PACIFIC HEADS OF HEALTH

Réunion des directeurs de la santé du Pacifique

Social Health Insurance & Pacific Island Countries

Presented by the Pacific World Bank Health Team

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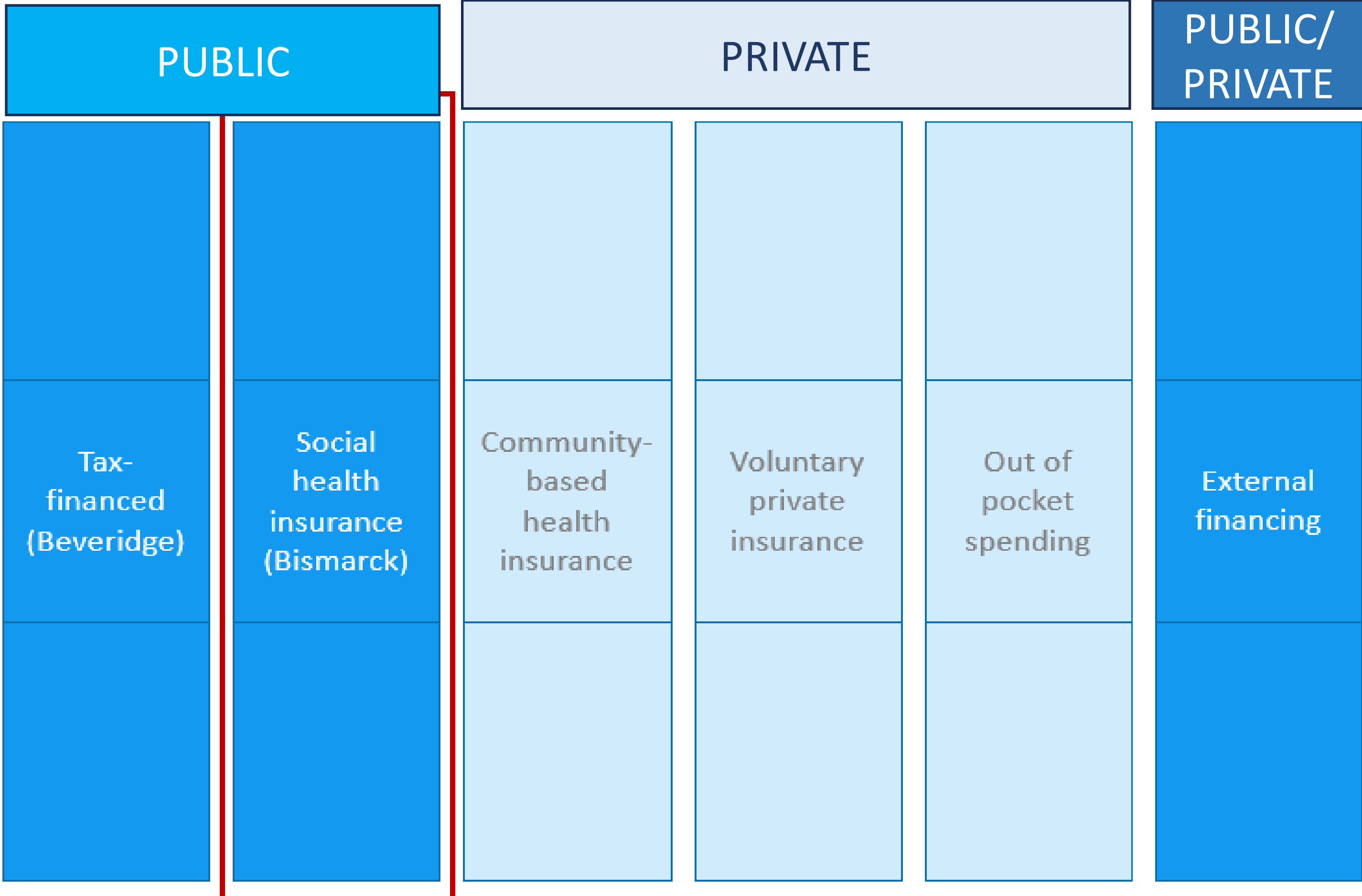
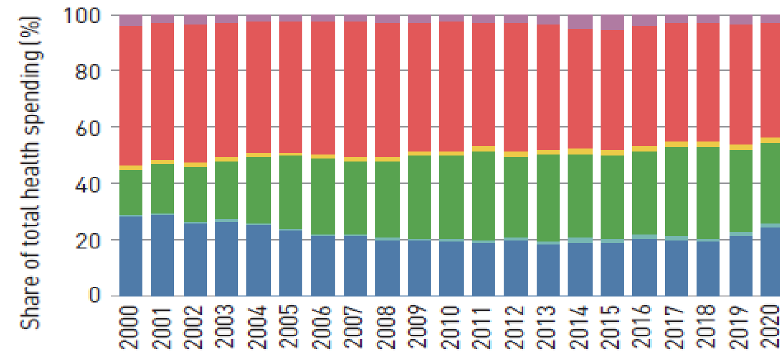
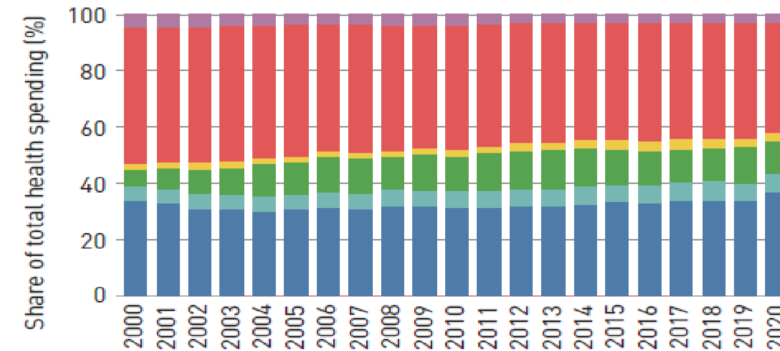
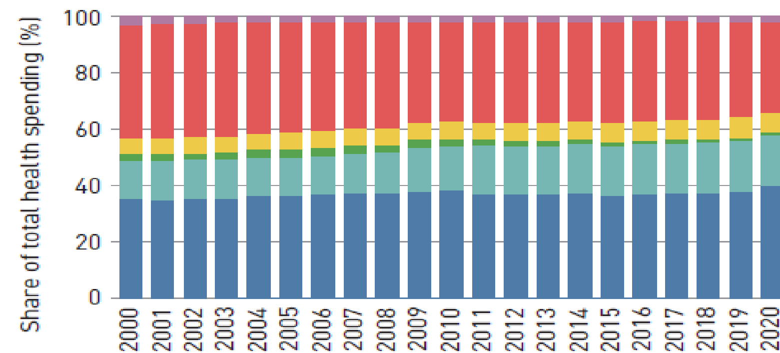
Social Heath Insurance (SHI) is one of the possible mechanisms for raising and pooling funds to finance health services

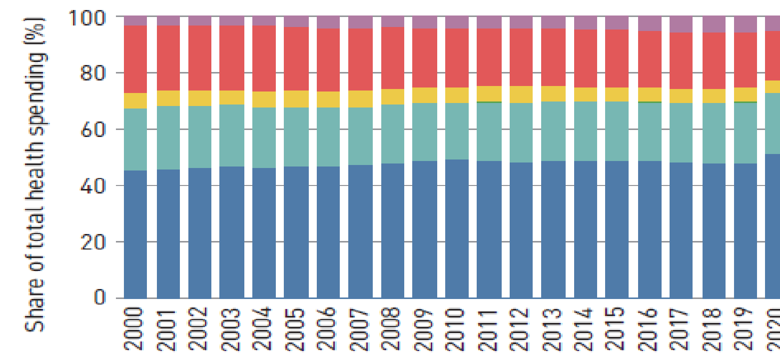


Financing mechanism used across countries: low-middle and upper-middle income countries rely heavily on tax and out of pocket



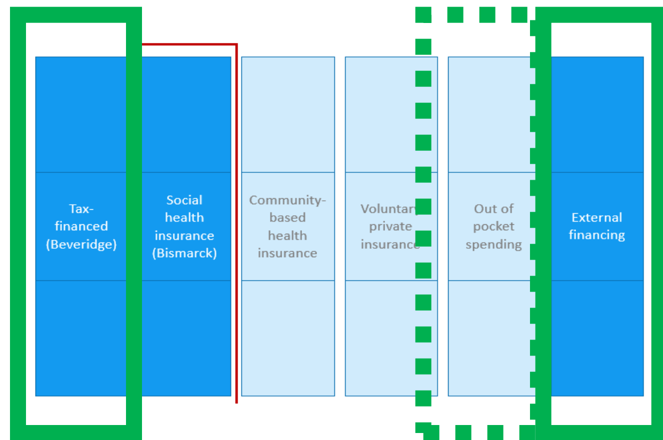






Government transfers · Social health insurance contributions · External aid
Voluntary health insurance contributions · Out-of-pocket spending · Other

Health financing in PICs is progressive



- Health expenditure is largely public, funded by government, with low out of pocket (OOP) payments and relatively high levels of development partner (DP) support.
- Government spending is financed through tax revenue (highly progressive; indirect taxes are regressive), and SHI funds about 20 percent of public expenditure on health in RMI, FSM and 13 percent in Palau.
- Government spending on health is high as a share of total government expenditure
- Services are largely free of charge
- Governments are the financier, central administrator, regulator, policymaker, and provider of almost all health services. Private sector plays a minimal role is most PICs.

Mixed performance of PICs against the hallmarks of a good health financing system

Characteristics	Situation in PICs	Comments
Financing levels are adequate		Share of government spending on health is high. But every health system in the world would benefit from more funding
Prepaid funds are pooled		Private spending overall is low. Government spending comes from taxation and SHI in three countries, and centrally managed by government (through the Ministry of Health)
Health spending is efficient		Both allocative (doing the right thing) and technical (doing things right) efficiency can be improved
Health spending is equitable		In theory, all population have equal access to all available health service. Remote and vulnerable populations have less access to healthcare
Assures desired levels of effective service coverage		Progress towards universal health coverage is low in PIC compared to other countries with similar levels of income.
Financial risk protection		Low or non-existent OOP, but do not account for the high costs associated with transport and missed work.

Is Social Health Insurance a possible solution to our HF challenges?

What is SHI?

Contributions:

- People pay contributions to non-governmental bodies, separate from tax-system, with the majority coming from employers and employes.
- The self employed can contribute, and the government often pays subsidies to cover those who cannot pay (poor, unemployed, vulnerable groups etc).
- Contributions are compulsory, and everyone (but only those who contribute) are entitled to the same set of services and treatment.
- Many governments also pay subsidies into these systems to ensure or improve their financial sustainability
- Contributions are pooled

Systems:

- Single or multiple funds
- Run by government, non-governmental or parastatal organizations.
- Many ways to contract/pay health service providers

Why might PICs be interested in SHI? SHI might be seen as:

- a way of mobilizing additional domestic resources for health;
- Pools risk across the population
- allowing easier introduction of organizational change for improved health system quality and efficiency (e.g., purchaser-provider splits, new provider payment mechanisms);
- working well in higher income countries and being introduced in other low-middle income countries.
- possible to implement given the experience with employee retirement schemes (e.g., national provident fund mechanism) in most PICs

Questions to ask if you're thinking of introducing SHI

- What does your country mean by SHI?
- Will SHI raise additional funding for health?
- Are all stakeholders in support of SHI?
- Is there a legal framework for SHI to operate with?
- Are revenue collection procedures technically feasible?
- Are the physical and intellectual resources available to set up SHI?
- What benefits will SHI members be entitled to?
- How should the SHI purchase of provide health services?
- Can SHI operate at financial equilibrium?

SHI doesn't always mean more money for health

- The empirical evidence to date is that what has moved low and middle-income countries toward universal health coverage has been general revenue, not labor taxes.
- SHI has not been a prominent source of financing for health in developing countries: where implemented, it has required significant co-financing from general taxation.
- No SHI system these days is financed entirely by payroll deductions anymore. Balancing a mix of taxes and SHI is complex.
- Ministries of Finance react differently where there is a large pool of funds available under the SHI
- SHI are often more expensive to run than systems managed by central governments (especially when those are already well established, as is the case in PICs)

PICs context challenges the introduction of SHI

- Size of the population is small in PICs: a small workforce will be unable to raise enough revues to pay for UHC.
- SHI works better in a country where there is a large formal labor force
  - Informal sector in PIC is between 40 – 70 percent
  - Subsistence farming is the primary economic activity in many PICs (including Samoa and Fiji)
- SHI would need significant contributions by government to subsidize the informal sector, low-income and self-employed, poor and vulnerable groups
  - Poverty rates (under 2.15USD/day) vary between ~1 percent (Fiji, Tonga, Samoa) and 26 percent (Solomon Islands)
- Weak institutional governance, including challenges to collect taxes. It's expensive and difficult to build, implement and manage SHI. Revenue collection would need to be significantly higher than the administrative cost of running a SHI.
- Many PICs MOH already struggling with 'brain drain'. Would SHI increase this problem and drive costs of delivery services in public facilities increase? Resources (HR, infrastructure is limited in PICs) are limited.

What would be the risks for introducing SHI in PICs

- Benefits may be limited to the formal sector, increasing inequity, unless tax financing is increased to extend benefits to the informal sector. Significant investments would be needed.
- There is persistent evidence that introducing SHI leads to increased inequality and fragmentation of the health system
- Given the lack of experience with contributory insurance and insurance payment systems in most PICs, it may take decades to develop these capacities. In the meantime, there's significant risk for long-term problems of cost control, with fiscal implications, since increased prices in the health sector will also put upward pressures on costs in the MOH delivery system.
- SHI will increase fragmentation of risk pooling
- Global evidence suggest that there's a likely risk of reduced allocation for MHMS budget allocation.
- It can encourage informality, with people not wanting to join the formal sector and having to pay mandatory SHI contributions.

A Formal Sector SHI will undermine solidarity & social cohesion and increase inequity, implementing a two-tier health system that will be difficult to dismantle later.

A Universal SHI will require greater increase in tax financing to cater for the non-contributors. This option is challenging for PICs, considering the macro fiscal context

There is persistent evidence that introducing SHI leads to increased inequality and fragmentation of the health system

- It can redistribute resources toward the wealthy, not the poor when general revenues subsidize SHI institutions that predominantly serve the richer population. Only when SHI institutions are forced to rely exclusively on their labor-tax revenues is it likely that richer households are not being subsidized by poorer ones.

- Higher fees or prices typically paid by SHI as compared to a ministry of health may contribute to an "internal brain drain" of scarce health care workers to serve the insured population, with harmful equity consequences for service availability and quality for the rest of the population.

- It can encourage informality by implicitly taxing formal employment and subsidizing (noncontributing) informal jobs. A study of Mexico showed that this problem is worse when formal-sector workers value the associated benefits less than the taxes they pay, which leads to slower productivity growth for the country as a whole.

- Setting prices and achieving effective cost control requires much higher-level competencies. Many countries with SHI are not able to control costs effectively. Cost control is much harder in SHI systems than in budget-financed systems. In the Asia-Pacific region, only Japan, Korea and Taiwan have effective capacity in this area.

Global experience

- Many countries that started with SHI subsequently abolished them and moved to general taxation (e.g., UK, Norway, Denmark, Greece, Italy, Portugal, Spain, Brazil).
- More and more countries with SHI systems co-finance via general taxation, e.g., to cover vulnerable groups, due to informality, ageing, etc. (e.g., Indonesia, Hungary, Vietnam), which require .
- In some countries, general taxation is augmented by earmarked taxes to contribute towards health (e.g., UK, India).

Key +p and –n of SHI

<table>
<tr><th>Advantages</th><th>Disadvantages</th></tr>
<tr><td>Obligatory nature ensures solidarity where the rich, healthy, young and employed subsidize the poor, sick, elderly and unemployed</td><td rowspan="2">Institutional context of PICs is not conducive to the introduction of SHI:
- small populations with high informal sector
- health sector environment already stretched (staff, infrastructure)
- weak institutional governance</td></tr>
<tr><td>The clear linkage between contributions and benefits empowers the individuals to demand “paid-for” benefits rather than seek “free” care</td></tr>
<tr><td>SHI can improve efficiency by facilitating strategic purchasing with service providers</td><td>Administration of SHI is complex and expensive. Cost control is difficult to implement.</td></tr>
<tr><td rowspan="2">The presence of an independent or quasi-independent fund that enjoys autonomy from the government enables mobilizing money that remains flexible and protected from budgetary negotiations.</td><td>SHI will need to be complemented by tax revenue, and government contributions to SHI for the poor and vulnerable</td></tr>
<tr><td>Global evidence shows that SHI may increase inequality and fragmentation of risk pooling.</td></tr>
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What are alternative options to finance UHC in PICs?

1. Continue to rely on general revenue financing and increase budget allocations for MOH, e.g.,
   i. Earmark income for health
   ii. Earmark consumption (e.g. sin-taxes)
   iii. Increase mobilization of external funds

2. Improve efficiencies in the health system e.g.,
   i. Update service delivery models and shift from curative to preventative care (strengthen Primary Health Care)
   ii. Identify and address inefficiencies in large expenditure areas (medicine procurement, medical referrals, HR)
   iii. Make better use of digital tools

Thank You, Merci