



## **EXECUTIVE SUMMARY**

### **Building private health insurance system In Poland**

**Concept by Polish Chamber of Insurance**

**Warsaw 2008**

Despite growing contributions to the national health insurance system and increased revenues of the National Health Fund which result from increasing wages and decreasing unemployment, the Polish healthcare system remains seriously underfunded.

The situation results in long waiting lists for numerous medical procedures or - in case the value of delivered healthcare services exceeds the amounts contracted by National Health Fund- in growing debts of most public healthcare providers. Other issues include steady and fully understandable wage pressure by medical personnel.

Therefore any public healthcare system reform requires a solution that will guarantee, along with additional funds inflow, increased financial efficiency, prudent and rational utilization of funds and above all high quality, open and accessible healthcare.

The Polish Chamber of Insurance (PIU) proposes to implement a system that will allow private and public payers to compete against each other. We think that the most favorable solution – verified in various countries – is to let Private Health Funds (PHF) co-manage public healthcare funds. Competition between payers should lead to greater efficiency as every entitled person will become a customer, not a petitioner as currently is the case with The National Health Fund. An increased number of institutions involved in the management of public healthcare funds will guarantee better quality and organization of medical services provision.

The Polish Chamber of Insurance proposes a voluntary private health insurance system that will develop along and benefit from the growing wealth of Polish citizens, following the examples of France, Holland or Australia. “Diagnoza Społeczna 2007” survey suggests that 18,8% of respondents declare their desire to purchase private health insurance for up to a PLN 100 monthly premium.

Today private spending on healthcare in Poland amounts to PLN 20 billion, however, just a small fraction of it goes to public healthcare providers. The solution recommended by PIU, in which private health insurance would be widespread, will ensure that a significant part of premiums collected by Private Health Funds may go to public healthcare providers, who, at present, are financed by the National Health Fund only. They include mainly hospitals, but also diagnostics and rehabilitation centers.

We recommend that Private Health Funds – apart from managing public funds – collect a supplementary premium. Due to the character of their activity the only institutions allowed to establish a Private Health Fund would be non-life insurance companies licensed to offer class 2 sickness insurance. In our view there is no need to establish a separate branch limited to private health insurance. The current insurance legislation is sufficient and the existing products offer by numerous insurance companies confirms this.

We propose to implement Private Health Insurance that will consist of two elements:

- Capitation rate raised through the public healthcare insurance premium,
- Supplementary premium paid for directly by an insured person.

**Individuals deciding to purchase Private Health Insurance would be able to choose among numerous options offered by the funds. The options could range from a basic cover (more comprehensive or equal to the public cover) to custom tailored ones (covering e.g. consultations and treatment abroad) according to individual needs, preferences or purchasing power.**

In order to improve the financial condition of the entire system without compromising the principles of social responsibility and solidarity we recommend that the amount of public funds that follow a person purchasing a private health insurance be a fixed percentage of an average capitation rate assigned to each person of certain age and sex that is entitled to public healthcare. **In the model recommended by PIU, each Private Health Fund receives a fixed capitation rate transferred from the public system and a supplementary premium (related to a chosen standard) paid for by an insured person.**

The value of both the capitation rate and the premium will depend on age and sex. The capitation rate is calculated in relation to the public system's average expenses on individuals of certain age and sex. The Private Health Fund shall receive 80% of the rate for each individual aged between 4 and 60 and 100% for others, i.e. children up to 3 years old and seniors over 60.

The capitation rates would be calculated (based on the public fund's expenses and – in the following years – based on all funds' expenses) by a newly established Health Insurance Supervision Authority and transferred to private funds by the Social Insurance Institution (ZUS) or Agricultural Social Insurance Fund (KRUS).

**The capitation rate and the supplementary premium received by the PHF would oblige it to provide a policyholder with a comprehensive healthcare cover, including drug refund schemes, and in line with the Polish regulations. However, medical rescue services and highly specialized procedures would remain the public system's responsibility.**

Private Health Insurance would be a year long contract and a purchase decision would have to be made during the year prior to it by a defined, statutory date. In the beginning (first year) the new system would be open to all individuals aged up to 65 years old. Then the limit would be 55 years old. Individuals that will acquire private health insurance will be able to continue it as long as they wish and regardless of age limits, provided that they keep paying their supplementary premium.

In order to ensure initial financial stability of the new system, switching between private funds would not be possible within the first three years. After that switching more often than every two years would be subject to an additional charge.

**Private health funds entering the market after the initial year would also be required – during the first year – to allow enrollment of individuals of up to 65 years old.** This would ensure fair competition and reduce risk of large age variations between funds entering the market in different years.

**In order to facilitate access to private health insurance for large families, we recommend that the state covers the full (or part of ) cost of a supplementary premium for each child in families with three or more children.** This would help such families overcome financial difficulties indicated as the main obstacle to acquiring private health insurance. (“Diagnoza Społeczna” study).

**For the purpose of coordinating prescription drugs policy and better management of drug costs, we recommend establishing a clearing house owned by all public and private health funds.** This will ensure a single and common clearing system for the refund of drugs and should prove very cost effective. We believe that private health funds – as institutions managing drugs expenses – should be in a position to decide which drugs should be put on the list of subsidized ( refunded) drugs.

The solutions proposed by Polish Chamber of Insurance will guarantee:

- **Increasing amount of money** spent on healthcare without increasing taxes or universal healthcare rate;
- **Optimizing the number of medical procedures** purchased by public and private health funds by bringing it into line with actual needs;
- **Reducing entry barriers and shortening waiting lists** that today are a result of underfunding or poor management of the system
- **Increasing the standard of healthcare and health security** through better access and improved quality as well as by implementing instruments for long-term health management (prophylactic check-up programs, promotion of healthy lifestyles);
- **Optimizing the utilization of healthcare providers’ resources**, including greater number of contracted procedures;
- **Competition between healthcare providers** for contracts with payers, which should lead to better quality and prices.
- **Simplicity** - no risk equalization system, which is substituted by the principle of dividing public funds into capitation rates dependent on age and sex only;

- **Social solidarity** between high and low income individuals (private insurance is voluntary and more-than-average earners leave most of their universal healthcare premium in the public system);
- **Savings for the public system** that may be spent on healthcare for individuals that choose to stay in the public system;
- **Inflow of additional resources to the entire system** without increasing a fiscal burden;
- **Wide access** to private insurance regardless of health status;
- **Access to private insurance for elderly individuals and better quality healthcare for that group.**

The simulations conducted by PIU suggest that the private health insurance market may be worth as much as PLN 8,4 billion. It was assumed that 15% of population (5,8m people) will choose the private sector and will pay a monthly, basic supplementary premium of PLN 50. This will provide private funds with PLN 3,5bn and an additional PLN 4,5bn coming from public healthcare premiums (capitation rates).

**It translates into additional inflow of funds amounting to PLN 3,5bn to the entire system and leaving additional PLN 0,7bn in the public system (20% of capitation rates).**

In order to expand the private health insurance market, products offered by private health funds will be actively distributed similarly to other insurance and pension products, in line with Insurance Mediation Act.

### **SWOT ANALYSIS:**

#### **Strengths:**

- constitutionality
- simplicity
- solidarity principle – chance of political and social approval
- state allowance for families with three or more children
- potential universality of private health Insurance
- organized inflow of additional resources into the entire system
- building long-term relations between payers and healthcare providers
- creating mechanisms of competition for a patient among payers and providers – patient's health will become system's principal value

#### **Weaknesses:**

- implementation may take up to two years

#### **Opportunities:**

- medical environment's approval
- general public's approval for healthcare system reforms
- increased health security due to mechanisms promoting health management (prophylactics in particular)

**Threats:**

- system proposed by insurance sector may be a subject to certain groups' opposition and political games
- low insurance awareness – need for an educational campaign