Public Issues

Nr 996
December 17th, 2010
www.lyd.org ISSN 0717-1528

Funding for the Health Care System: Presidential Commission's Report

As in all sectors of economy, to keep freedom and competition entails lower costs, better services and more innovation. This is especially valuable in the health sector where drastic changes have occurred in a few years and to which no planner could come to terms with in a reasonable manner.

Last December 7th, the Presidential Commission for Health delivered the final report to the government proposing different ways of improving certain areas of the Chilean Health Care System. The first one is the system's financing which has played one of the leading roles in the health debate since the Constitutional Court decision. Although the Court entitled health insurance charges differentiated by risk factors –such as age and sex- it considered that current differences are excessive. Thus, the authority has the task of looking for a new formula which leads to a smaller differentiation in the insurance values by risk factors, usually called "flattened table" in reference to the in force risk factor table.

Members of the Commission did not agree in a unique proposal, so the report describes two proposals which consider important differences regarding the incentives and institutional changes.

The Majority Proposal

Eight of the thirteen members of the committee proposed the creation of a risk compensation fund paid with public and private contributions to finance a Health Social Security Universal Plan. The private contribution would be mandatory and would correspond to 6% of the income, with a ceiling, independently of the beneficiary's risk level. The committee also proposed that in the future, as political conditions allow it, the whole fund is paid only by fiscal contributions.

The plan would have two types of coverage: (i) coverage without contribution sharing (free), with attention at the public health network and focused on extremely poor people, people without health contributions or people with very low incomes. Individuals included in this type of coverage will continue in FONASA (Public Health National Fund) and (ii) another type of coverage with mandatory contributions for people with incomes higher than a ceiling fixed by the authority. People pertaining to the last type must choose to enroll in one Entidad de la Seguridad Social en Salud (ESSS, in Spanish - Health Social Security Institution), public or private. The ESSS would replace the current ISAPRE (Health Social Insurance Institution).

The Fondo Compensatorio (Compensation Fund) will pay the contributions to the ESSS or FONASA affiliates, on a risk factor basis such as age and sex, leaving an open possibility to include other factors which have technical support. In a centralized way, a panel will fix the contribution per capita that the ESSS and FONASA will receive for each affiliate, according to his risk level. The insurance premiums by affiliate should be designed so as to assess the entire fund, without producing deficit or surplus. The ESSS will not have the faculty of rejecting or give notice to any beneficiary.

Access to plans with better coverage: (i) the ESSS will charge premiums additionally to those fixed by the committee, but they must be equal for all the ESSS beneficiaries; or (ii) the beneficiaries will contract a voluntary and complementary insurance, paying additional amounts to the mandatory contribution.

The Minority Proposal

This proposal, supported by 5 of the 13 members of the Committee, maintains the ISAPRE and FONASA but introduces a solidarity-based component financed by the State which includes people with lower incomes, bigger families or higher risks. Solidarity is introduced by state contributions collected through progressive taxes.

The mandatory contribution will finance a Plan de Seguro de Salud Obligatorio (PSSO, in Spanish - Mandatory Health Insurance Plan); if the 6% contribution exceeds the plan value, it is suggested that the surplus is allotted to either: savings in health care, the inclusion of other family members, complementary insurances or health-status insurances . The PSSO may be engaged either in a public or private insurance institution. If the mandatory contribution plus the solidarity factor is insufficient to cover the price charged by the ISAPRE, the beneficiary may voluntarily pay the difference.

Analysis of the Compensation Fund Proposal

The majority proposal determines, in a centralized way, the level of universal coverage as well as the relative prices that the ESSS will receive by beneficiary. Although this kind of systems exists in other countries, it does not mean that they operate better than in Chile. In fact, the centralized price fixation always ends in an undesirable mechanism of adjustment, such as waiting lists, bankruptcy or government monopoly.

An important aspect of this proposal is that it turns the health contribution into labor taxation since there would be no relation between the contribution paid and the benefit received from the system. Therefore, new ways of avoiding this charge are expected to appear over time, making the system more regressive or inequitable for the most honest members.

The viability of a system like this will depend on the definition of the so called Universal Plan. This should be a basic plan focused on the coverage of big health expenses. For example, it should not cover the consultations to the physicians, except if the expense level is considered a catastrophic expense. Actually, the Plan de Garantías Explícitas de Salud (GES, in Spanish - Explicit Health Guarantees) operates in a similar way to those mentioned in the proposal, but it is financed by a small part of the contribution. If this does not occur and the Universal Plan, as a consequence of the dynamics, has a higher cost, we will face a permanently non-financed system.

The document proposes to finance the plan by an amount higher than the current one (subtracting the expenses of the subsidy by labor incapacity - S.I.L., in Spanish -, the current contribution in health is 5% of the income) plus state contributions. So we can expect a not so basic plan, which the ISAPREs currently offer at higher prices.

The current plans offered by the ISAPREs have high coverage levels, so the inclusion of a truly basic mandatory plan would be strongly rejected by users. In any case, regardless of the initial coverage that will be defined for this plan, it will inevitably increase over time due to the pressure put by different sectors, as has just occurred with the GES coverage.

On the other hand, highest income affiliates will be deprived of any surplus of their own contribution over the Universal Plan cost which in practice means to ignore their proprietary rights over the contribution.

A health system with these characteristics could converge to a system with a unique state insurer, with private and public health services suppliers, since problems in the premium fixation and a plan increasingly more generous as a result of the politic dynamics will turn into private ESSS

bankruptcy or shut-down, and their affiliates will be absorbed by the state ESSS that will continue in operation in spite of the deficit. With a unique state insurance, and a generous health plan, there will be no effective cost control mechanisms similar to those that the ISAPREs exercise nowadays over the services' suppliers, in addition to those defined by the authority, also in a centralized way.

Even if it is possible to fix transfers in order to avoid the ESSS bankruptcy, it may be expected that there are no effective cost control mechanisms, since transfers from the fund must be fixed on the basis of the expenses already executed. In consequence, ESSS would not have any incentive to maintain their expenses at a low level. On the contrary, they may have incentives to offer services that produce higher expenses in order to obtain higher transfers, raising the expenses of the health system.

Analysis of the other Proposal

On the other hand, the Minority Proposal solves the health system problems in a simple way and without creating distortions. From the conceptual point of view, the Constitutional Court decision suggests that it is desirable that the society takes charge of the excessive costs of the health insurances of certain groups, which common sense indicates that they must be paid with fiscal funds and not with the contributions of other people. In the case of Education, the State contributes with the financing or provision for those who cannot pay, but law does not oblige parents with higher incomes to pay the enrollment fees for students of lower income parents. This situation would be absurd.

In this case, the subsidies fixation by risk level would not be so important. Neither is it necessary nor relevant that they cover actuarial differences in a precise way. It is enough that they constitute an aid to finance the higher cost of the health plans for people pertaining to the highest risk or lowest income groups.

The ideal thing would be to allow the ISAPRE to freely fix their insurance premiums. Thus, all benefits offered by the competition will be maintained in all senses and not only in one area proposed by the authority in a centralized way, as is the case of the first proposal. The premium differences will not be a problem for the individual pertaining to the highest risk or lowest income group, since the difference will be compensated by the state subsidy. Neither will there be a problem derived from the fact of increasing the premium without a limit, since people pay their contribution according to the price spread, so insurers will also compete with one another for the price. Additionally, subsidies will be fixed considering the real costs of the different risk groups.

As in all sectors of economy, to keep freedom and competition entails lower costs, better services and more innovation. This is especially valuable in the health sector where drastic changes have occurred in a few years and to which no planner could come to terms with in a reasonable manner.

In this proposal, the state subsidy is distinctly expressed and may be controlled over time according to the budget availability and priorities required by the society. In the Compensation Fund Plan proposal, the state subsidy does not have a definite range since it will be according to the accumulated deficit of public insurance.

Finally, both proposals consider that the State's role, at least at the beginning, must be limited to take care of the poorest and not the majority of the population, as it occurs nowadays. In this sense, both proposals are focused in the correct direction since this is a way to give a real freedom of choice to individuals, without making them dependent of the public system. Notwithstanding, the dynamics of the majority proposal may gradually conduct to oblige a larger population to be covered by public insurance.