

Contents

| | |
|---|------------|
| Foreword | xiii |
| Acknowledgments | xvii |
| About the Authors | xix |
| Abbreviations | xxi |
| EXECUTIVE SUMMARY | 1 |
| Health Care Systems in LAC: Functions and Organization | 2 |
| Health Shocks, Household Welfare, and the Risk of Poverty | 2 |
| Public Policy's Role in Household Protection against Health Shocks | 5 |
| The Role of Alternative Risk-Pooling Arrangements | 6 |
| Risk Pooling for Everyone: The Challenge of a Growing Informal Economy | 9 |
| The Quest for Efficiency and Universal Coverage: Health Sector Reform in LAC | 11 |
| 1 HEALTH CARE SYSTEMS IN LATIN AMERICA AND THE CARIBBEAN: FUNCTIONS AND ORGANIZATION | 17 |
| Health System Functions | 17 |
| Sources of Financing for an Equity Subsidy | 22 |
| Alternative Organizational Arrangements for Risk Pooling | 24 |
| Health Systems in Latin America and the Caribbean | 26 |
| 2 HEALTH SHOCKS, HOUSEHOLD WELFARE, AND THE RISK OF POVERTY | 33 |
| Country and Household Spending on Health | 34 |
| Evidence of the Impact of Health on Household Income | 38 |
| Policy Mechanisms to Address Household Losses of Income Due to Health Shocks | 42 |
| Cost of Health Care and Its Impact on Consumption | 44 |
| | <i>vii</i> |

| | |
|---|------------|
| The Impact of Health Spending Shocks on Household Welfare in Six Latin American and Caribbean Countries | 49 |
| Impoverishing Out-of-Pocket Expenditure on Health | 54 |
| 3 PUBLIC POLICY'S ROLE IN HOUSEHOLD PERCEPTION, PREPARATION, AND PROTECTION AGAINST HEALTH SHOCKS | 59 |
| Household Strategies for Managing and Coping with Shocks | 60 |
| The Importance of Information on Household Choices to Cover Health Shocks | 63 |
| Information Problems that Plague Provision of Insurance Instruments | 64 |
| The Role of Public Policy in Protecting Households from the Impoverishing Effects of Health Shocks | 67 |
| The Government's Role in Augmenting Household Risk Management, Financial Protection, and Health Outcomes | 71 |
| Household Coping Strategies | 75 |
| Policy Lessons from Earlier Applications of the Comprehensive Insurance Framework to Other Losses | 76 |
| 4 THE ROLE OF ALTERNATIVE RISK-POOLING ARRANGEMENTS | 81 |
| Society's Need for Financial Protection | 81 |
| The Importance of a Mandatory Benefits Package | 83 |
| Risk Pooling in Latin America and the Caribbean | 84 |
| What Arrangement Gives the Best Financial Protection? | 84 |
| What Makes the Difference? | 88 |
| 5 RISK POOLING FOR EVERYONE: THE CHALLENGES POSED BY A GROWING INFORMAL ECONOMY | 95 |
| The Challenge of Extending Risk Pooling | 95 |
| Policy Options for Extending Risk Pooling | 97 |
| What Explains the Low Participation of the Informal Nonpoor in Contributory Risk-Pooling Schemes? | 99 |
| Policy Options for Extending Contributory Risk Pooling among the Informal and the Self-Employed Nonpoor | 107 |
| 6 THE QUEST FOR EFFICIENCY AND UNIVERSAL COVERAGE: HEALTH SECTOR REFORM IN LATIN AMERICA AND THE CARIBBEAN | 127 |
| Achieving Universal Coverage | 130 |
| Improving Health Sector Efficiency in Latin America and the Caribbean | 137 |
| Lessons and Challenges | 150 |

| | | |
|------------|---|-----------|
| CONTENTS | | <i>ix</i> |
| REFERENCES | | 155 |
| INDEX | | 163 |
| BOXES | | |
| 5.1 | Spain's Shift from Bismarck to Beveridge: Delinking Risk-Pool Financing from Labor Status | 115 |
| 5.2 | Trends in Latin American and Caribbean Tax Policies: Balancing the Efficiency- Equity Tradeoff | 117 |
| 5.3 | Mitigating the Fiscal Burden in a Transition toward General Tax-Funded Risk-Pooling: Simulations for the Chilean Health System in 1999 | 121 |
| 6.1 | South Korea and Taiwan: From Fragmentation to Universal Coverage through Social Insurance— Reforms and Breadth versus Depth Choices | 131 |
| 6.2 | United Kingdom: Strengthening the Purchaser- Provider Compact through Internal Market Reforms | 144 |
| 6.3 | Chile: The Challenge of Compensating for Market Failure in Health Insurance Competition | 149 |
| FIGURES | | |
| ES.1 | Percentage of Nonpoor Population Falling Below the National Poverty Line Due to Out-of-Pocket Health Expenditures | 3 |
| ES.2 | Average Total Annual per Capita Out-of-Pocket Health Expenditures as a Percentage of Total Annual Average per Capita Household Consumption | 4 |
| ES.3 | Alternative Risk-Pooling Arrangements | 7 |
| 1.1 | The Cost of Health Services and Need for Subsidization throughout the Life Cycle | 20 |
| 1.2 | Pooling Risks between High- and Low-Risk Individuals | 21 |
| 1.3 | How Risk-Pooling Systems Also Ensure Equity | 22 |
| 1.4 | Alternative Risk-Pooling Arrangements | 24 |
| 2.1 | Total Fiscal Expenditures on Health as a Percentage of Total National Health Expenditures and GDP per Capita (in PPP) | 36 |
| 2.2 | Total Out-of-Pocket Health Care Expenditures as a Percentage of Total National Health Expenditures and GDP per Capita (in PPP) | 37 |

| | | |
|-----|---|-----|
| 2.3 | Cost of Treating Sickness: Second Most Frequently Reported Shock to Household Income | 50 |
| 2.4 | Out-of-Pocket Health Spending on Health Services and Projected Out-of-Pocket Health Expenditures on a Standardized Package of Services | 53 |
| 2.5 | Out-of-Pocket Health Expenditures Due to Health Shocks Produce a Significant Number of Newly Poor | 55 |
| 2.6 | Average Previsional Household Monthly per Capita Income Pre- and Post-Out-of-Pocket Health Spending, Honduras 1998–99 | 57 |
| 2.7 | Poverty Line, Income, and Health Expenditure in Argentina | 57 |
| 3.1 | Mitigation Instruments according to Size and Frequency of Potential Losses | 62 |
| 3.2 | Sources of Household Savings to Manage Income Shocks from Adverse Health Events and the Cost of Care When Risk Pooling Fails, Chile | 67 |
| 3.3 | Capturing the Public Goods Dimension: Characteristics of Health Shocks and Policy Implications in the Comprehensive Insurance Framework | 70 |
| 4.1 | Coverage by Risk-Pooling Arrangement | 85 |
| 4.2 | Coverage by Risk-Pooling Mechanism, by Household Income Quintile | 86 |
| 4.3 | Impoverishment Incidence among Inpatients and Outpatients, Colombia, 2003 | 87 |
| 4.4 | Impoverishment Due to Health Shock, by Household Income and Risk-Pooling Mechanism, Chile, 2000 | 88 |
| 4.5 | What Determines Health System Performance? | 89 |
| 5.1 | Distinctive Populations by Capacity to Contribute | 97 |
| 5.2 | Cross-Subsidies in Traditional Social Insurance for Health | 101 |
| 5.3 | Growth of Informal Sector in Latin America, 1990, 1995, and 2000 | 105 |
| 5.4 | Composition of Health Financing in Latin America and the Caribbean and OECD Countries, 2001 | 116 |

| | | |
|-----|--|-----|
| 5.5 | Taxes Collected Relative to Income per Capita in Latin America and Selected Industrial Countries | 119 |
| 5.6 | Annual Changes in Tax and Nontax Revenues in Selected Latin American and Caribbean Countries | 120 |

TABLES

| | | |
|-----|--|-----|
| 1.1 | General Health System Organizations Information in LAC, by Health Function, 2004 | 27 |
| 2.1 | Composition of Health Financing in High-, Middle- and Low-Income Countries (Averages in 2001) | 35 |
| 2.2 | Most Frequent Mechanisms to Compensate for Income Loss Resulting from Health Shocks in Latin America and the Caribbean | 42 |
| 2.3 | Evidence Linking Health and Consumption through Lower Labor Supply and Lost Earnings | 45 |
| 3.1 | Government's Risk-Mitigation Instruments for Helping Households Manage Financial Losses from Adverse Health Events | 72 |
| 4.1 | Possible Determinants of the Performance of Risk-Pooling Arrangements in Latin America | 90 |
| 5.1 | Major Policy Options for Extending Risk Pooling in Latin America and the Caribbean in a Mixed Health System | 98 |
| 5.2 | Policy Options for Reducing the Contribution- Benefits Gap for the Informal Nonpoor | 110 |
| 5.3 | Central Government Revenues, Early 2000s | 116 |
| 6.1 | Country Cases: Efficiency-Enhancing Reforms in Latin America and the Caribbean, 1980–2004 | 142 |