



**Asia-Pacific
Economic Cooperation**

2010/SOM3/LSIF/024

Health Financing Mechanisms and Options

Submitted by: Universitas Indonesia (UI)



**Life Sciences Innovation Forum
Sendai, Japan
18-19 September 2010**

Health Financing Mechanisms and Options

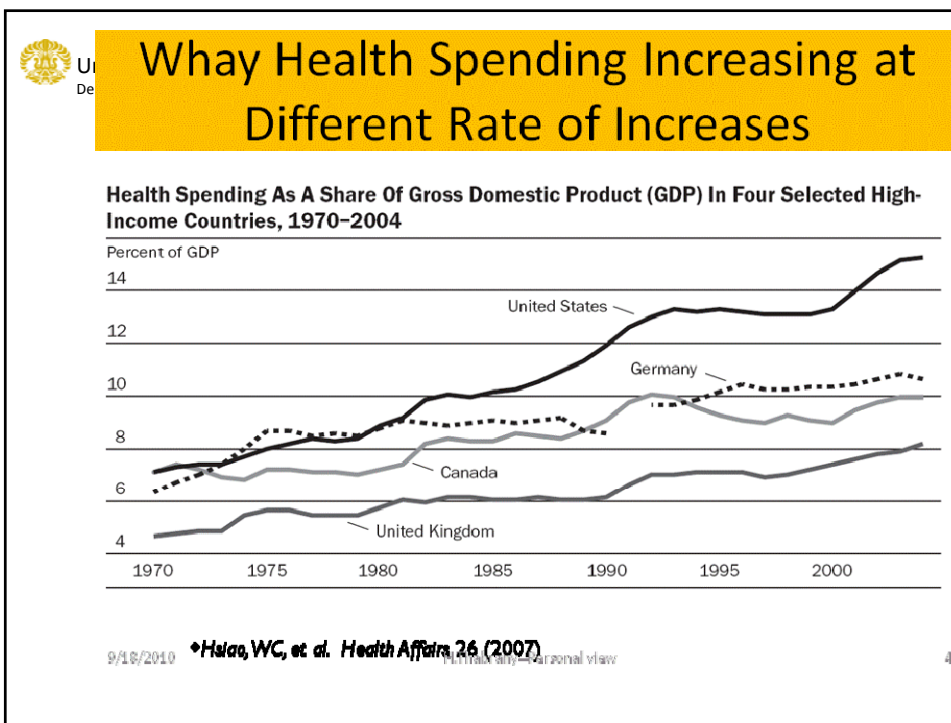
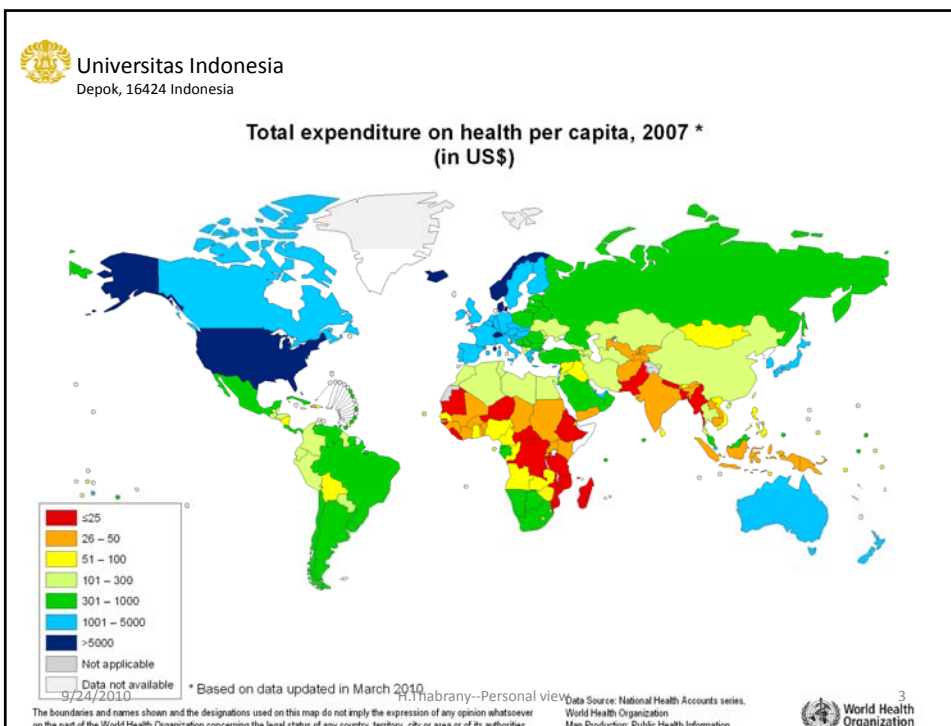
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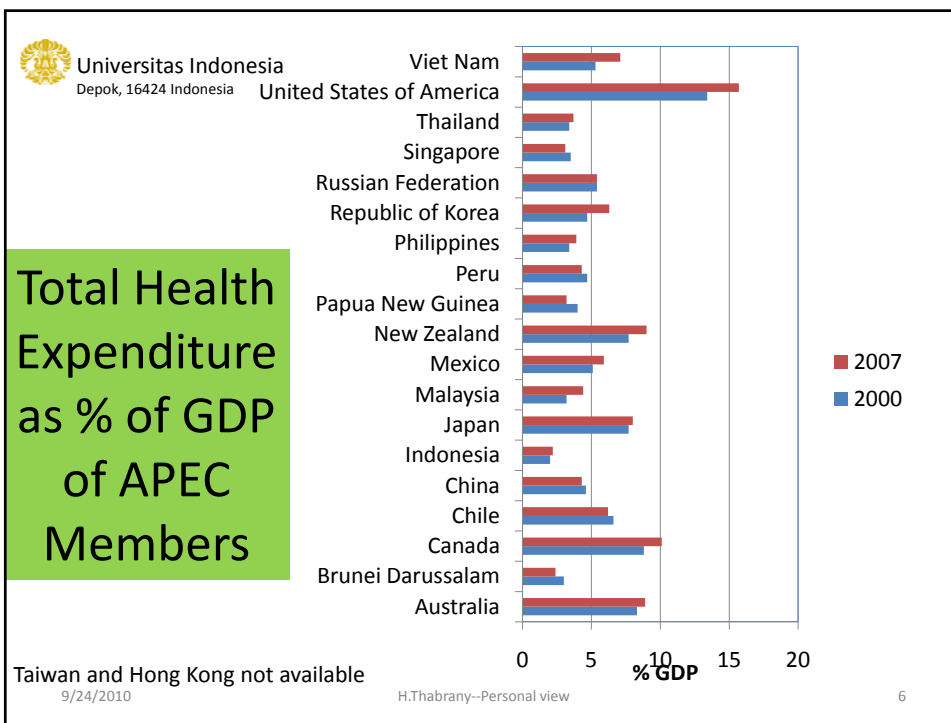
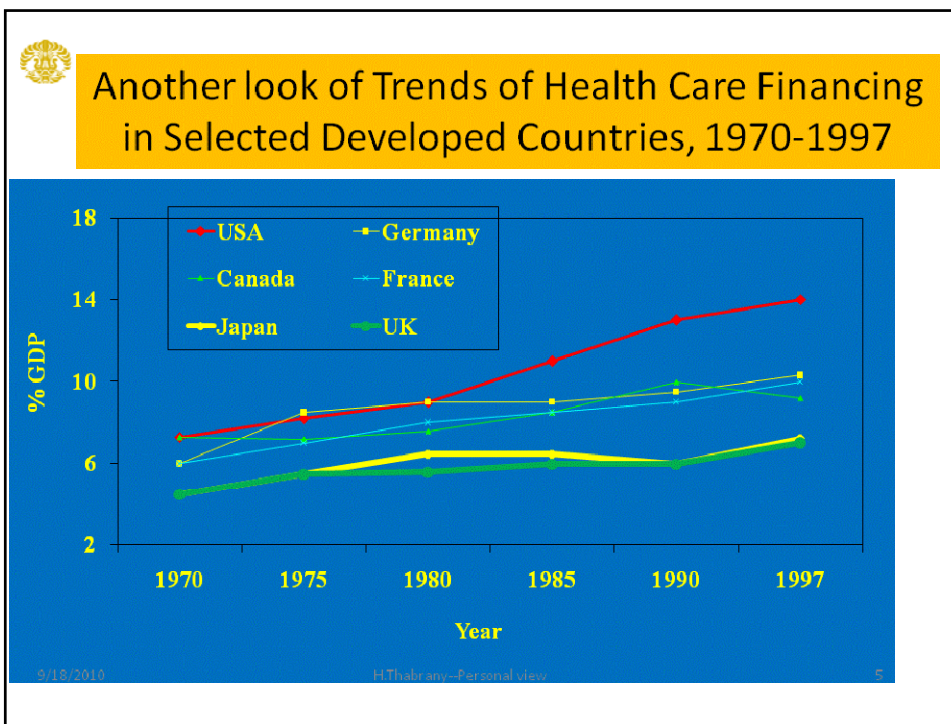
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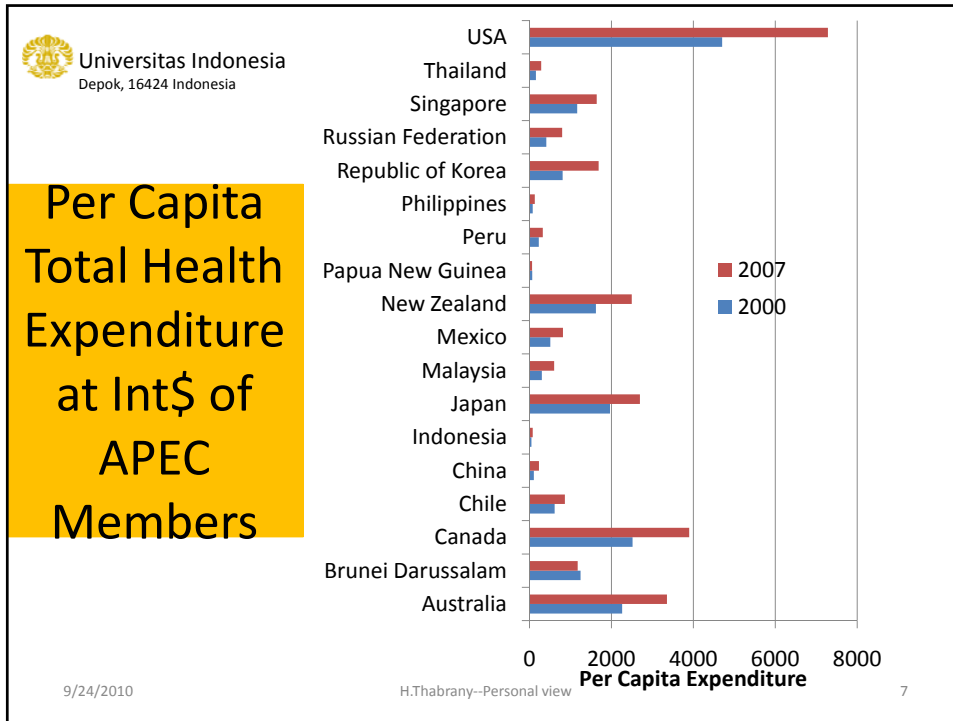
Personal view, hasbullah.thabrany@ui.edu

Outline

1. Quick outlook of health care financing indicators in the World and the Region
2. Problems of health care financing
3. The goals for health care financing
4. Some mechanisms and options for health care financing
5. Priority for reforms







- ### Problems of HCF—Continue to Rise!
- Main factors:
1. Cost of living
 2. High social values of healthy living/life
 3. Ageing. Last year of life consumes about 25% of total health care expenditure in developed countries
 4. Sistem/market failures
 - a) Higher demand higher prices
 - b) Higher supplies higher prices
 - c) Financing systems
 - d) Delivery (payment) systems
 5. Use of high technologies high ends drugs
 6. Moral hazard and fraud
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Why are Health Financing Systems so Complex?

1. Health care is unique that no other products or services alike.
 - a) There is high **uncertainty** of the demand for health care (time, places, costs). The Majority of people will not be prepared and have no ability to pay.
 - b) There is huge gap/asymmetric of information, between suppliers (providers) and consumers (patients). The Majority of people will be forced to pay (not willingness to pay).
 - c) There are externalities. Those who consume may not be the only one who benefit/get risks from the consumption. It is not fair to pay by an individual consumer/patient
2. Health care involves sensitive issues of rights, humanitarianism, high values, and happiness
 → prices and income inelastics

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Options for Financing Health Care: APEC Countries are in Different Stages

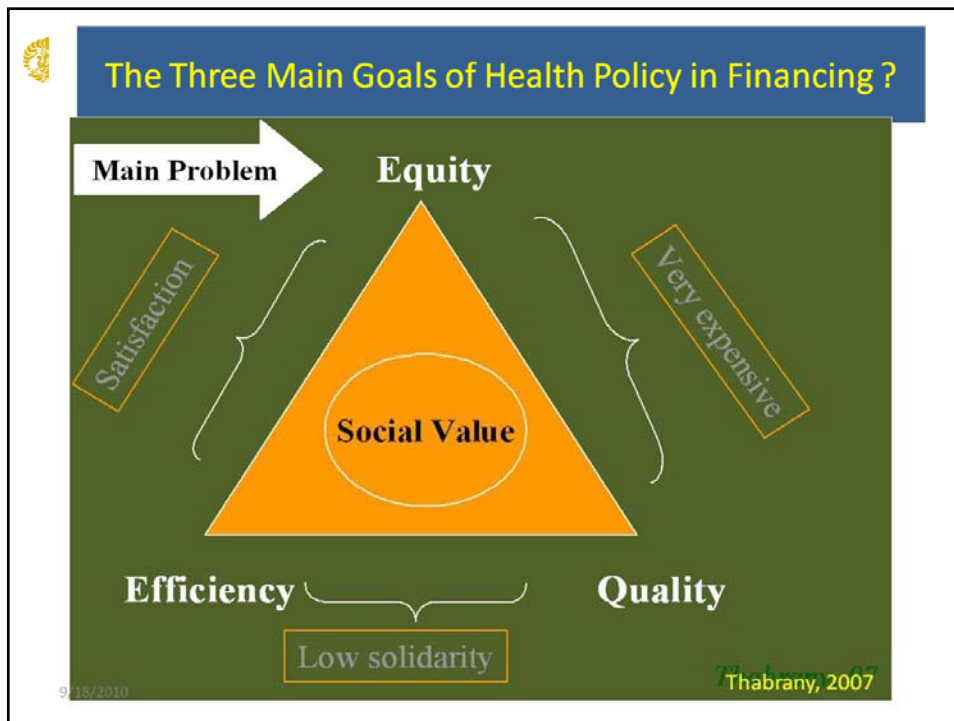
1. Private financing, business model—address the libertarian equity and NEVER lead to universal coverage
 - a) Out of pocket, traditional, riskiest for impoverishments.
 - b) Private health insurance, response to the uncertainty, risk transfer scheme, normally risk-based premium
 - c) Charity, donation. Not sustainable
2. Public financing, monopolistic, address egalitarian equity
 - a) Tax funded, monopolistic,
 - b) Social health insurance (SHI), quasi monopolistic, income-based premium/contribution (not-risk related)
 - c) Mixed tax and SHI
3. In reality, in all countries, there is mixed public financing for the basic supplemented by private financing with various mixed levels

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What Are the Goals of Health Care Financing Systems?



The Basic Mechanisms for Appropriate Health Care Financing Models

Uncertain	→	Never able to pay (Resp: insurance)	<div style="background-color: #008000; width: 20px; height: 100px; margin: 0 auto;"></div>	<div style="background-color: #008000; width: 40px; height: 60px; margin: 0 auto;"></div>
Information asymmetry	→	Forced to pay (Resp: regulate)		
Externality	→	Not fair to pay (Resp: subsidy)		

Publicly funded

Tax funded
Non-tax gov funded
Social insurance

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Tax Funded, the NHS/Beverian Model: Malaysia, Hong Kong, New Zealand, etc

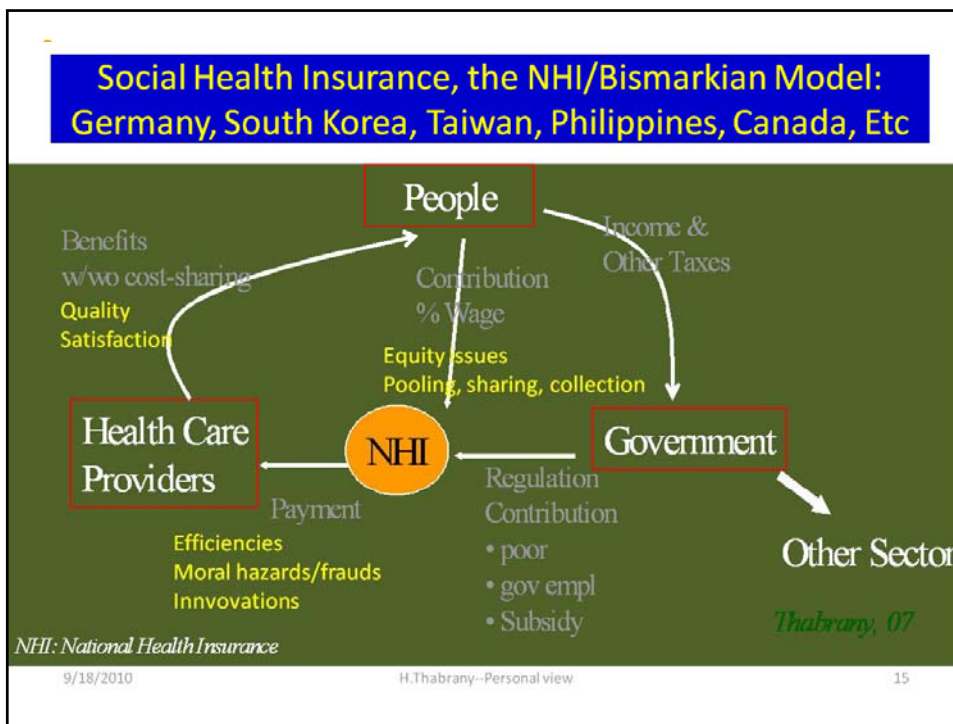
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    graph TD
      People[People] -- "Free services  
Quality Satisfaction" --> HCP[Health Care Providers]
      People -- "Income and Other Taxes" --> Gov[Government]
      Gov -- "Equity issues  
Pooling, sharing, collection" --> People
      Gov -- "Full funding  
Efficiencies  
Moral hazards/frauds  
Innovations" --> HCP
      Gov -- "Compete budget" --> OS[Other Sector]
      HCP --> OS
      OS --> Gov
  
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NHS = National Health Service

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- ## The Two Main Financing Schemes
- | | |
|---|--|
| <p>Tax Funded</p> <ol style="list-style-type: none"> 1. Mandatory 2. % of Income 3. Progressive 4. Undefined benefits 5. Tax threshold/exempted groups 6. Ensure egalitarian equity 7. Often services are provided only in public health facilities | <p>Social /National Health Insurance</p> <ol style="list-style-type: none"> 1. Mandatory 2. % of Income, no health risk related 3. No Progressive 4. Benefit ONLY for health care 5. Some threshold may apply/exempted groups 6. Ensure egalitarian equity 7. Services can be contracted to public and private health care facilities 8. Often combined with subsidies from tax revenues for low income |
|---|--|
- All countries have a component of tax funded, SHI, commercial HI or combined schemes. But, the a dominance of tax/SHI funding ensure better (egalitarian) equity
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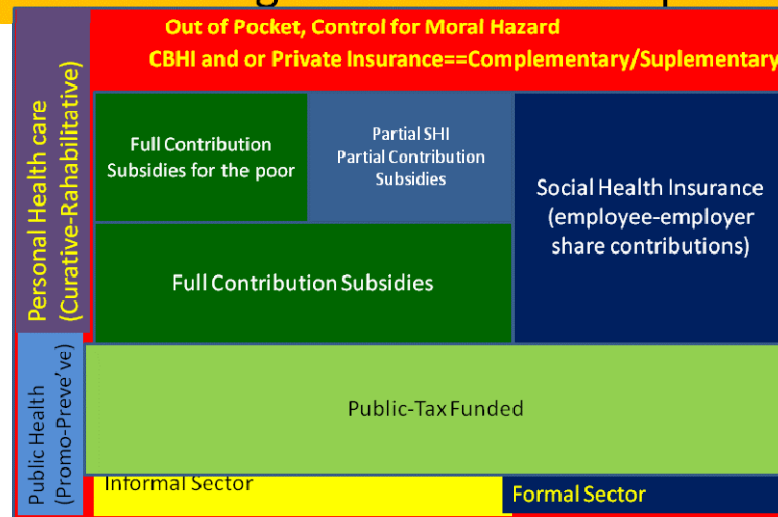
The Singaporean Mix Model

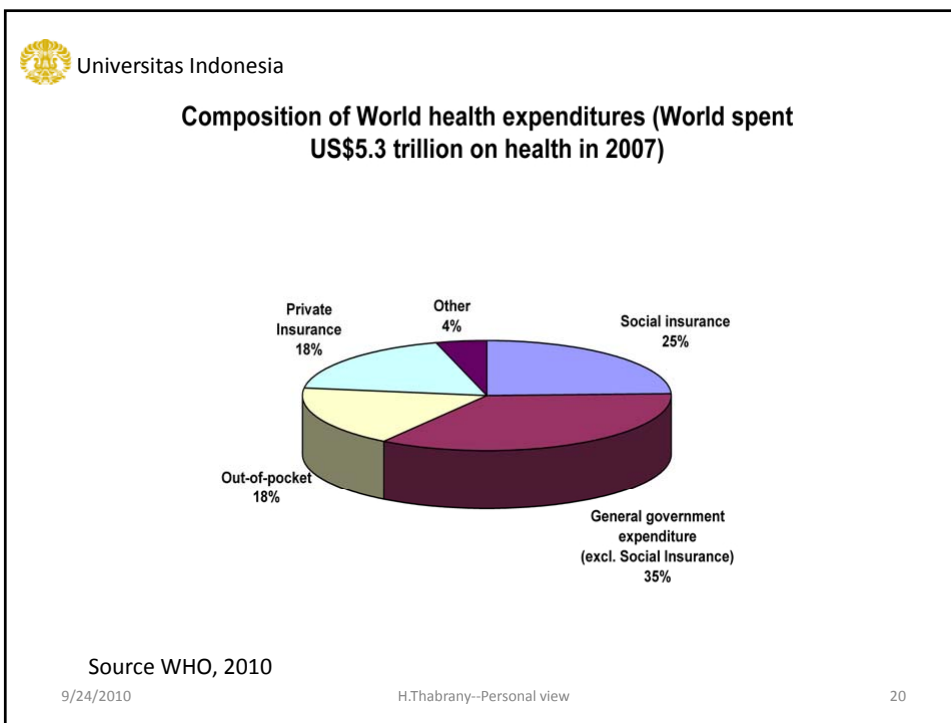
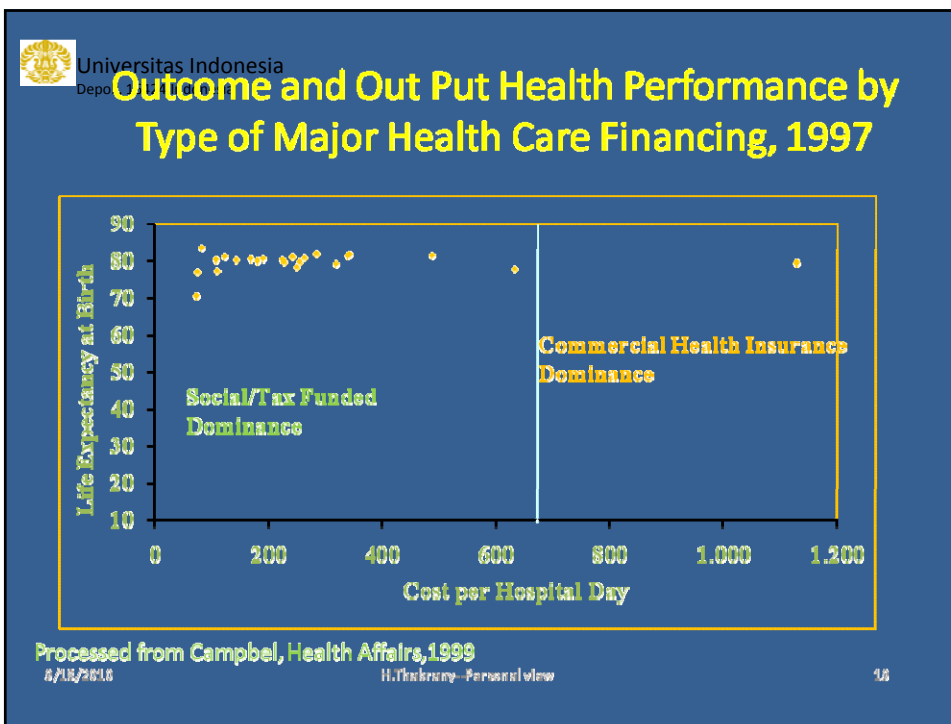
Singaporeans worried about moral hazard and fraud of using public funding, but aware of market failures. It used three mechanisms

1. Medisave. Mandatory saving for relatively low to moderate health care costs.
2. Medishield. Social health insurance scheme for catastrophic health care
3. Medifund. A tax funded medicaid/subsidies for low income/the poor



Hypothetical Financing Schemes by Working Status of the People







Priorities for Reform

- Low and Middle Income Countries, Equity First:
 - Expanding Social Health Insurance/Tax Funded
 - Ensure cost-containment mechanisms, payment methods, be installed
 - Moving toward monopsony to be more efficient
- High income countries
 - Strengthening cost-containment measures
 - Reforming payment systems, toward risk-sharing or risk based payments
 - Moving toward monopsony to be more efficient

APEC regions provide A-Z financing innovations

LSIF could facilitate policy and HCF training to APEC member countries to facilitate learning from each others to ensure a balance Public-Private mix on health care leading to better innovations

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Remember to Reform: build something big and last long!!
Likes this Borobudur Temple

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