

Health System Funding Approaches of Tomorrow



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SUMMARY

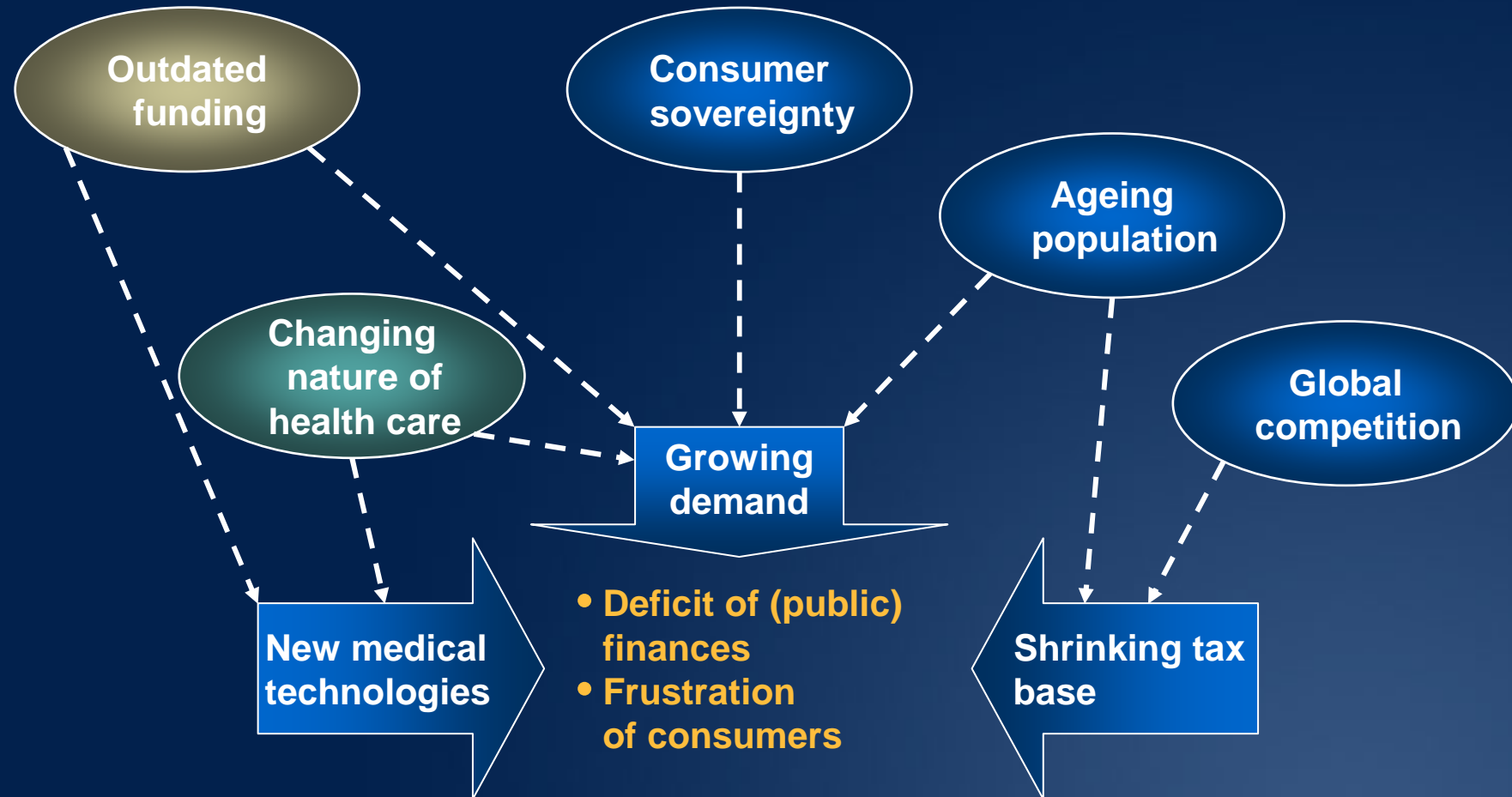
Traditional health systems are under increased pressure due to growing demand, new expensive medical technologies and shrinking tax base. Combination of these pressures leads to ever deeper deficit of public finance and frustration of patients. One of major drivers of these developments is outdated system of health care funding based on separation of care consumption and financing. Such a model worked fine 100 years ago but is unsuitable for the 21st century.

New nature of health care which is becoming part of everyday life in developed societies and ageing of populations require re-involvement of citizens into economical consequences of health care consumption. Level of wealth in most European countries and available financial tools enable to do so while preserving access to necessary care for all citizens.

Health system based on combination of statutory insurance and individual health accounts funded by public and private sources preserves access, creates room for individual preferences and enables citizens to benefit from responsible consumption of care. Such an approach is also able to support partial transition from a pay-as-you-go funding to a system partially based on savings and to accommodate future developments on supply and demand sides of health care.

STATUS OF TRADITIONAL HEALTH CARE SYSTEMS

● Focus of this presentation



These problems cannot be solved within the existing financing arrangements

HISTORICAL COMPARISON – NATURE OF HEALTH CARE

100 years ago

- Consumption of health care is an extraordinary event
- Health care saves lives or alleviates suffering
- There is practically no room for choice whether, where, when and which health care to get

Consumption of health care is defined by need

Today

- Consumption of health care is part of everyday life in developed societies
- Health care is more and more oriented towards prolongation of life and improvement of its quality
- There is growing room for choice whether, where, when and which health care to get

Consumption of health care is increasingly defined by personal preferences

HISTORICAL COMPARISON – FUNDING OF HEALTH CARE

100 years ago

- Direct financing of health care is unaffordable for most citizens
- Financial instruments to ensure liquidity on individual level do not exist or are unaffordable

Separation of health care consumption from its funding through statutory health insurance with broad coverage is the solution

Today

- Direct financing of significant (and growing) part of health care is affordable for most citizens
- Financial instruments to ensure liquidity on individual level (savings accounts, loans) are available and affordable

(Re) involvement of citizens into economical consequences of healthcare consumption is desirable and can be achieved without limitation of access to necessary care

CONSEQUENCES OF SEPARATION OF HEALTH CARE CONSUMPTION FROM ITS FUNDING

Incentives for unlimited consumption

- Provision of care free of charge leads to its over consumption
- Patients consume even care they do not want and do not need

Restriction of individual choice

- Citizens to a large extent lose control over use of their health care contributions (premiums, taxes)
- Contracts between payors and providers allow only very restricted room for individual preferences

Creation of funds with restricted use

- Funds collected for health care cannot be used elsewhere even if it were better for a citizen or for the whole society

Deformation of physician – patient relationship

- Regulations and limits frustrate physicians in their efforts to serve individual patients

Problems are magnified by irrational scope of coverage

KEY REQUIREMENTS ON A NEW FUNDING APPROACH

- Preserve access to necessary health care for all citizens
- Renew responsibility of individuals for health care costs
- Ensure citizens role of sovereign consumers

Citizens must have

- Guaranteed access to necessary care
- Choice to consume services they prefer
- Benefit from responsible consumption of care

KEY POINTS OF NEW FUNDING SYSTEM

Current system

Role of public sources

- Publicly collected sources (taxes, premiums) are taken out of citizen control and used to create anonymous funds with restricted use

Role of statutory insurance

- Dominating tool to ensure access to health care
- Insane scope of coverage

Role of citizens

- Restriction of choice
- Separation of economical consequences from care consumption


New system

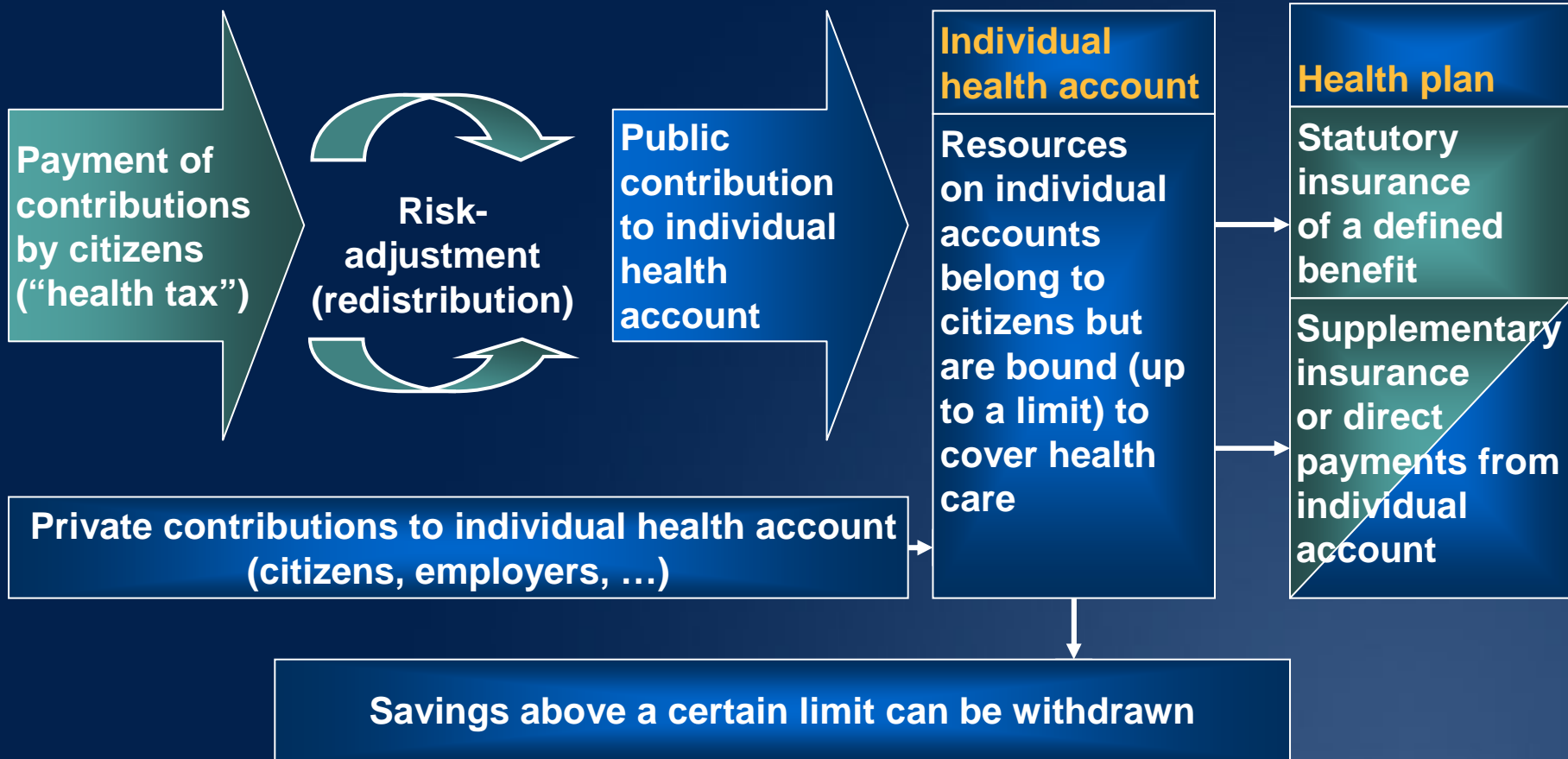
- Publicly collected sources are individualized in the form of risk-adjusted contributions to individual health accounts

- Tool to ensure access to care which is otherwise economically unaffordable

- Free choice of a health plan (supplementary insurance or direct responsibility for payments from individual account)

FINANCIAL FLOWS IN THE NEW SYSTEM

 Mechanisms ensuring access to necessary care



ADVANTAGES OF THE PROPOSED FUNDING SYSTEM

- **Fulfills the key requirements**
 - Access to necessary care
 - Incentives for responsible care consumption
 - Individual choice
- **Is relatively simple – creates one common space for funding, production and consumption of health care**
- **Enables smooth transition from a pay-as-you-go funding to a system partially based on savings**
- **Contains mechanisms which enable reaction to developments in**
 - Health technologies
 - Financial tools (better risk-adjustment mechanisms enable reduction of scope of statutory health insurance)
 - Status of public finances and political preferences (level of equity)

OVERVIEW OF ALTERNATIVES

No substantial reform

- Financial pressures lead to gradual deterioration of access and quality
- Well-off citizens leave public system which eventually leads to creation of a two-tier medicine

Reduction of scope of statutory insurance

- Substantial reduction is politically difficult without mechanisms ensuring access to care uncovered by statutory insurance
- Long term unsustainable – does not create incentives for responsible care consumption

“Classical” managed competition

- Partially increases effectiveness of care provision and consumption but does not create space for individual choice and responsibility

Individual savings accounts Singapore style

- Will throw citizens on an unprepared (or non-existent) health care market
- Transition period requires significant public subsidies
- Missing redistribution before savings would lead to significant inequalities