Compulsory Insurance

Healthcare policy, Management and Economics, Public Health, Lecture 9

George Lobzhanidze, MD, PhD
Tbilisi State University

Voluntary and Compulsory Insurance

- Voluntary insurance based on individual rating is costly to manage and involves inequitable access to health care
- Compulsory insurance based on community rating is intended to solve these two problems

Social Health Insurance

- There are—and have been—wide differences in how social health insurance (SHI) operates in practice
- It was first established in Germany more than 100 years ago, and has since been established in more than 60 countries
- About half of them, particularly the high income countries, have expanded to universal coverage

Social Health Insurance

- SHI systems are now found in many European countries (Belgium, the Netherlands, Luxembourg, France, Germany, Austria, Switzerland) and have more recently been established in many Latin American countries

Social Health Insurance

- First, SHI is designated for group of workers or employees, and thus initially limited to the formal sector of the economy
- Second, there is a direct link between being a contributing member of the scheme and being entitled to health care
- Third, it is founded on the notion of *solidarity* between workers and their families, involving a high level of cross-subsidization
- Fourth, the management of the system has some degree of autonomy from government

Tax-financed public insurance

- A single tax-financed public insurance appears to be the cheapest scheme when it comes to administrative costs
- Tax-financed health care systems that offer universal coverage are often referred to as a *national health service*, like the NHS in the UK
- Such systems are found in all Nordic countries and many other high-income countries such as Italy, Spain, Portugal, Australia, New Zealand, Canada

Tax-financed public insurance

- In low-income countries, such systems have been difficult to promote due to limited ability to raise stable and sufficient tax revenues
- Tax-financed health systems are vulnerable to changes in political priorities, and may therefore be susceptible to less secure funding than independent sickness funds

Tax-financed public insurance

- There is one important gain associated with having *one* purchaser of health care. When negotiating with providers of care, a single purchaser will exert monopsony power (i.e. one buyer, many sellers) and may thereby achieve lower prices than in markets with many buyers
- This is to the benefit of taxpayers, but may be less popular among health care personnel who would generally have lower salaries than in markets in which there was more than one purchaser of their services

Key characteristics of three different health insurance systems

	Private health insurance	Social health insurance	Taxation
Cost of managing the system (revenue collection and determining access)	Expensive	From quite expensive to quite cheap	Cheap
Coverage	Limited	Formal sector only (or extended to universal)	Universal
Choice of participation	Voluntary	Compulsory for all in the formal sector	Compulsory
Cross-subsidization	No	Across other members of the formal sector	Yes
Source of funding	Individual premiums	Payroll tax	Direct and indirect taxes
Contributions based on	Health risks	Income	Income and consumption
Access based on	Income	Needs	Needs
Secure funding	Yes, increased costs → increased premiums	Yes, earmarked to sickness funds	Depends on political system
Link between size of own contribution and own expected use	Yes	No	No

Thank you

Contact: giorgi.lobzhanidze@gmail.com
577628808