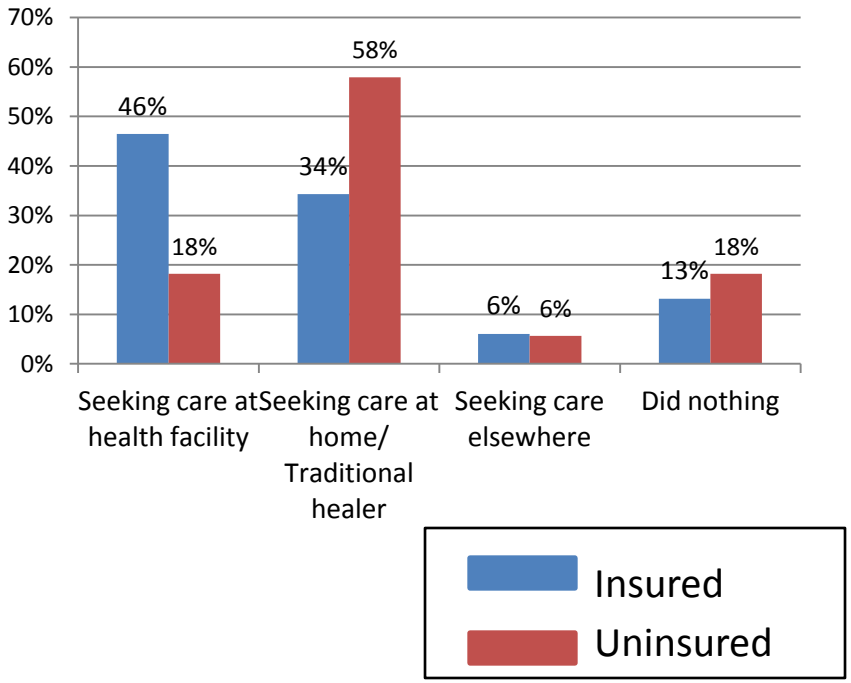
Slide courtesy of Dr Mylene Lagarde

Characteristics of CBHI

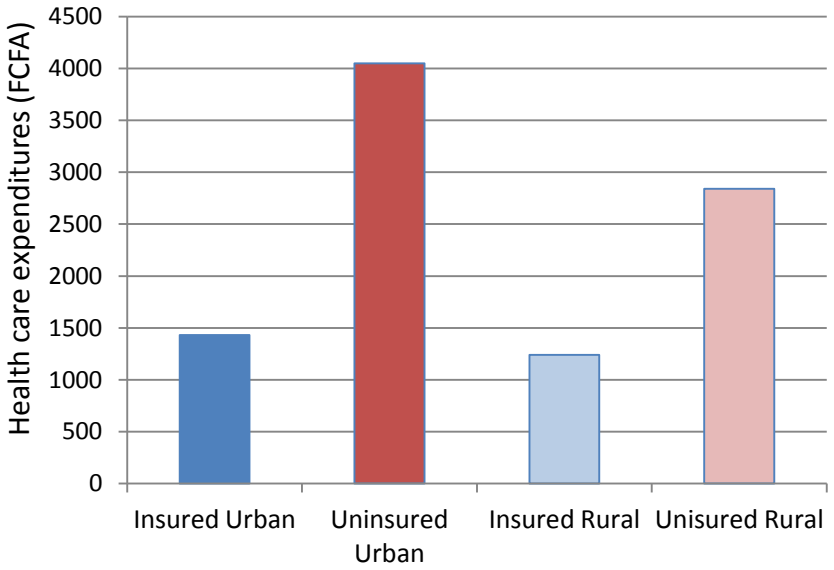
- Membership
  - Voluntary enrolment
  - Extended to family members
  - Based on pre-existing group
- Financial contribution
  - Individuals pay premiums on a regular basis
  - Usually flat premium
- Benefits
  - (full or partial) coverage
  - set package of health services
  - health members' contributions will benefit sick CBI members

Benefits of CBHI

- Members use health services more than non-members



- CBHI provides financial protection



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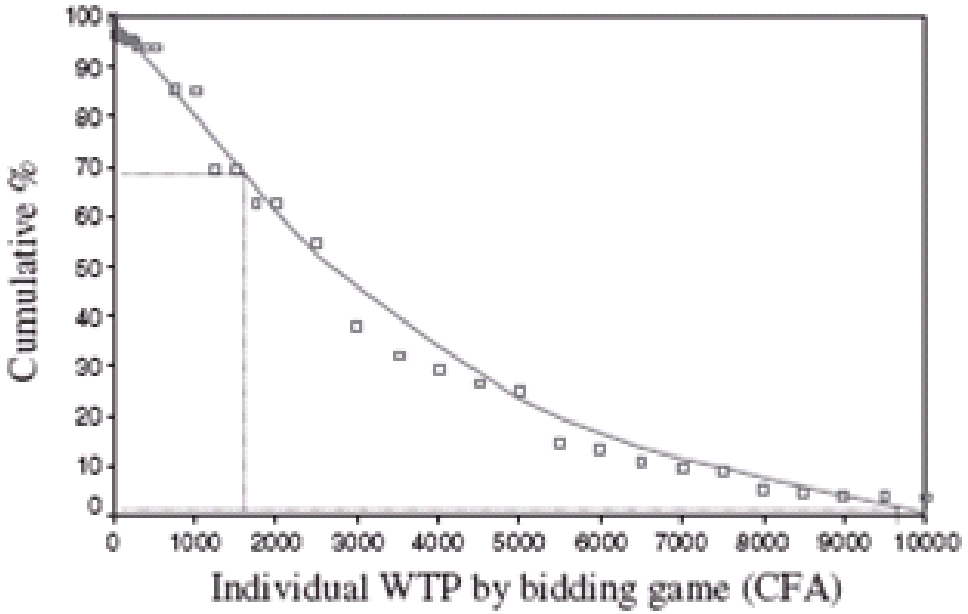
To enrol or not to enrol?



Dong et al. (2003)
Health Economics

"1500 CFA is not much because when you need care, 1500 CFA is really not much. But paying 1500 CFA for all people in the family becomes much." (Male, not enrolled)

"I wanted to enrol, but I did not find the means. Maybe next year..." (Male, non-enrolled)

De Allegri et al. (2006) Social Science and Medicine

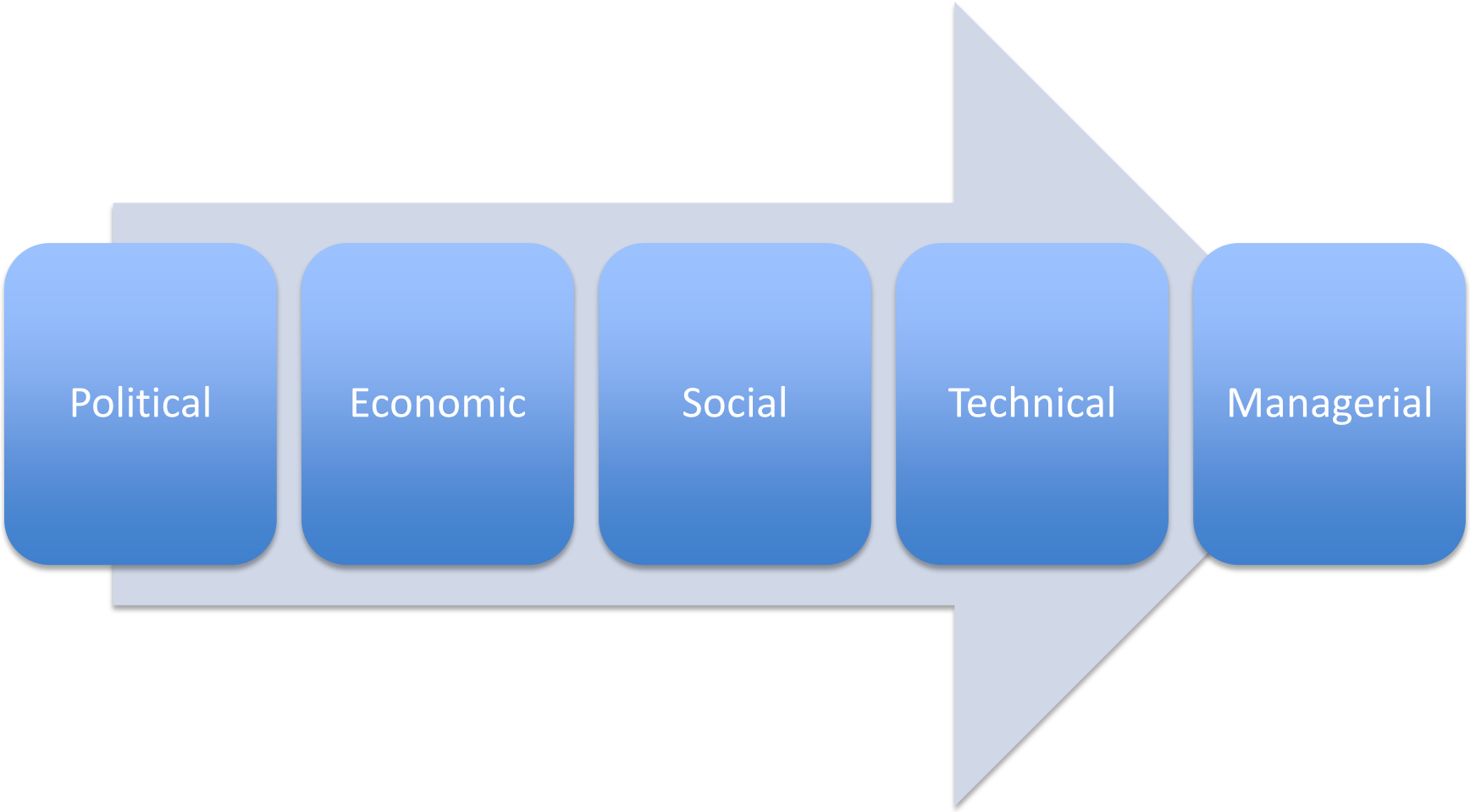
Evidence of CBHI success?

- Very few schemes cover high proportions of the eligible population. Issues of affordability.
- Quality of services and trust in management is critical
- Vulnerable populations most often reached with gov't or other agencies support
- Do not always avert large OOP payments.
- Size of the scheme matters
- Very few schemes adopt strategic purchasing mechanisms and define benefit packages and exclusions
- Generally high admin costs (5%-17%)

CBHI a solution for equitable financing?

- Inequity between members
  - If premiums are not adjusted with income, regressive mechanism
- Inequity between members and non-members
  - Members get additional protection
  - Enrolment can be correlated with income
- The Equity – Sustainability trade-off
  - Commitment to serving the poor members
  - Risk of not raising enough money to cover expenses

Key Dimensions of Context



Criel et al (2004)

Summary

- Different financing mechanisms and risk pooling exist in every country's health care system, although a few options predominate
  - Tax-based health systems are (usually) more equitable.. but how to raise enough resources with small tax base?
  - Political priority? Does it reflect on government performance? NHS
  - Social health insurance needs good governance and a labour market able to absorb the contributions
  - Private health care market does not welcome everyone, but it does provide choice
  - CBHI is a good idea… but unaffordable for most?

Indentify some instruments to regulate health financing mechanisms not funded by governments in high-, low-, and middle-income countries

Anwers on page 108 Gottret & Schieber (2006)

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