

# Financing methods of primary healthcare

Healthcare policy, Management and Economics, Public Health, Lecture 11

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## Primary Care

- ▶ The most widely used models for paying general practitioners are: fee for service, capitation, and salary
- ▶ Each scheme has its pros and cons, which explains why we observe blended remuneration systems in practice

## Remuneration types

- ▶ Activity-based remuneration is essentially of two types:
- ▶ i) capitation, i.e. determined by the number of patients on the list, and
- ▶ ii) fee for service, i.e. determined by which services are provided during consultation

## Fee for service

- ▶ Fee for service (FFS) is defined as a payment mechanism in which a provider is paid for each individual service rendered to a patient
- ▶ FFS has the dual purpose of covering the costs that the task incurs on the practice, but also of being a financial incentive for the doctor (as agent) to perform more of the tasks that the purchaser (as principal) would like the doctor to do

## Supplier-induced demand

- ▶ Supplier induced demand (SID) refers to the extent to which a doctor provides or recommends medical services beyond what the patient would have chosen if they had available the same information and knowledge as the doctor

## Capitation

- ▶ Capitation is a remuneration system that breaks the link between payment and amount of service provided, and hence reduces doctors' incentives to induce demand for their services

## Two separate features of Capitation

- ▶ First, it is an organization model, referred to as a list patient system which gives each citizen the right to have their own GP
- ▶ Second, capitation is a payment mechanism in which the GP receives a fixed fee for each person registered on their list, so their income depends on the size of the patient list

## Salary

- ▶ While there are many things that affect an individual's choice of whether to work, the wage rate is certainly a crucial variable and therefore an important incentive device
- ▶ As to the choice of how much to work, the conventional perception seems to be that the same causal relation exists as for the choice of whether to work, namely that increases in the wage rate will always attract a person to work more. However, this is not necessarily the case

## Three payment systems

- ▶ No single system emerges as best
- ▶ In the absence of one theoretically optimal system, it is easy to understand why we observe so many blended systems in practice, and also why there are some quite strong regulatory measures aiming at reducing some of the negative effects within each system

Thank you

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