

Covid-19 poses challenges in healthcare financing

Fortunately, Singapore's high savings model has helped it cushion cost impact of the coronavirus

Phua Kai Hong

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Most countries traditionally depend on taxation as the main source of financing public health services, especially for infectious disease programmes. However, the rising cost of care for an ageing population has led many governments these days to introduce means of cost-sharing, pre-payment and alternative methods of financing.

Covid-19 has thrown a spanner in the works of that trend, putting the vulnerabilities of many healthcare systems into sharp relief. Financing healthcare systems amid a pandemic is raising many challenges for governments.

This is especially so as various systems in the region have innovated with health reforms that have included increasing private financing, corporatising health and hospital care, and contracting out services to the private sector. With these attempts at privatisation and cost containment, many contentious issues of affordability, social solidarity and the role of the state have been raised.

One consolation for Singapore is that its public-private model of mandatory personal savings – especially regarding healthcare – and high national savings makes

the country more ready than most to face the pandemic.

WHAT ARE THE COSTS OF COVID-19?

In assessing the adequacy of healthcare financing, we should first try to approximate the costs of Covid-19.

The most apparent cost of this epidemic is the cost of providing direct medical care and public health services such as screening tests and ICU (intensive care unit) care for those affected.

However, there are indirect costs related to loss of productivity caused by public measures of quarantines and isolation, other economic losses such as business closures, travel bans, decreases of international trade and services either in demand or supply, and psycho-social losses (including mental health issues, such as the rise of domestic violence linked to lockdowns) that are difficult to quantify.

There may be some net monetary benefits with the decrease of certain diseases and associated costs of care, due to the improvement of personal hygiene and reduction of related risk factors.

The total impact on the economy could be imputed by the aggregated sum total of estimated losses in productivity for all sectors, in addition to the direct and indirect costs.

Since the indirect and intangible losses are not easy to measure, it can be argued that total losses from pandemics will be underestimated, but even then, the direct costs that are easier to compute will be enormous, even if influenced by the responses of affected systems.

FUTURE HEALTHCARE OPTIONS

This raises the question of whether governments are able to absorb the

costs of the pandemic.

In the short term, there will be plentiful debts, delays and defaults as governments and businesses adjust to the disruptions caused by Covid-19. Already, these shifts are anticipated by stimulus packages as countries prepare for a gradual easing of lockdowns. Austerity drives will come for all sectors. There may be pressures for inward-looking protectionist policies from the local population.

Higher costs will be incurred in public health and from public education and enforcement of new rules for social distancing and minimum standards of behaviour. While the goal is to cut off transmission, there will be more inconvenience and cost overheads for all, including the healthcare sector and businesses.

There will be codes of healthy practices for living and working conditions, changes for planning and scheduling of work and social activities such as staggered work hours, breaks and travel times. Higher hygiene standards and use of personal protective equipment like masks will add to hidden costs.

In the longer term, should there be more disease outbreaks, constant deployment of public health measures such as quarantine orders and regular use of circuit breakers may become a way of life. Frequent disruptions will impose additional costs. Many of these will be passed on in the form of higher prices or absorbed in the new economy to reflect opportunity costs.

AN ONGOING HEALTH ISSUE

The health authorities have stated that it is a false dichotomy to trade off economic health versus public health, since the nature of Covid-19 has now led to the World Health Organisation's latest message that the disease may be here to stay. For

as long as there is no available vaccine and with the virus still circulating around, everyone will be at risk.

Furthermore, its hidden qualities to do even more damage are being discovered. It will make costing the full range of its impact more difficult to estimate. Already we learn of people who have been discharged earlier with previous infections showing signs of being reinfected, and new waves are appearing after the first wave.

There are reports that children and others who have survived show disabilities that could be lifelong.

Against that backdrop, many countries are already facing the pressure of weighing the cost of further business losses against extending quarantine periods. Considering the enormous cost due to epidemics, it seems rational for governments to invest in measures to curtail future outbreaks by building institutional capacities and infrastructure.

This means there will be greater pressure on governments to do more – for example, in adopting best practices in public health such as improving surveillance, early warning systems, travel advisories, quarantine measures, hospital infection control and intensive care.

Meanwhile, past trends towards

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privatisation and medical tourism have to be re-examined against the unexpected challenges arising from infectious diseases. Previous arguments in favour of individual responsibility and paying for care must now consider the externalities of sharing the social costs (or benefits) of disease control on a collective basis.

This suggests the need to relook health financing options, especially in relation to the role of the state and individual savings.

Fortunately, in Singapore, traditional cultural values of self-reliance and frugality have translated into high savings rates, whether from the individual, family or society. This has been the philosophy behind a healthcare financing policy shift away from a tax-based approach to a diversified public-private system, with compulsory individual savings through Medisave.

It is fortunate that the Government has resisted public pressure for greater immediate spending from Medisave to be allowed, given that healthcare needs for individuals are likely to rise in the post-Covid-19 world.

Older populations, if infected with a co-morbidity, are more vulnerable and would therefore be expected to utilise more costly medical and intensive care.

While the Government has committed to paying for Covid-19-related care, many of our elderly will still need medical savings for future needs.

Apart from individual Medisave accounts, which the state frequently tops up for seniors, MediShield Life offers universal health insurance. This mix of personal savings augmented by the state, and underwritten with a national insurance framework, provides resilience for future pandemics.

Beyond health savings, Singapore's emphasis on national savings and its accumulation of past reserves is proving to be a good bulwark against the extreme health and economic shocks due to Covid-19. This has allowed for generous stimulus packages provided in the Singapore Budget of 2020, followed by three more rounds of assistance.

These are possible only with prudent investments in the past. While public savings can dampen consumption and inflation during periods of high growth, these can be relied upon to restore the economic health of the nation now that a rainy day has come.

One key takeaway from Covid-19 when it comes to health financing mechanisms is recognising that the state can never move away from a fundamental role to protect the public health of its population.

Whether through risk-sharing in the form of taxation or insurance, we are learning that mandatory savings – individual and at the state level – can play a more significant role than earlier thought.

The savings concept is proving useful towards sustaining our collective health during needy times, not only in old age for rising chronic conditions, but also in a global pandemic.

If history is to provide possible useful lessons, it is that human beings are resilient and ingenious enough to survive any pandemic – and to manage the financial costs of its impact as well.

stopinion@sph.com.sg

• Dr Phua Kai Hong is a visiting professor at Nazarbayev University and adjunct faculty, Lee Kuan Yew School of Public Policy, National University of Singapore.