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DESIGNING HEALTH FINANCING SYSTEMS TO REDUCE CATASTROPHIC HEALTH EXPENDITURE

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DESIGNING HEALTH

FINANCING SYSTEMS

TO

REDUCE CATASTROPHIC

HEALTH EXPENDITURE

by

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DESIGNING HEALTH FINANCING SYSTEMS TO REDUCE CATASTROPHIC HEALTH EXPENDITURE

Every year, more than 150 million individuals in 44 million households face financial catastrophe as a direct result of having to pay for health care. This policy brief outlines the circumstances in which this occurs, and what policy-makers need to consider in seeking to protect populations.

What is catastrophic health expenditure and why is it a concern?

When people have to pay fees or co-payments for health care, the amount can be so high in relation to income that it results in "financial catastrophe" for the individual or the household. Such high expenditure can mean that people have to cut down on necessities such as food and clothing, or are unable to pay for their children's education. Every year, approximately 44 million households, or more than 150 million individuals, throughout the world face catastrophic expenditure, and about 25 million households or more than 100 million individuals are pushed into poverty by the need to pay for services.

Moreover, the impact of these out-of-pocket payments for health care goes beyond catastrophic spending alone. Many people may decide not to use services, simply because they cannot afford either the direct costs, such as for consultations, medicines and laboratory tests, or the indirect costs, such as for transport and special food. Poor households are likely to sink even further into poverty because of the adverse effects of illness on their earnings and general welfare.

A concern of policy-makers is to protect people from financial catastrophe and impoverishment as a result of use of health services. WHO has proposed that health expenditure be viewed as catastrophic whenever it is greater than or equal to 40% of a household's non-subsistence income, i.e. income available after basic needs have been met. However, countries may wish to use a different cut-off point in setting their national health policies.

When does catastrophic health expenditure occur?

Three factors have to be present for catastrophic payments to arise: the availability of health services requiring out-of-pocket payments; low household capacity to pay; and lack of prepayment mechanisms for risk pooling. Prepayment refers to the situation where funds for health are collected through taxes and/or insurance contributions. They

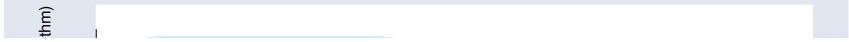
protect against some of the financial risks of ill health because households can then access services when they need to at a lower cost than would apply if all services had to be met by out-of-pocket payments made at the time when a service is received. When out-of-pocket payments are required, households with elderly, handicapped, or chronically ill members are generally more likely to be confronted with catastrophic health spending than others. This is both because they usually have a greater need for health services and because they lack financial resources. In the absence of effective protection mechanisms, these groups face continuing risks of both financial hardship and ill-health.

Catastrophic expenditure can occur in all countries at all stages of development. In most countries of the Organisation for Economic Co-operation and Development (OECD), for example, health systems and financial risk-pooling mechanisms have been developed over several decades. Yet despite reasonably well developed financial risk protection mechanisms, some households in these countries still face catastrophic payments (Figure 1). In many middle-income countries, while use of health services has expanded rapidly, the development of risk protection mechanisms has lagged behind.

In general, health systems that require lower out-of-pocket payments for health care offer better protection to the poor against catastrophic spending. As indicated in Figure 1, where out-of-pocket spending is less than 15% of total health spending, very few households tend to be affected by catastrophic payments. Countries can reduce involved in illness by relying more on prepayment and less on out-of-pocket payments. In that way, people contribute to funding health services in a predictable fashion, and are not required to suddenly find money to pay for services when they fall ill unexpectedly.

While prepayment mechanisms reduce the chances of catastrophic spending, they do not automatically eliminate it. This is particularly true when prepayment schemes cover only some health needs (e.g. the benefits package for insurance is not very large or taxes support only a limited range of services), cover only high-income groups, or when households must still meet some of the costs of care or medication themselves through formal or informal payments.

Figure 1. Proportion of households with catastrophic expenditures vs. share of out-of-pocket payment in total health expenditure



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