

Understanding Healthcare Financing

1. Introduction to Healthcare Financing

The World Health Organization (WHO) produces an annual World Health Report focussing on a particular health subject in each report. <http://www.who.int/whr/en/index.html>

The World Health Report for 2000 was entitled “Health Systems: improving performance”. In the foreword, the Director-General of the WHO, Gro Harlem Brundtland, wrote: “What makes for a good health system? What makes a health system fair? And how do we know whether a health system is performing as well as it could? These questions are the subject of public debate in most countries around the world.”

“When I became Director-General in 1998, one of my prime concerns was that health systems development should become increasingly central to the work of WHO. I also took the view that while our work in this area must be consistent with the values of health for all, our recommendations should be based on evidence rather than ideology. I hope [this report] will be seen as a landmark publication in the field of health systems development.”

World Health Organization (2000). *The World Health Report 2000: Health Systems: improving performance* (pp. 206) Geneva. URL: <http://www.who.int/whr/2000/en/index.html>

A particularly useful introduction to healthcare financing is Chapter 5: “Who Pays for Health Systems?” http://www.who.int/whr/2000/en/whr00_ch5_en.pdf This chapter introduces a description of health systems that is much richer and more nuanced than simply thinking of public or private systems.

“The purpose of health financing is 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. This means 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.

“To ensure that individuals have access to health services, three interrelated functions of health system financing are crucial: revenue collection, pooling of resources, and purchasing of interventions.”

“Revenue collection is the process by which the health system receives money from households and organizations or companies, as well as from donors. ... Health systems have various ways of collecting revenue, such as 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 is the accumulation and management of revenues in such a way as to ensure that the risk of having to pay for health care is borne by all the members of the pool and not by each contributor individually. Pooling is traditionally known as the “insurance function” within the health system ...”

“Purchasing is the process by which pooled funds are paid to providers in order to deliver a specified or unspecified set of health interventions. Purchasing can be performed passively or strategically. **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. [this is done by means of] selective contracting and incentive schemes. Purchasing uses different instruments for paying providers, including budgeting.”

Many researchers would include **delivery** or **provision of services** as a fourth element when describing a health system. This is taken from the original work by Kutzin which was adopted in the WHO report. Descriptions of health systems using this approach are called “Kutzin frameworks”.

Kutzin, J. (2001). A descriptive framework for country-level analysis of health care financing arrangements. *Health Policy*, 56(3), 171-204. URL: http://www.ncbi.nlm.nih.gov/entrez/query.fcgi?cmd=Retrieve&db=PubMed&dopt=Citation&list_uids=11399345

Kutzin wrote: “Health financing policies are marked by confusion between policy tools and policy objectives, especially in low and middle income countries. This paper attempts to address this problem by providing a conceptual framework that is driven by the normative objective of enhancing the 'insurance function' (access to needed care without financial impoverishment) of health care systems. The framework is proposed as a tool for descriptive analysis of the key functions, policies, and interactions within an existing health care system, and equally as a tool to assist the identification and preliminary assessment of policy options.

“The aim is to help to clarify the policy levers that are available to enhance the insurance function for the population as efficiently as possible, given the 'starting point' of a country's existing institutional and organizational arrangements. Analysis of health care financing systems using this framework highlights the interactions of various policies and the need for a coherent package of coordinated reforms, rather than a focus on particular organizational forms of 'health insurance'. The content of each main health care system function (revenue collection, pooling of funds, purchasing of services, provision of services) and the market structure with

which the implementation of each is organized are found to be particularly important, as are policies with respect to the benefit package and user fees.”

Chapter 5 of the World Health report 2000 http://www.who.int/whr/2000/en/whr00_ch5_en.pdf has Kutzin framework diagrams for the United Kingdom, Chile, Egypt and Bangladesh (see page 102).