

# Complementary Voluntary Health Insurance: Evidence from France, Slovenia and Croatia

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# *Outline*

- Definition
- Theoretical Framework
- Evidence
- Conclusions
- Lessons for Poland

# *Definitions*

## *Complementary Voluntary Health Insurance*

- Complementary coverage for co-payment charged by the public insurance system (complementary function)
- Premiums risk-rated or community-rated

*(Mossialos and Thomson, 2002; OECD, 2004)*

# *Definitions*

## *Supplementary Voluntary Health Insurance*

- Voluntary insurance supplements public system by providing access to services excluded from public coverage, such as amenities, extra services (dental care), free choice of providers, etc

*(Mossialos and Thomson, 2002; OECD, 2004)*

# *Purpose of Co-payments*

- Share cost with patients to
  - Affect patients' care seeking behavior
  - Build patient responsibility for demand of care
  - Limit inappropriate use of care when insurance reduces  $P$  at time of consumption (moral hazard)
  - Prevent “demand-side” driven increase in health expenditures
  
- Additional revenue for health sector

# *Critics of Co-Payments*

| <b>Critics</b>       | <b>Co- Payment Impact</b>   | <b>What To Do?</b>                |
|----------------------|---|-----------------------------------|
| Set wrong incentives | <ul style="list-style-type: none"><li>- No influence on provider cost</li><li>- Incentive to shift costs to patients by increasing co-pay</li></ul> | Abolish co-pay                    |
| Too low              | <ul style="list-style-type: none"><li>- No impact on moral hazard</li><li>- No source for additional finances</li></ul>                             | Abolish co-pay                    |
| Too high             | <ul style="list-style-type: none"><li>- Inequity in access to care</li><li>- Exclude poor from care</li></ul>                                       | Keep co-pay;<br>Complementary VHI |

# *Purpose of Complementary VHI*

- Risk-pooling to improve equity in access to care
- Additional resources for health

## Countries with complementary VHI

- France, Slovenia and Croatia
- US: Medigap

# *Critics of Complementary Voluntary Health Insurance*

| <b>Critics</b>    | <b>Impact of Complementary VHI</b>  |
|-------------------|---|
| Adverse Selection | <ul style="list-style-type: none"><li>- Impossible to assess individuals' health risk</li><li>- Insurance expenditures &gt; revenue</li><li>- Premium will increase</li></ul> |
| Risk – exclusion  | <ul style="list-style-type: none"><li>- Higher premiums are unaffordable</li><li>- Low-income groups excluded from VHI</li></ul>  |
| Risk – selection  | <ul style="list-style-type: none"><li>- Insurer try to select “good” risk to maintain profit margin</li></ul>   |

# *Alternative to Complementary VHI*

## Compulsory insurance with

- Subsidized enrolment for vulnerable groups
- No co-payment

OR:

- With co-payments
  - Exempt vulnerable groups from co-payments
  - No co-payment for specific services/goods (e.g. communicable diseases, prevention etc)

## Countries where complementary VHI is not permitted:

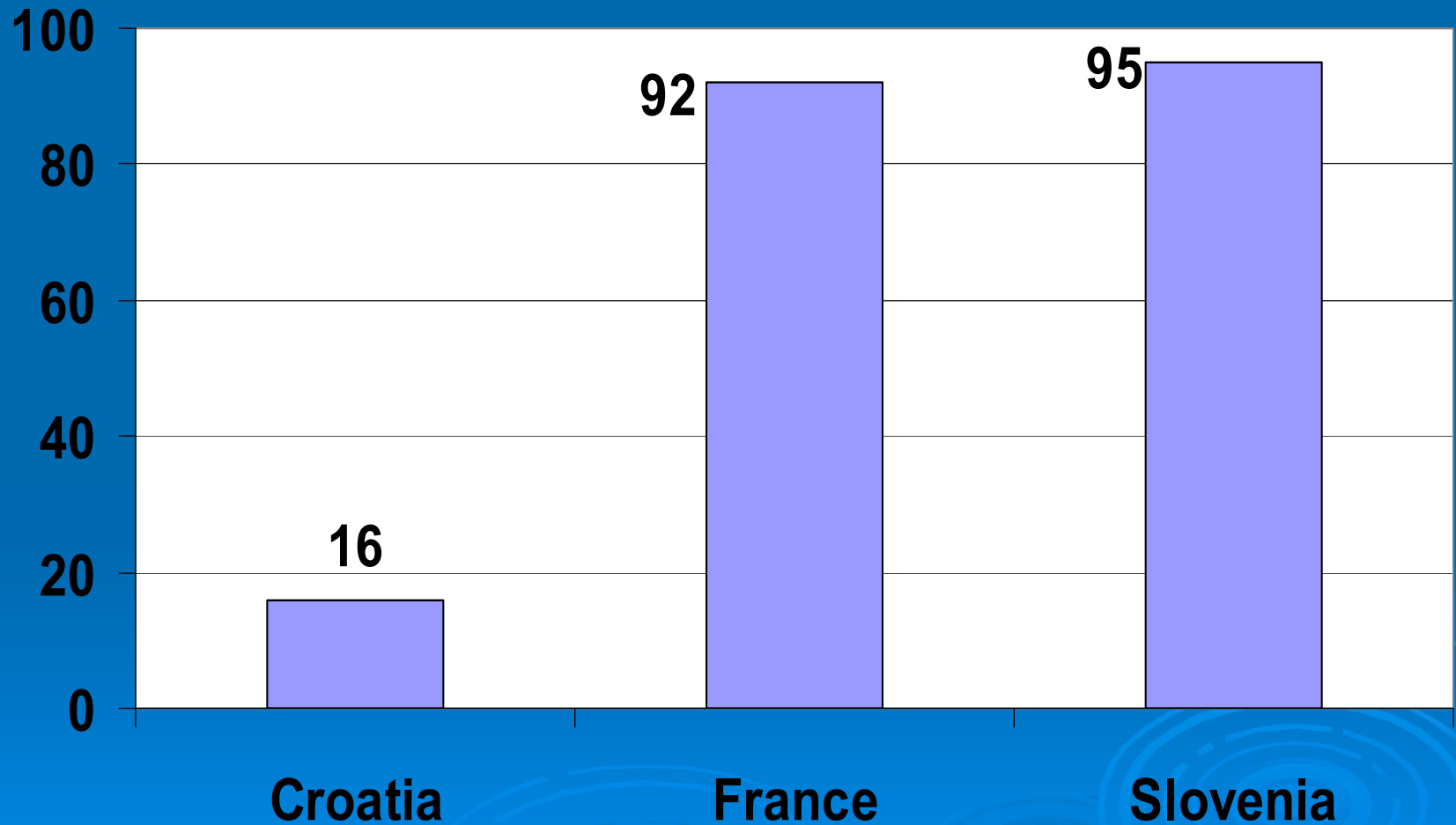
- Canada, Australia, Switzerland

## *Evidence:*

# *Does Complementary VHI Improve Equity and Financial Sustainability in Health?*

- Improve equity in utilization and financing of health care?
  - Enrolment rate?
  - Who enrolls?
  - Who seeks care?
  
- Contribute to financial sustainability?
  - Adverse selection?
  - Private prepaid health expenditures in % of total health expenditures?
  - Financial situation in insurance?

# 1) *Enrolment rates in Complementary VHI*



## *2) Inequity in Enrolment in Complementary VHI?*

### ➤ France

- Inequity in Enrolment
  - Coverage increases with income
  - Unemployed less likely to enroll

### ➤ Slovenia and Croatia

- No information on enrolment by socio-economic

### *3) Does Complementary VHI Improve Equity in Service Use?*

#### ➤ France

- Insured have higher service use than co-payment payers
  - Moral hazard
- Inequity in service use among insured
  - Utilization increases with income level

#### ➤ Slovenia and Croatia

- No information on service use by socio-economics

## *4) Adverse Selections and Consequences for Financial Sustainability?*

### ➤ France

- No evidence of adverse selection

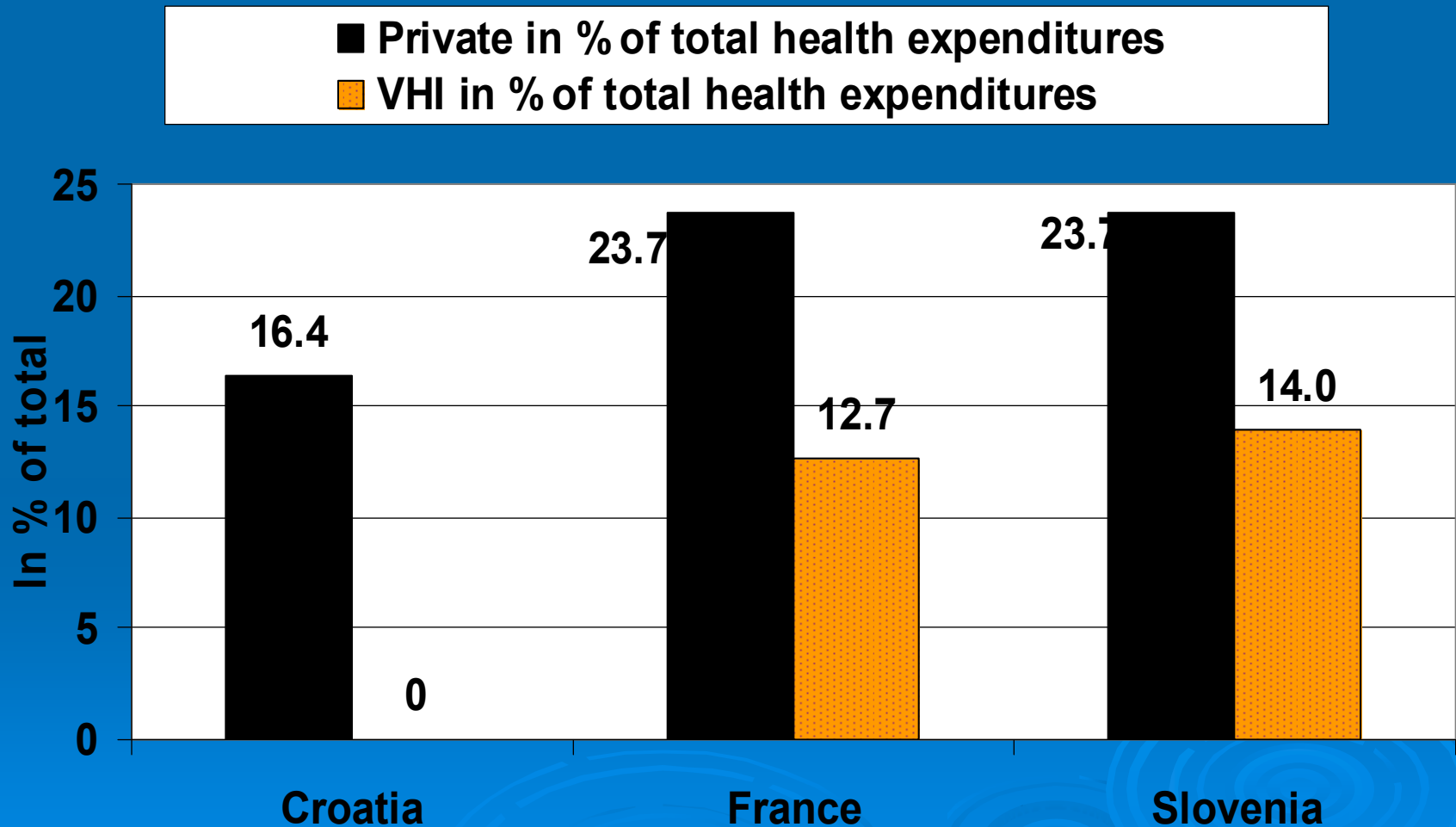
### ➤ Slovenia

- In 2004, deficit due to high enrolment of pensioners (adverse selection)
- In 2005, 13.5% premium increase for age 60+
- Ongoing reforms

### ➤ Croatia

- Adverse selection “encouraged” by 40% premium discount for pensioners

## 5) Does Complementary and Supplementary VHI contribute to Financial Sustainability?



Source: WHO National Health Accounts, 2003

## ***6) Impact on Financial Situation in Insurance?***

### **➤ France**

- **Higher service use puts pressure on public and VHI**
- **Tax funding to public insurance to mitigate financial pressure**

### **➤ Slovenia and Croatia**

- **Growing health expenditures**
  - **Deficit in complementary VHI due to cost increases for drugs and inpatient care**
  - **Premium increases for complementary VHI**
  - **Deficit in public insurance**

# *Evidence shows*

- **Complementary insurance is regressive financing**
- **Cost shifting from out-of-pocket payments to complementary, regressive funding sources does not improve financial situation**
- **Elimination of co-payment through complementary insurance leads to increased service use in public insurance, and increasing fiscal pressure**

# *Lessons*

## *Avoiding a Costly System*

## *Avoiding a 2-Tier System*

### ➤ Private Insurance

- Young/healthy
- High-income

### ➤ Public Insurance

- Pensioners
- Sick/Disabled
- Unemployed
- Low-income employed

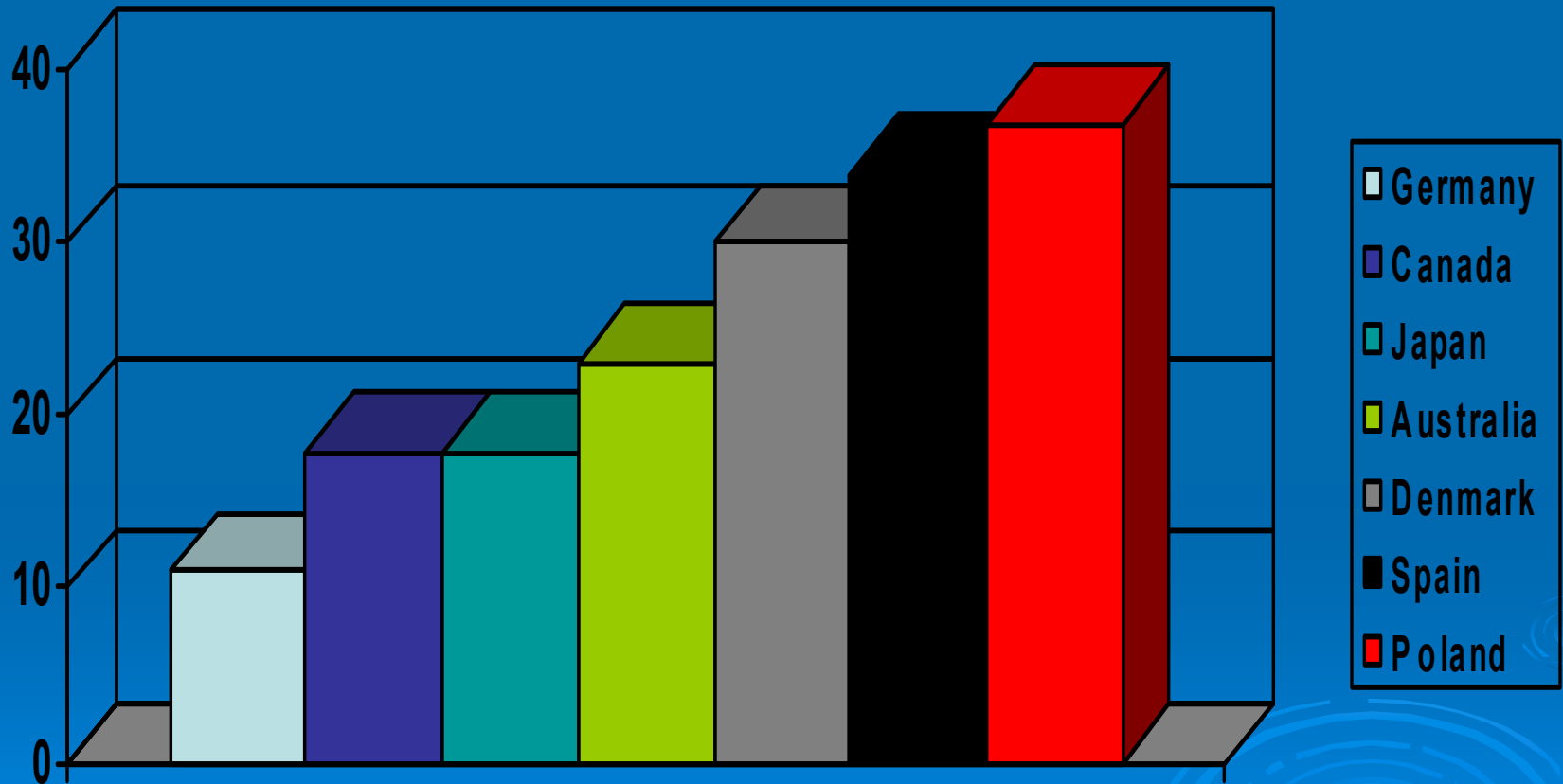


Levels of Quality ??

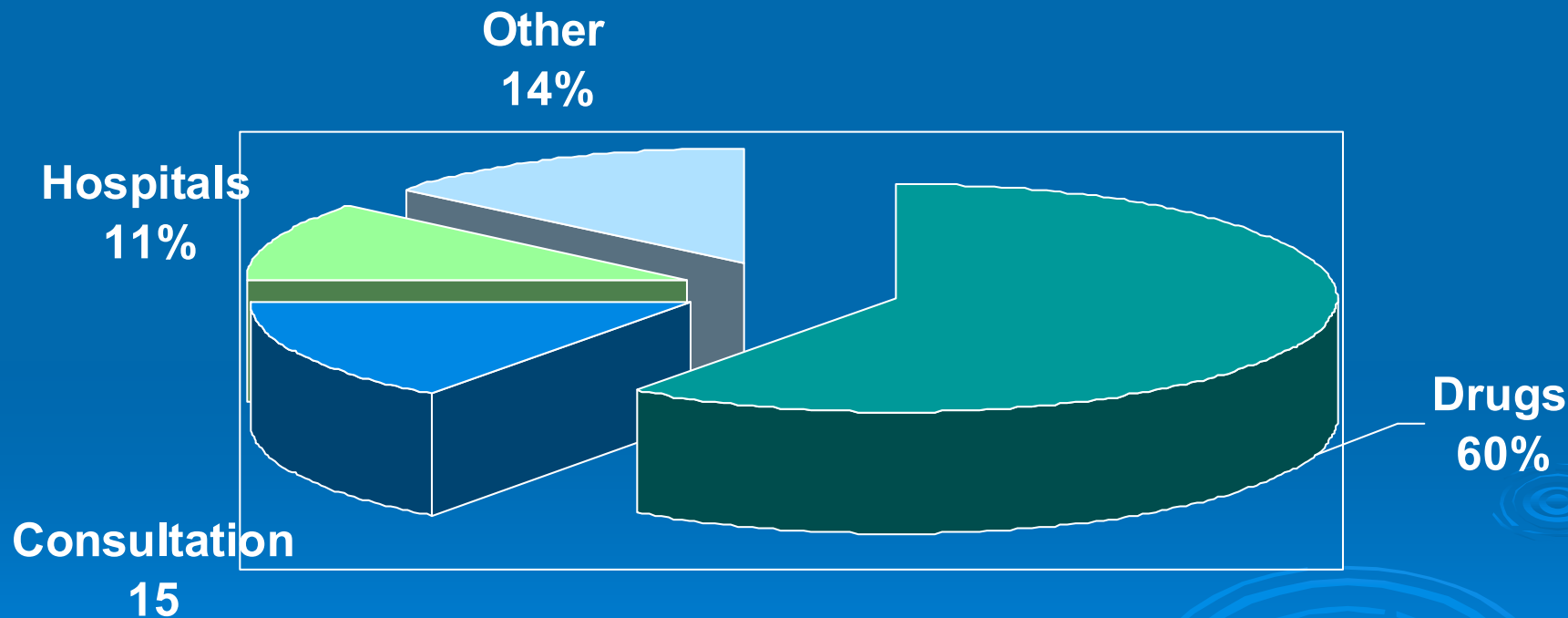
# *Private Health Expenditures in Poland?*

- **Inequity in health financing (informal payments)**
- **High (37%) and growing (8% annually) out-of-pocket payments (informal payments)**

# *Poland: Higher % of OOP Payments than other OECD Countries...*



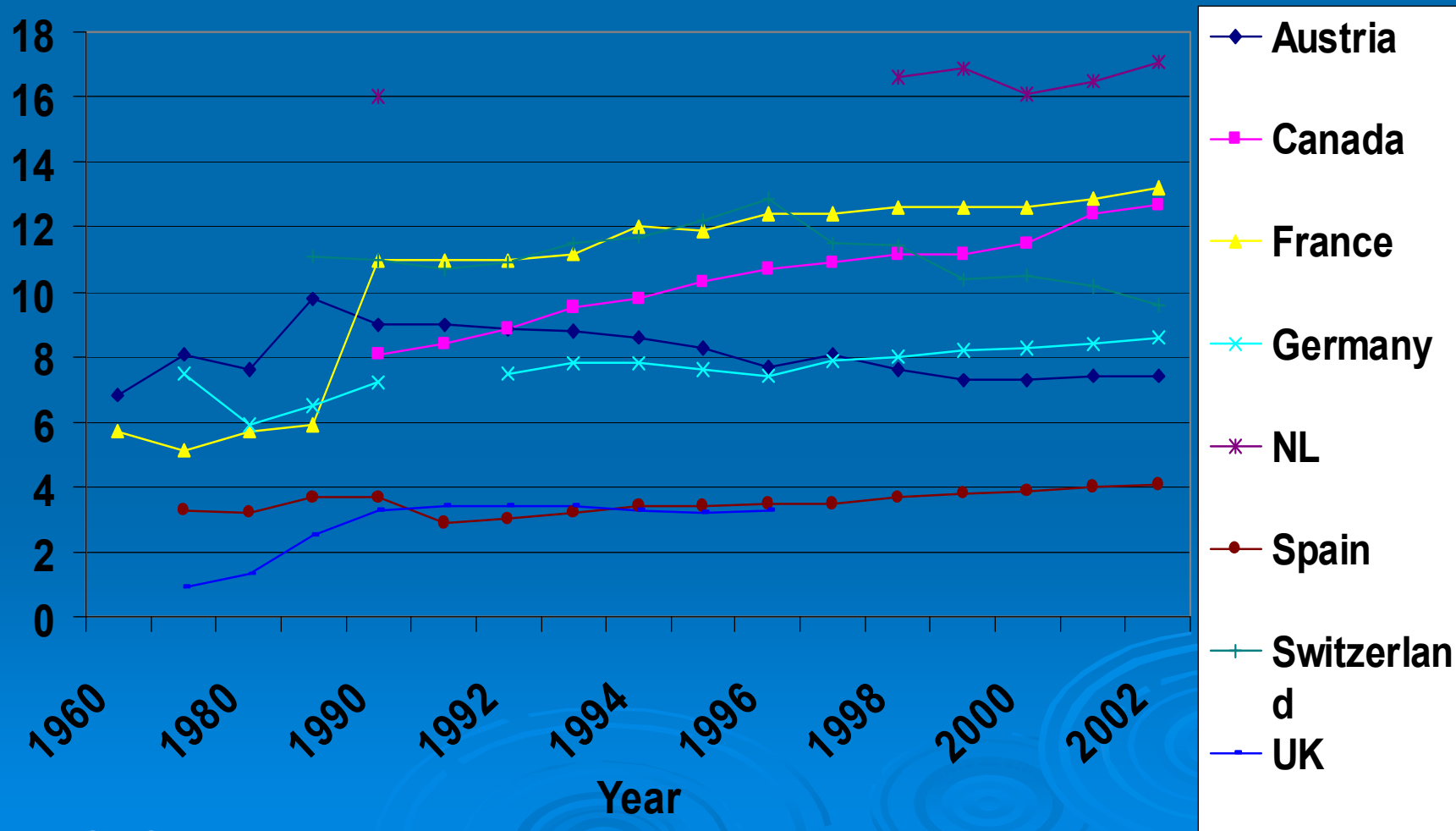
# Concentration of OOP Payments on Drugs



# *Potential for VHI in Poland?*

- **Some private insurance exists**
  - mostly employer-based
- **Huge potential market**
- **Market requires institutional framework**

# Voluntary Health Insurance in % of Total Health Expenditures Has Been Modest



Source: OECD Health Data

# *Example:*

## *Supplementary VHI in Switzerland*

- Covers services excluded from BP
  - “Hotel amenities” such as 1- or 2-bed room in hospital
  - Free choice of providers
  - Access to all providers in Switzerland

# *Recommendations*

- **Improve equity of access to high quality services**
  - **Explicit benefit package: quality, efficacy and cost-effective**
  - **Transparent policy for co-payment exemption for services and individuals**
- **Improve financial sustainability**
  - **Strategic purchasing**
- **Develop a viable private health insurance market**
  - **Institutional and regulatory framework**

## *Regulation of Insurance Necessary*

1. Financial and non-financial standards for entry and operation
2. Rules for reporting and exit (if go broke)
3. Consumer protections and mechanisms to improve shopping and fairness
4. Governance Capacity to Carry Out