CENTER FOR RESEARCH AND POLICY MAKING C R P M



MACEDONIAN HEALTH INSURANCE: THE STATE OF AFFAIRS

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CENTER FOR RESEARCH AND POLICY MAKING (CRPM)



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Executive summary

Health insurance, in its most basic form, is an agreement where the party that transfers the cost of a certain defined risk (the first party) pays another party to assume the risk. Thus, the primary objective of health insurance is to cover total or part of the claims and expenses associated with the provision of certain health services in order to avoid catastrophic financial expenses that can result of some diseases or injuries by the principle of spreading risk among many consumers. In addition, it serves as a basic and powerful modality to collect revenues in financing the health care system of a specific region (provision of health services, salaries to health care workers, repro materials).

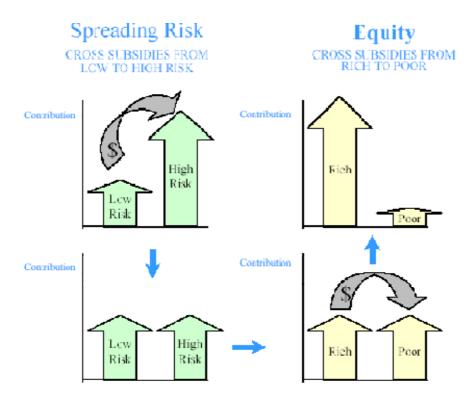
There are several different types of health insurance: social, taxed-based and private, or a combination of these three types (Slatman R, Figueras J. European Health Care Reform. Analysis of Current Strategies. WHO 1997.). This article will review financing of the health care systems through social health insurance, discussing the issues and opportunities to open the market for private insurance companies. These reforms foster the competition between the insurance funds, aimed to create internal market that would regulate the prize of a health service. The competition is expected to lower the prize and to increase the quality in the provision of the health care services.

However, the main problem is how to initiate the movement of consumers between the funds. Simply, the experience shows that opening competition in the social systems of health insurance results in serious difficulties how to stimulate the consumers to change their funds. There a certain movements in case private insure companies enter the market whose workings approaches are more "customer oriented" like any other private companies. Such approach needs to follow prior to stable prepared market where, the State has power of implementing and sustaining strong regulation.

The article analyses the possibility of opening such approach in Macedonia reviewing the experiences of Germany and Chile. The article concludes that existing Macedonian Health Insurance System is weak and not prepared to accept a competition, since that could result in collapse of the social system. The aim of the article is to raise the awareness on the issues of health insurance and to initiate wider public debate on the perspectives of health insurance in Macedonia.

Introduction: On Social Health insurance

Social health insurance has hundred years long tradition with its grassroots back to Germany (Bismarck). Social health insurance operates using the principles of solidarity, by pooling the risk among many consumers (Figure 1). The collected funds are spent to those consumers in most need of health services.



The literature shows that mainly older population and young children which constitutes up to 10% of the insured population uses 80% of the collected funds. The idea behind the social insurance is regardless how much one have contributed in the fund over the years, one will use the funds when the need arise. Maybe there won't be such need (although this is rarely the case), but in both scenarios the monies consumers contributed per month, are not refundable.

Well developed social health insurance systems are great benefit to every country. Many countries struggle to implement social systems due to the different approaches towards the notion of health: as an individual commodity or as public and social good. Large percentages of their population are uninsured with very expensive not accessible health services. The classic example is USA where around 40 million people are uninsured. Despite the attempts of President Clinton's administration to reform the health care system which have failed, the health of United State's citizens is not appreciated as public good, but more as a commodity one can freely buy at the market, surely if one has the money. More importantly, the maintaining of the health is considered mainly as an individual

responsibility, while on the other hand there are well developed public health services.

Health insurance in Macedonia

The Republic of Macedonia has highly centralized and not competitive health insurance system. The system is financed with contributions of the employees (57.3%), Pension Fund (21.7%), and additional percentage comes from the Bureau of Unemployed (12.6%). Macedonia's economy is among the poorest in the Balkan region, while wages for health insurance are among the highest (9.2% of the salary). The high wages for health insurance are associated with the percentage of the employees' income and in some form with the education, but are independent of many other more important risk factors such as: age, sex, or the size of the consumers' family.

High contributions for health insurance, supplemented with additional taxes, are heavy burden for the employers and are appreciated as one of the crucial factors for the country's high official unemployment (40%). Namely, the employers in order to avoid paying high taxes deliberately register their employees on lower salaries or they don't register them at all. Thus, a huge number of the citizens who are officially unemployed actually work and receive regular monthly incomes. They are not contributing in the social fund, but they are insured through the Bureau of Unemployed. Ironically enough, Macedonian State is stimulating these citizens to find side-way channels to health insurance. On top of this, is the reality that the citizens are exposed on additional out of pocket expenses over the provision of certain health services. Some analysts suggest that in middle income countries those expenses can be around 50% of the total health budget in the country. In other words, if Macedonian's health annual budget is 240 millions euros, additional 120 millions euros are coming and going in to private hands thus successfully surrounding the health care system.

The health insurance law of Republic of Macedonia does not allow opening of private health insurance companies for total coverage. There is a possibility for voluntary supplementary health insurance, which seems more applicable in theory, than used in practice. These factors contribute to the graduate deprivation of the social health care system and increasing inequality among the consumers. To overcome such problems some countries introduced two approaches:

- opening competition among the social funds, or
- opening the market to private health insurers.

Health insurance in Germany and Chile

Around the globe there are countries with social health insurance systems, but their systems are competitive (more social funds). Also, the citizens (insures) are provided choice where they will be insured: in social or private funds. We will briefly review two examples: Germany and Chile.

Germany's health insurance system was traditionally not competitive until the adoption of the Structural Act in 1993, when the country introduced competition among the social health insurance finds. Today in Germany there are a number of social funds (krankenkasse), and the consumers can choose among various funds (Brown L, Amelung V. "Manacled Competition" Market reforms in German Health Care. Health Affairs 1999; Vol 18: No 3:76-91.). The health insurance for the social funds is compulsory until, the consumers are not register to have income above certain level.

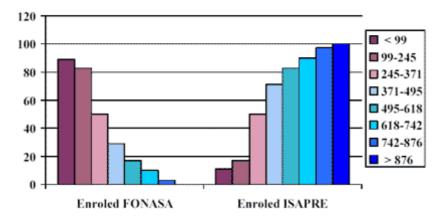
When consumer reach the ceiling of the income (\approx 40-45000 euros annually), using the principle of percentage of the salary, the monthly premiums could be very high. Then, the country provides the consumers with the possibility to leave the social fund and to join some of the private funds. By doing that, the consumers have the possibility to pay less, and to be insured by the private company which is expected to provide better quality or more of a customer oriented service. However, once the consumers opt to go out of the social fund, they are provided with no possibility to return back. This measure serves as a certain protection of the social funds.

There is an ongoing debate among the political parties to introduce other reforms in the system of health insurance by introducing the flat rate premiums enhanced by taxed financed subsides for children and the poor (Ms Angela Merkel, CDU). However, the critics say such reforms would increase the social unjust (Edmund Stoiber, CSU) (Doing their best to lose? *The Economist*, 16th October 2004).

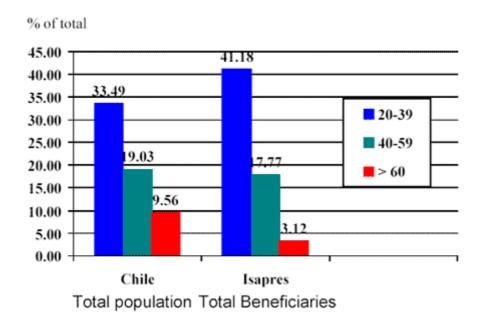
In Chile there is another possibility. Chile's citizens have the possibility to choose whether they want to be in the social (state) funds, or in the private funds. Actually, it is compulsory to contribute 7% of the monthly salary in some of the funds, but there is a ceiling which the consumers can contribute (130\$) per month. The decision where to contribute the money is with the consumers. However, in the private funds in Chile the consumers would pay additional money according to the individual risk factors. In the state system there is around 65% of the population, while in the private there is 25%. The main problem in Chile is the fragmentation of the market by the income of the consumers.

Figure No.2 presents how the largest proportion of the citizens with low incomes stays with the state fund, while the wealthier move to the private funds.

% of all formal workers in the income category



Moreover the state fund is burdened by taking care of larger percentage of older persons, whiles the younger, and in the prime time of working age population (who in reality has not much need of health services) is in the private funds. This exposes the state fund to possible collapse.



Besides the good things that comes with the private insurance such as: competition, better quality services, improved access to the system there are some obstacles that need to be addressed prior to opening the market to private companies. The State needs to have an experience and well defined rules in regulating the new market. There are important criteria that need to be secured on the regulation of the market both to the State, but as well to the private companies. The private companies are interested to have: sufficient number of consumers who regularly pays the monthly premiums; well implemented process of regulation; clear rules on entry and exit barriers; political stability in the country; and possibility to extend the market to other neighboring countries.

Regulation of health insurance

Most analysts define the regulation as imposition of external limitations that influence the behavior of individuals or organizations (Saltman R. Regulating incentives: the past and the present role of the state in the health care systems. Soc. Sci. and Medicine 2002; 54:1677-1684.). With the implementation of new regulations The State intents to achieve certain objectives by accelerating change towards desired behavior of the institutions or the individuals. The economic foundation for regulation is based on the concept of market failure. Market failures constitute violations of the conditions of workable competition, such as entry and exit barriers, firm market power and lack of information. In other words, the conditions country provides for companies to enter or exit the market.

There are two basic types of regulation: financial and market. The aim of the financial regulation is to protect the consumers of the risk some insurance companies to not cover the expenses, actually to decrease the risk of insolvency. Market regulation on the other hand, provides fair and appropriate prize of the insurance premiums. This regulation sets up the prize of the policies to be affordable for the population (not to expensive) and not to be to low (as of the competition) what won't provide enough funds to the insurance companies and some cases will become insolvent. The State needs to secure all necessary conditions including the once listed above while considering the possibility to open the competition in the sector of health insurance. It is necessary to provide normal operating of the market and protection mechanism of market failure (moral hazard, imperfect information, adverse selection by which the private companies would intent to insure only young and healthier, while they will try to avoid to insure the older who have more needs).

Conclusion

We argue that Macedonia is approaching towards the stage of development of its health care systems that needs further improvement. The State should start thinking and analyzing the possibilities of opening the competition in the system of health insurance. This should follows after the improvement of the state health insurance fund and by introducing strong regulation to the newly designed health insurance market.

For the beginning, the state fund needs to start contracting with the existing private hospitals (like the primary private clinics-capitation contracts) in those segments where the public health system has not a monopoly of services. This would provide the citizens or the consumers to choose over the provision of services: private or public. This approach would enable the fund to have more control over the private sector in the health care system in Macedonia. If the Fund starts contracting with the hospital private sector that would stimulate opening of new private institutions. Along this initiative, the public procurement services surrounding the public

health institutions needs to be more liberalized and not as it is now, more bureaucratic.

The bureaucratisation contributes even those directors who are doing good job in their setting not to be competitive with the existing private sector. Liberalization would provide equal condition both to private and public sector. The implementation of such competition is expected to advance the social health care system. In addition this would contribute consequently to open the competition in the system of health insurance which at this stage sees elusive. The priority in the following years should be opening of the public debate among the health care workers, academicians and the politicians where we would like to see our health care system in the future.