



UNIVERSITY OF  
**KWAZULU-NATAL**<sup>TM</sup>  
INYUVESI  
**YAKWAZULU-NATALI**

## HEALTH SYSTEMS BUILDING BLOCKS SESSION 2- HEALTHCARE FINANCING

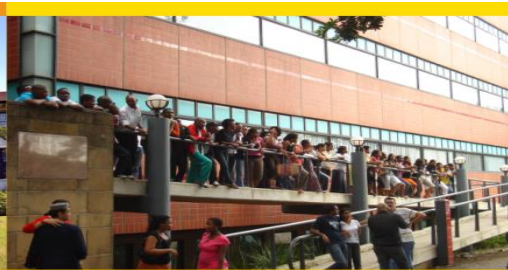
**A/PROF OZAYR MAHOMED**  
**PUBLIC HEALTH MEDICINE SPECIALIST**



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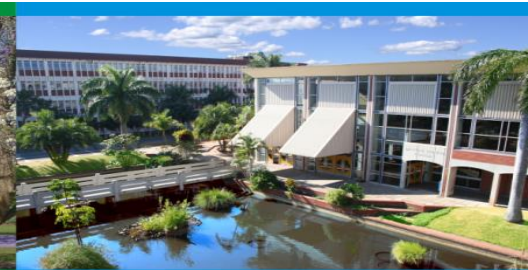
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# Outline of Presentation

Components of Health Financing



Purchasing



Revenue Collection



Pooling



## Health Care Financing - Definition

- ❑ Health financing is one of the main functions of the health system.
- ❑ It is **defined as the raising or collection of revenue to pay for the operations of the health system.**
- ❑ It is a key determinant of health system performance in terms of equity, efficiency, and quality.
- ❑ Principal functions are:
  - ❑ Revenue collection from various sources,
  - ❑ Pooling of funds and spreading of risks across larger population groups, and
  - ❑ Allocation or use of funds to purchase services from public and private providers of health care.

# What is Health Financing?

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- To make funding available, as well as to set the right financial incentives for providers,
- To ensure that all individuals have access to effective public health and personal health care.
- Reducing or eliminating the possibility that an individual will be unable to pay for such care, or will be impoverished as a result of trying to do so.

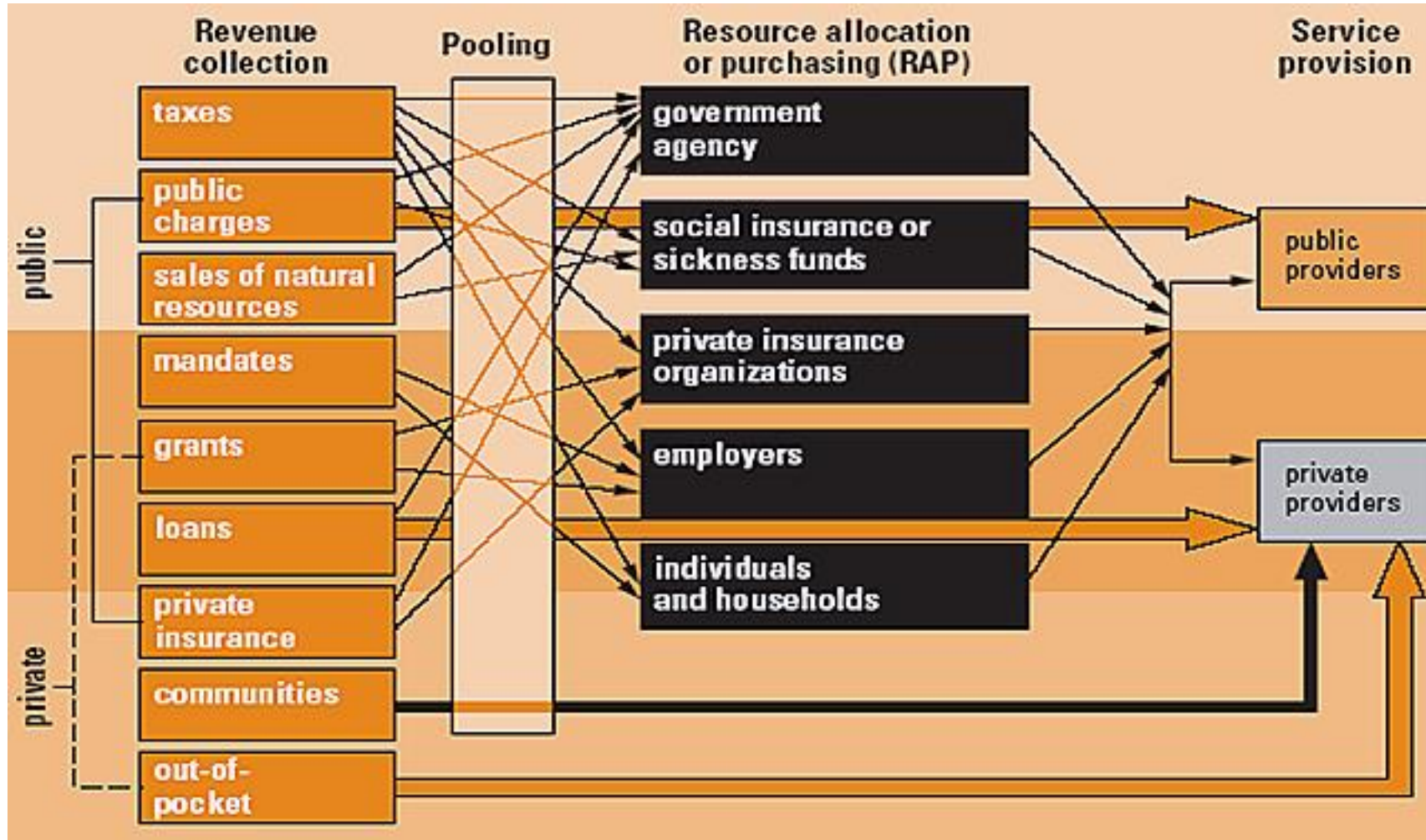


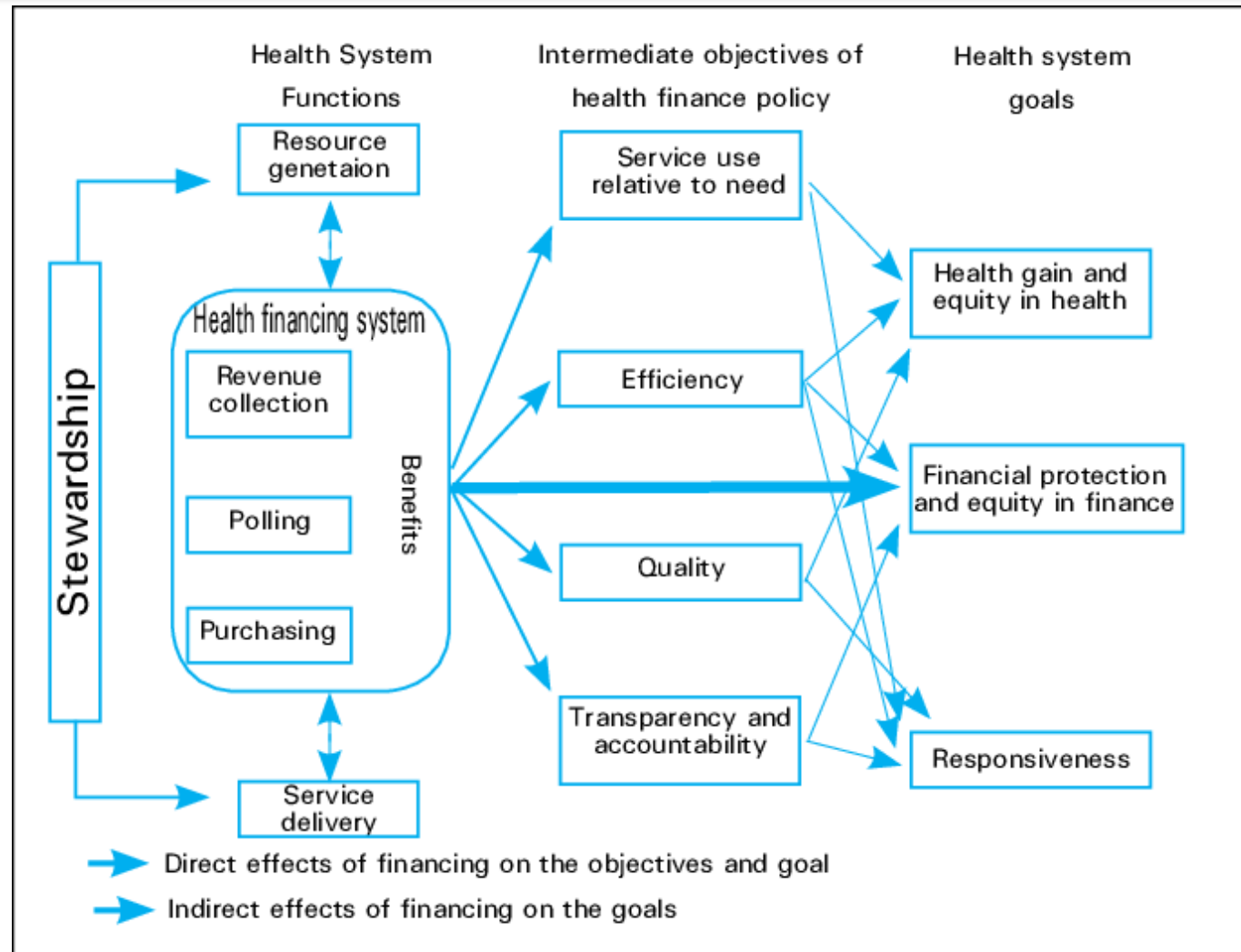
## Health Financing within health system cont'd

- A good health financing system raises adequate funds for health, so that people can use needed services protected from financial catastrophe or impoverishment associated with having to pay for them.
- It provides incentives for providers and users to be efficient and minimize market failures
- The approaches that countries use to finance their health systems varies
- There is the need to have institutional arrangements that create economic incentives in the operation of health systems.



# Health financing function





# Revenue Collection

- Process by which the health system receives money from households and organizations or companies, as well as from donors
  - *General taxation,*
  - *mandated social health insurance contributions (usually salary-related and almost never risk-related),*
  - *voluntary private health insurance contributions (usually risk related),*
  - *out-of-pocket payment and donations*



# Pooling

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- The accumulation and management of revenues
- “insurance function” whether the insurance is explicit (people knowingly subscribe to a scheme) or implicit (as with tax revenues).
- Its main purpose is to share the financial risk associated with health interventions for which the need is uncertain.
- When people pay entirely out of pocket, no pooling occurs.

# Pooling

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- Reduces uncertainty for both citizens and providers.
- By increasing and stabilizing demand and the flow of funds, pooling can increase the likelihood that patients will be able to afford services
- a higher volume of services will justify new provider investments.

# Pooling

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- Pooling is the main way to spread risks among participants
- Large pools, society takes advantage of economies of scale, the law of large numbers, and cross subsidies from low-risk to high-risk individuals.
  - Allows for equalization of contributions among members of the pool regardless of their financial risk associated with service utilization.
  - Allows the low-risk poor to subsidize the high-risk rich.

# Risk pooling

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- state-based systems funded by the government and operated through ministries of health or national health services,
- social health insurance,
- community-based health insurance,
- and voluntary health insurance

# Purchasing

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- Process by which pooled funds are paid to providers
- Passive purchasing implies following a predetermined budget or simply paying bills when presented.
- Strategic purchasing involves a continuous search for the best ways to maximize health system performance by deciding which interventions should be purchased, how, and from whom.

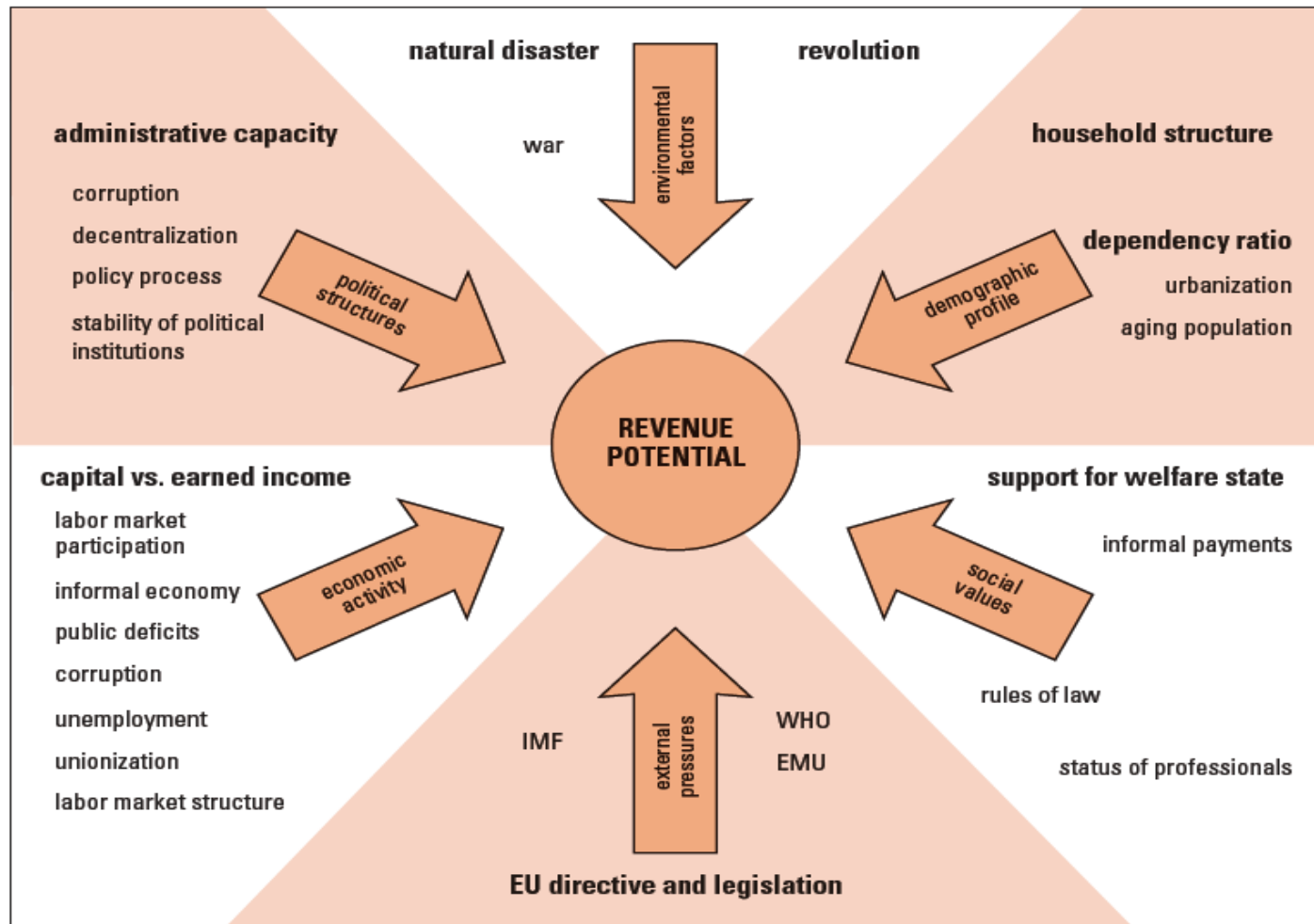
# Strategic Purchasing

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- Continuous search for the best ways to maximize health system performance by deciding which interventions should be purchased, how, and from whom.
- Actively choosing interventions in order to achieve the best performance, both for individuals and the population as a whole, by means of selective contracting and incentive schemes.

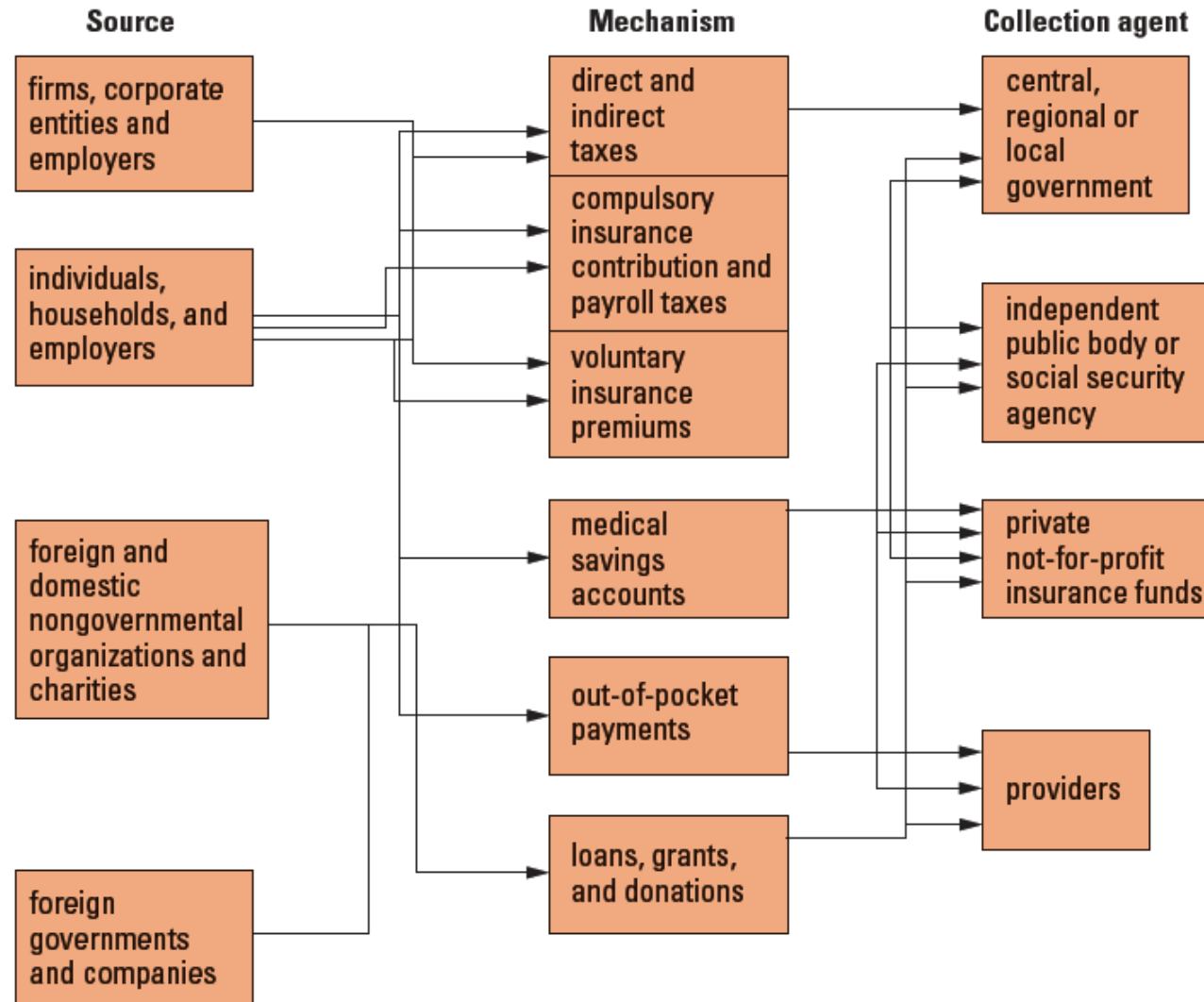


# Determinants of health financing



Source: Mossialos and others 2002.

# Funding sources



# Mechanisms of Health Financing

- general revenue or earmarked taxes
- social insurance contributions
- private insurance premiums
- community financing
- direct out of pocket payments

Each method

- distributes the financial burdens and benefits differently
- each method affects who will have access to health care
- financial protection

# General revenue or earmarked taxes

- **the most traditional way of financing health care**
- **finance a major portion of the health care (especially in low income countries)**

# State-funded system

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- The most widespread health financing mechanism around the world.
- General Government revenues represent the main source of health care expenditures in 106 of 191 countries belonging to the WHO
- a national health service system is a universal pooling arrangement under which the entire population has access to publicly provided services financed through general revenues

# Advantages

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- Comprehensive coverage of the population
- Large scope for raising resources
- A simple mode of governance and a potential for administrative efficiency and cost control



# Disadvantages

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- Unstable funding
- Disproportionate benefits for the rich
- Potential inefficiency in health care delivery
- Sensitivity to political pressure

# Social Health Insurance

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- a reliance on compulsory earmarked payroll contributions, and a clear link between these contribution and a set of defined rights for the insured population

# Features of SHI

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- Financing mainly through employee and employer payroll contributions.
- Management by nonprofit insurance funds
- Existence of a benefits package

# Advantages

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- More resources for the health care system
- Less dependence on budget negotiations than state-funded systems
- High redistributive dimension
- Strong support by the population

# Disadvantages

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- Possible exclusion of the poor
- Negative economic impact of payroll contributions
- Complex and expensive to manage
- Escalating costs
- Poor coverage for chronic diseases and preventive care.

# Community based health insurance schemes

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- Community-based health insurance schemes are sometimes referred to as health insurance for the informal sector, mutual health organizations, or micro-insurance schemes.
- not-for-profit prepayment plans for health care, with community control and voluntary membership



# Advantages

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- Better access to health care for low-income people
- Useful as a component of a health financing system involving other instruments

# Disadvantages

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- Limited protection for members
- Sustainability is questionable
- Limited benefit to the poorer part of the population
- Limited effect on the delivery of care

# Voluntary medical insurance

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- prevalent in high-income countries as a supplement to publicly financed coverage
- Voluntary health insurance is defined as any health insurance that is paid for by voluntary contributions.

# Private health insurance

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- “Private health insurance ”has been defined as health insurance provided by private (for-profit) organizations, and health insurance characterized by premiums not based on income, in contrast to tax-based or social security contributions (OECD 2004).

# Private insurance

- Private contract offered by an insurer to exchange a set of benefits for a payment of a specified premium.
- marketed either by nonprofit or for profit insurance companies
- consumers voluntarily choose to purchase an insurance package that best matches their preference.
- offered on individual and group basis.
- Under individual insurance the premium is based on that individuals risk characteristics. major concern in private insurance is buyer's adverse selection
- Under group insurance, the premium is calculated on a group basis. risk is pooled across age, gender and health status.

# Advantages

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- Affords financial protection (compared with out-of-pocket expenditure)
- Enhances access to health services (when mandated financing is incomplete)
- Increases service capacity and promotes innovation
- Helps finance health care services not covered publicly, in the case of supplementary private health insurance.



# Disadvantages

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- They have not reduced certain financial barriers to access (such as affordability and price volatility).
- They have increased differential access to health care in some countries (but decreased it in others).
- They have not served as an impetus to quality improvement, with some exceptions.
- They have removed very little cost pressure from public health financing systems.
- They have increased total health expenditure
- They have not been able to achieve value-based competition.
- They have generally incurred high administrative costs

# Community based financing

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Refers to schemes are based on three principles: community cooperation, local self reliance and pre payment

# Community financing

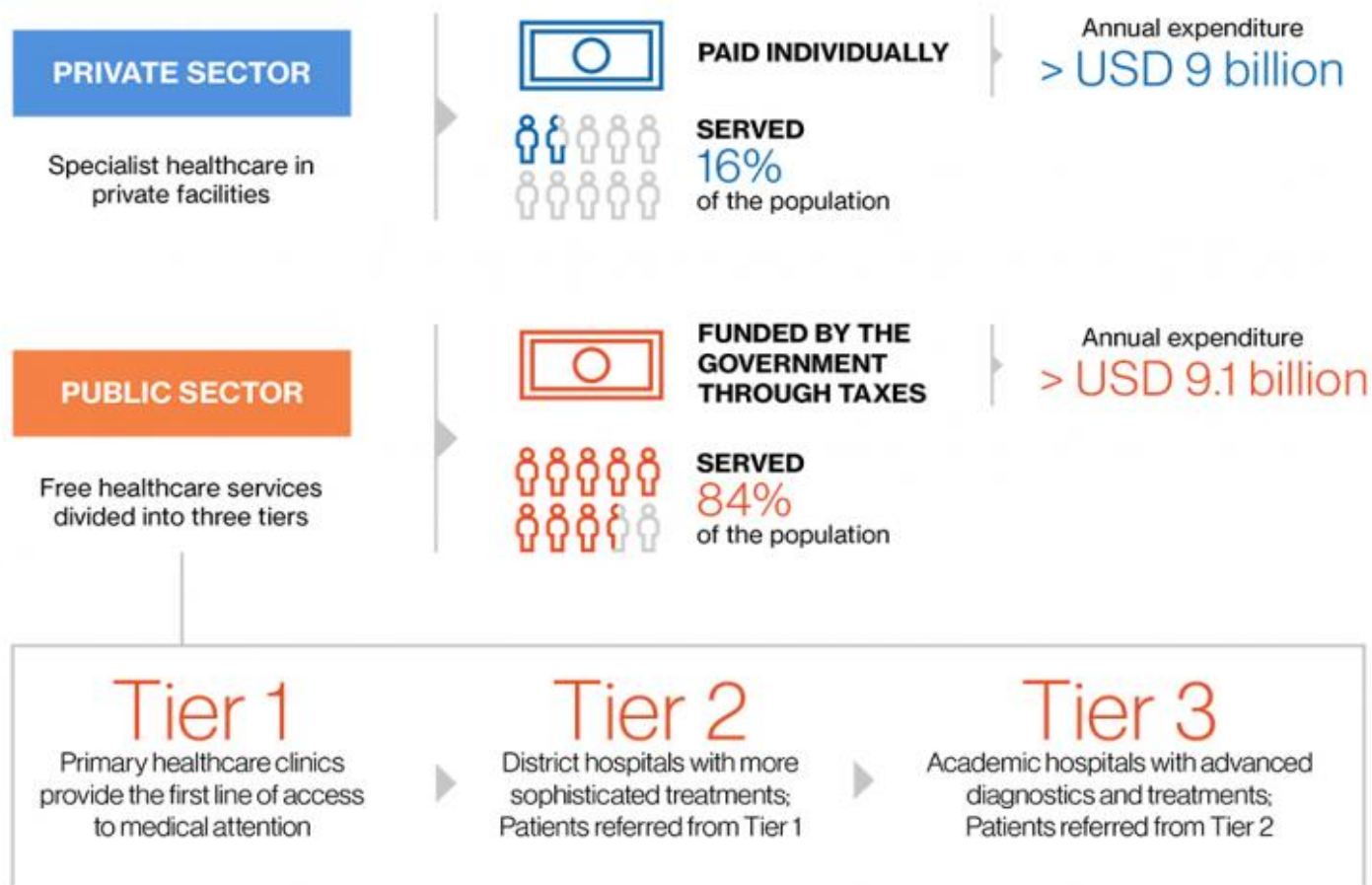
success of community financing

- Technical strength and institutional capacity of the local group
- Financial control as part of the broader strategy in local management and control of health care services
- Support received from outside organizations and individuals
- Links with other local organizations
- Diversity of funding
- Responding to other (non health) development needs of the community
- Ability to adapt to a changing environment

# Direct out of pocket

- made by patients to private providers at the time a service is rendered
- user fees refer to fees the patients have to pay to public hospitals, clinics, and health posts not to private sector providers.
- proponents of user fees believe that the fee can increase revenue to improve the quality of public health services and expand coverage
- major objection raised against user fees had been on equity grounds

# South African Healthcare system



\* all numbers for 2015

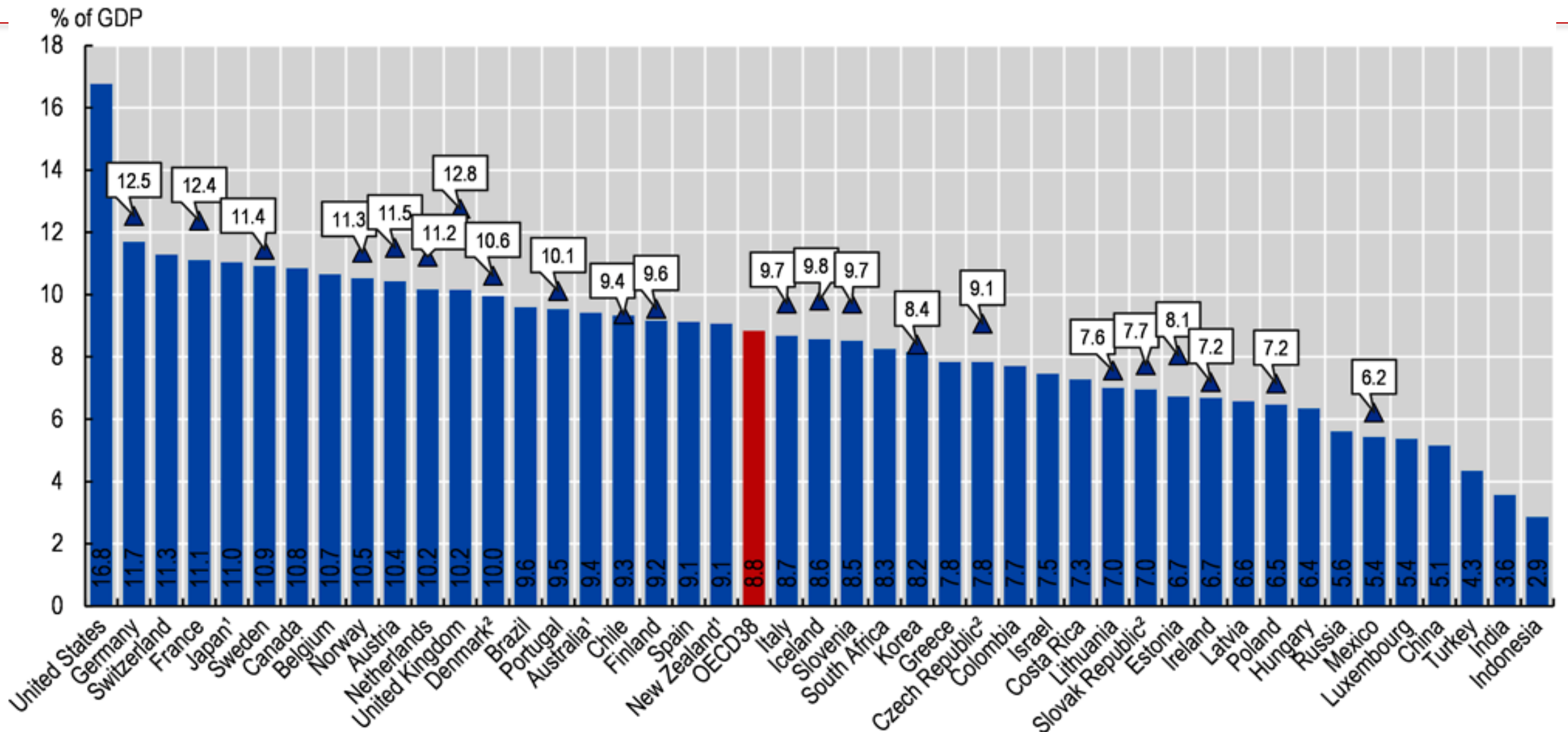
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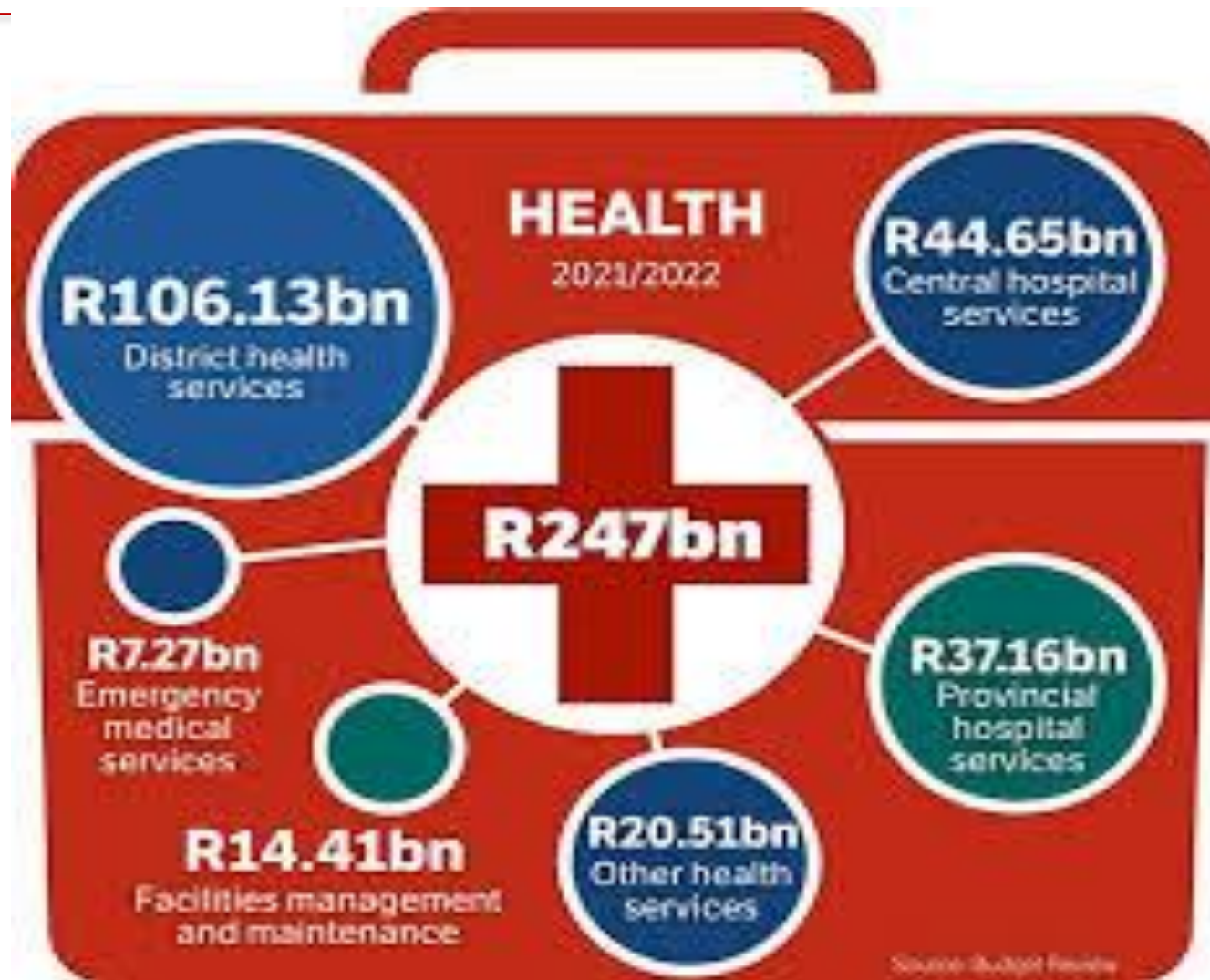
Dr. Marjorie Jobson (2015): Structure of the health system in South Africa (p. 3-4) [https://www.khulumani.net/active-citizens/item/download/225\\_30267354d1c1416597dcad919c37ac71.html](https://www.khulumani.net/active-citizens/item/download/225_30267354d1c1416597dcad919c37ac71.html)

General Household Survey 2016 by Statistics South Africa (p. 21-24) <http://www.statssa.gov.za/publications/P0318/P03182016.pdf>

■ 2019

▲ 2020



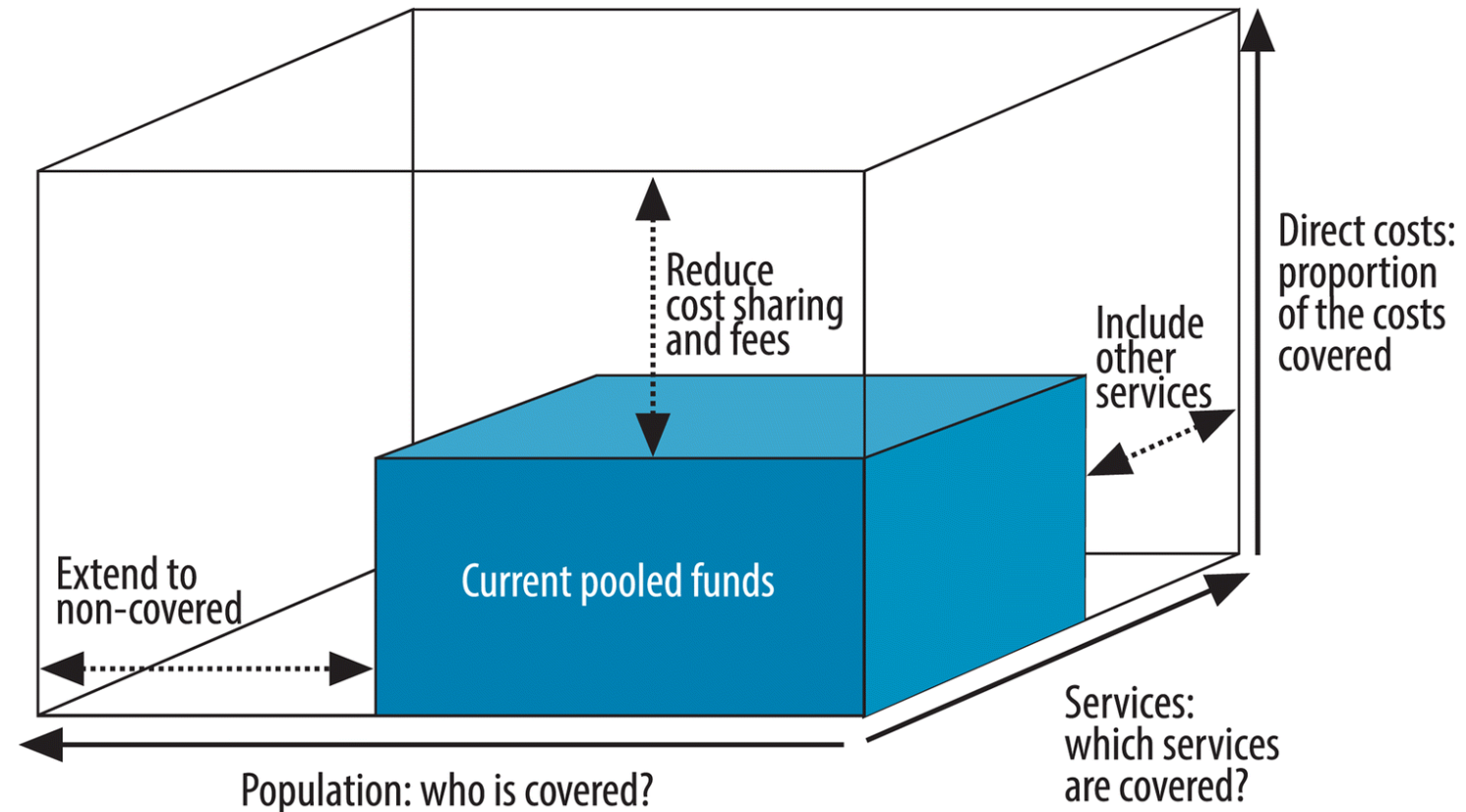




# Universal Health Coverage



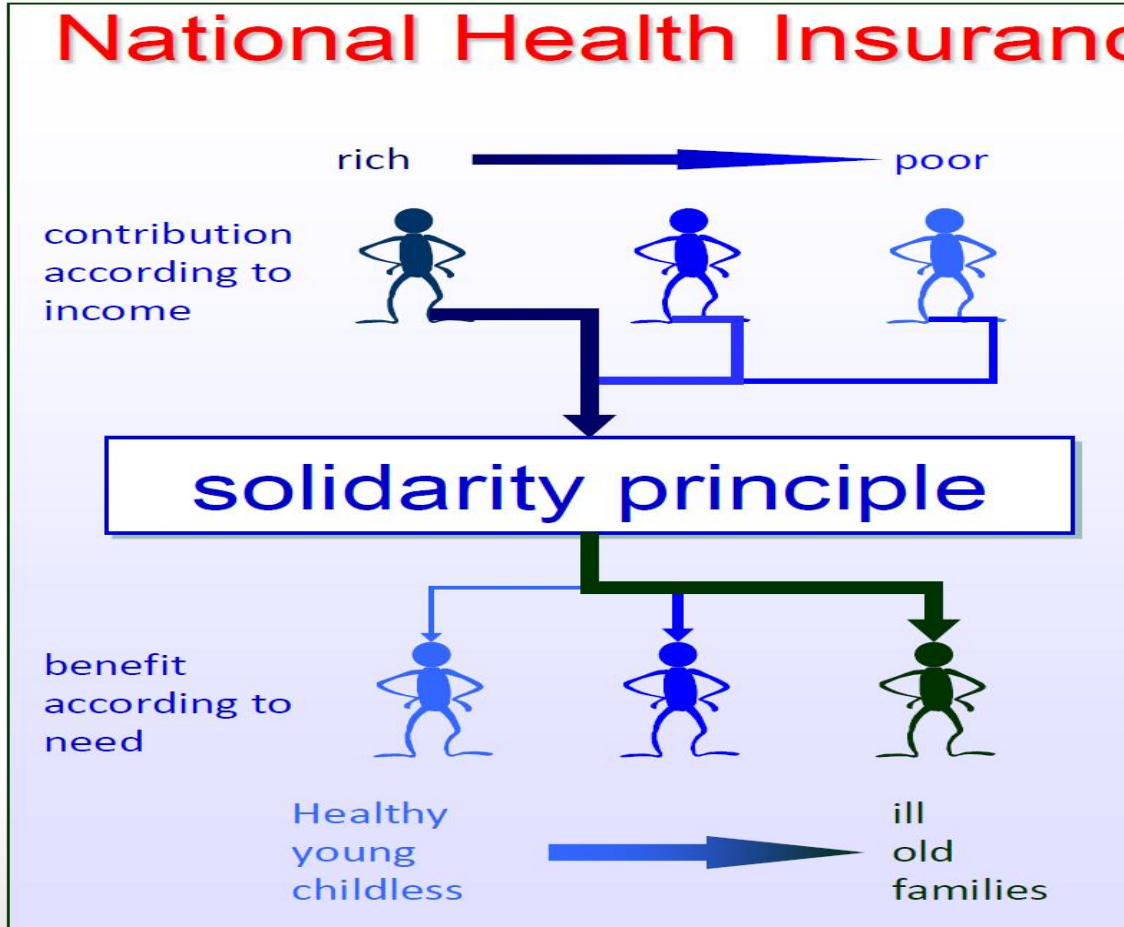
Three dimensions to consider when moving towards universal coverage





# THE EQUITY AND SOLIDARITY PRINCIPLES

## National Health Insurance



# National Health Insurance

- SA is in the process of implementing National Health Insurance (NHI)
- NHI as a health financing mechanism that will move us towards universal health coverage (UHC)
- NHI is aimed at ensuring that:
  - all South Africans have access to quality health care irrespective of their socio-economic status
  - health services are delivered equitably
  - the population does not pay for accessing health services at the point of use • the population has financial risk protection against catastrophic health expenditure

# Purpose of the NHI Act

- To establish and maintain a **National Health Insurance Fund**
- Funded through **mandatory prepayment** that aims to achieve sustainable and affordable universal access to quality health care services
- **Single purchaser** and **single payer** of health care services in order to ensure the equitable and fair distribution and use of health care services;
- strategic purchasing of health care services, medicines, health goods and health related products from accredited and contracted health care service providers.

# Seven features of NHI (South Africa)

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- **Universal access:** All South Africans will have access to needed promotive, preventive, curative, rehabilitative and palliative health services that are of sufficient quality and are affordable without exposing them to financial hardships.
- The right to access quality health services will be on the basis of need and not socioeconomic status.

# Seven principles of NHI

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- **Mandatory prepayment of health care:** NHI will be financed through mandatory prepayment which is distinct from other modes of payment such as voluntary prepayment and OOP payments.
- **Comprehensive services:** NHI will cover a comprehensive set of health services that will provide a continuum of care from community outreach, health promotion and prevention to other levels of care.

# Seven Principles of NHI

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- Financial risk protection: NHI will ensure that individuals and households do not suffer financial hardship and/or are not deterred from accessing and utilising needed health services.
- It involves eliminating various forms of direct payments such as user charges, co-payments and direct OOP payments to accredited health service providers.

# Seven Principles of NHI

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- **Single fund:** This refers to integrating all sources of funding into a unified health financing pool that caters for the needs of the population.
- **Strategic purchaser:** In order to purchase services for all, there should be an entity that actively utilises its power as a single purchaser to proactively identify population health needs and determine the most appropriate, efficient and effective mechanisms for drawing on existing health service providers.

# Seven Principles of NHI

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- **Single-payer:** This refers to an entity that pays for all health care costs on behalf of the population. A single-payer contracts for health care services from providers. The term "single-payer" describes the funding mechanism and not the type of provider.



# Population coverage

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- Purchase health care services- determined by the Benefits Advisory Committee, on behalf of—
  - South African citizens;
  - *Permanent* residents;
  - refugees;
  - inmates and
  - certain categories or individual foreigners determined by the Minister of Home Affairs

# Population coverage

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- An asylum seeker or illegal foreigner is only entitled to—
  - emergency medical services; and
  - services for notifiable conditions of public health concern.
- All children, including children of asylum seekers or illegal migrants, are entitled to basic health care services.

# Registration as users

- Register as a user with the Fund at an accredited health care service provider or health establishment
- Must provide his or her biometrics and such other information as may be prescribed, including fingerprints, photographs, proof of habitual place of residence and—
  - an identity card as defined in the Identification Act, 1997 (Act No. 68 of 1997);
  - an original birth certificate; or
  - a refugee identity card issued in terms of the Refugees Act.

# Health service coverage

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- Health care services to be determined by the Benefits Advisory Committee
  - must first access health care services at a primary health care level as the entry into the health system;
  - must adhere to the referral pathways prescribed for health care service providers or health establishments; and
  - is not entitled to health care services purchased by the Fund if he or she fails to adhere to the prescribed referral pathways;

# Cost Coverage

- Receive the health care services purchased on his or her behalf by the Fund from an accredited health care service provider or health establishment **free at the point of care.**
- A person or user must pay for health care services rendered
  - is not entitled to health care services purchased by the Fund in terms of the
  - fails to comply with referral pathways prescribed by a health care service provider or health establishment;
  - seeks services that are not deemed medically necessary by the Benefits Advisory Committee; or
  - seeks treatment that is not included in the Formulary