

Four flavours of health expenditures: Implications of the distribution of health expenditures for financing coverage

CAHSPR Conference 2009

Thursday, May 14, 2009

Authors:

Raisa B. Deber,¹ Kenneth C. K. Lam,¹
Evelyn L. Forget,² Randy Walld,² Leslie L. Roos²

¹Department of Health Policy, Management and Evaluation, Faculty of Medicine, University of Toronto

²Manitoba Centre for Health Policy, Faculty of Medicine, University of Manitoba

How should we finance health care?



- Large ongoing international debate regarding the balance of different financing approaches
- OECD identifies these models:
 - Public financing
 - Social health insurance
 - Private health insurance
 - Out of pocket payments

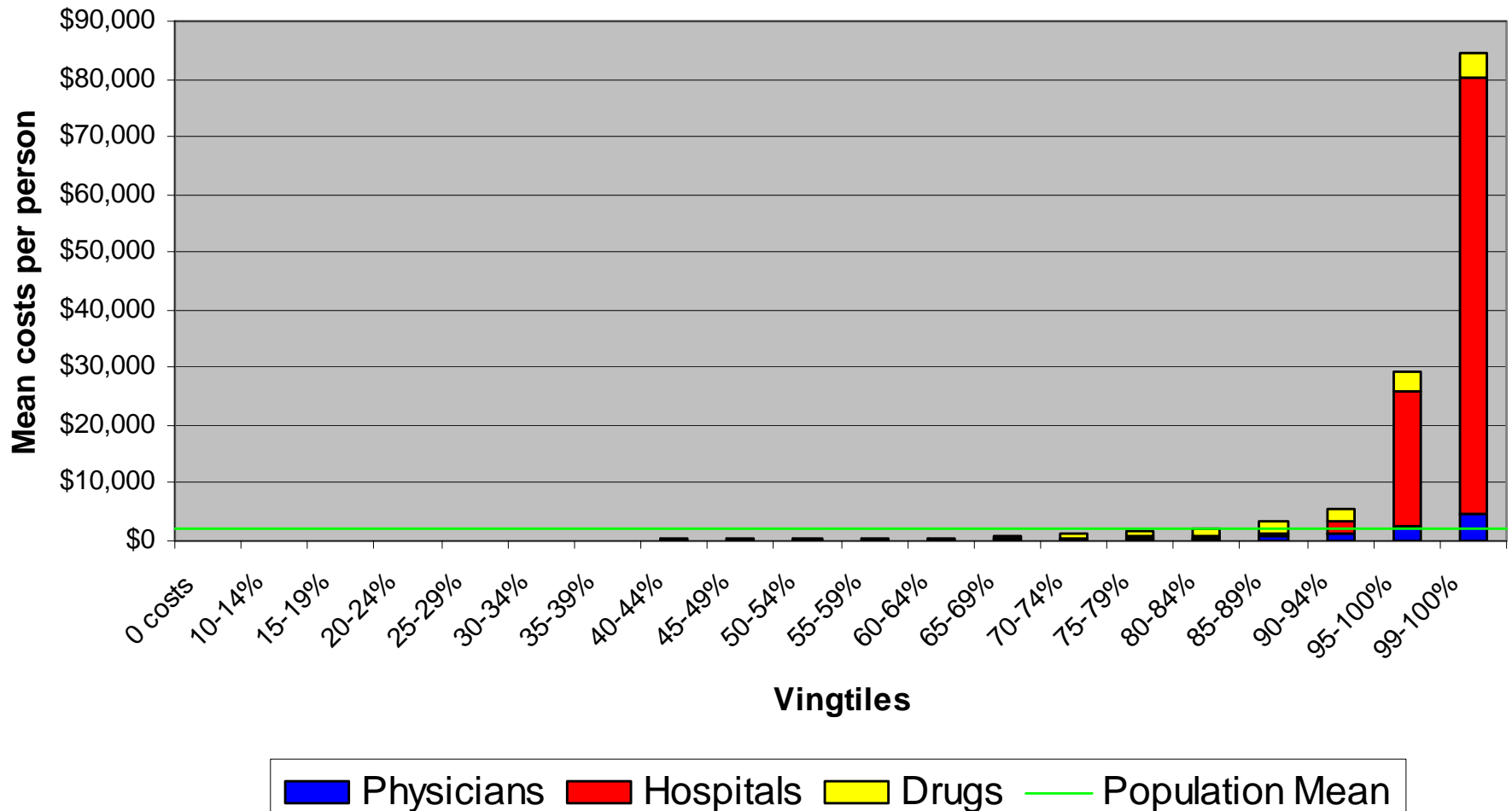


One key variable: Solidarity

- How much should costs be pooled?
- Should payments be
 - Uniform? (flat rates)
 - Based on ability to pay? (income-based)
 - Based on expected costs? (risk-rated)

Distribution of health expenditures?

Mean annual costs (Physician, Hospital, and Pharmaceutical) by Vingtiles in Manitoba, Fiscal 2006-2007 (Mean=\$2,318.04)





Manitoba data (Fiscal 2006-2007)

- Average attributable expenditure for Hospital, Physician, and Pharmaceutical costs
 - \$2,318.04 per capita



Highly skewed

% of Population	Mean Dollars (\$)
Lowest 12%	\$0
70%	<\$1,000 per capita
Highest 1%	\$84,662



How about physician costs?

% of Population	Mean Dollars (\$)
Lowest 14%	\$0
Average	<\$416 per capita
Highest 1%	\$6,301



How about hospital costs?

% of Population	Mean Dollars (\$)
86%	\$0
Average	<\$1,315 per capita
Highest 1%	\$76,443



How about outpatient prescription drug costs?

% of Population	Mean Dollars (\$)
30%	\$0
Average	<\$560 per capita
Highest 1%	\$11,985



Four categories of services?

	Categories of Services	Anticipated costs
a)	Services to the entire population (Public Health)	Relatively homogeneous
b)	Basic health care to individuals	Both relatively homogeneous and small
c)	Potentially catastrophically- expensive services to individuals	Potentially high and not predictable
d)	Potentially catastrophically- expensive services to individuals	Potentially high and relatively predictable



a) Services to entire population

- Issue: Many public health programs are public goods
- Externalities (e.g., positive and negative)
- Benefits are probabilistic (e.g., prevention)
- Voluntary markets likely to under-provide
- Strong case for government provision!



b) Basic health care to individuals

- Some services may have a disease prevention component (e.g., stop smoking counseling, diabetes education)
- Relatively low costs; distribution unlikely to be skewed (e.g., basic primary care)
- Such predictable costs do not really fit an insurance model
- Multiple ways to finance this category
 - Main issue related to income - can people afford to pay for it?



c) Potentially catastrophically-expensive services to individuals—Unpredictable

- Risk pooling designed for these services
- Includes high cost interventions (e.g., hospitalization) for those whose prior probability of needing such care are not elevated
 - Large pool: Cross-subsidization
 - Small pool: Vulnerable to bankruptcy
- Note adverse selection issues!
- Low-income earners may need subsidy



d) Potentially catastrophically-expensive services to individuals—Predictable

- Risk pooling unlikely to work (especially if these are competing insurers/payers)
- Common for pre-existing conditions to be excluded from coverage
- Mandatory coverage probably required if 'needed care' services are to be included



Policy implications

- Note that the WHO recommends that most health care systems should begin by ensuring that care in categories a) and b) are addressed
- As countries become richer, an increasing share of resources can then go to care in categories c) and d)



Will one financing size fit all?

- Recall the four models:
 - Public financing
 - Social health insurance
 - Private health insurance
 - Out of pocket payments



Will one financing size fit all?

- We conclude:
 - Single-payer public financing can address all four categories of expenditures
 - The other approaches, however, may work better for some categories than for others
 - Out of pocket might work for category b) but not the other categories!



Biggest problem?

- Financing models employing competition among payers may find particular difficulties coping with category d)
- 'Cream skimming' often a problem
 - Who wants to cover the poorer risks?



Relationship between financing models and categories of services?

	Categories of Services	Potential models
a)	Services to the entire population (Public Health)	Public financing
b)	Basic health care to individuals	Public financing Social health insurance Private health insurance Out of pocket
c)	Potentially catastrophically-expensive services to individuals	All but out of pocket
d)	Potentially catastrophically-expensive services to individuals	Public financing



Acknowledgments

- Funded by “Exploring Alternative Funding Models for Canadian Health Care”
 - CIHR fund number 4597
- The results and conclusions presented are those of the authors. No official endorsement by Manitoba Health & Healthy Living is intended or should be inferred.



Thank You