Managed Competition

The Future of Health Care Funding?

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MANAGED COMPETITION

1. WHY?

2. WHAT IS IT?

3. OUTCOMES

4. IMPLEMENTATION

MANAGED COMPETITION : WHY?

The basic objective of Medibank / Medicare was EQUITY

Historically, this is the primary reason for government intervention in health care.

NOTHING HAS CHANGED IN THIS RESPECT

MANAGED COMPETITION : WHY?

On the contrary, increasing inequalities in income

and associated health differentials

have given increasing emphasis to the equity objective.

The only workable and acceptable basis for health care financing is:

a system which operates within a universal, equitably financed framework.

MANAGED COMPETITION : WHY?

What has changed since the introduction of Medibank / Medicare?

- **Massive and continuing increases in complexity of**
  inputs : diagnostic and treatment technologies
  outputs : investigative and treatment processes,

- **Corresponding increases in the efficacy and cost of state-of-the-art health care.**

MANAGED COMPETITION: WHY?

What are the implications of these developments for policy?

Basically, that it has become MUCH more important to achieve EFFICIENCY

- in the strict economic sense (allocative efficiency) ---- maximising utility

and

- in achieving the (extra-welfarist) objective of using health care resources in such a way as to maximise health gains.

MANAGED COMPETITION : WHY?

It can be claimed that the Australian health care financing system is working quite well, by world standards. Why fix it?

In the context of rising real costs of state-of-the-art helth care, the “low-yield”component of health care will impose increasing opportunity costs on society.

A number of features of the Australian system inhibit efficient use of health care resources, to a degree which constitutes a good case for structural reform.

MANAGED COMPETITION : WHY?

The present combination of

- program mutiplicity and fragmentation
- funding & service overlaps between Commonwealth and state governments and authorities
- disjunction between public and private sector funding and service provision
- remuneration arrangements largely unrelated to outputs and outcomes

impose barriers to greater efficiency and, to some extent, offer positive incentives to inefficiency.

MANAGED COMPETITION: WHAT IS IT?

Taken together, these considerations point to the desirability of , incorporating efficiency-promoting structures and incentives into the health system, but WITHIN THE UNIVERSAL FRAMEWORK.

The classical path to efficiency is market competition.

MANAGED COMPETITION : WHAT IS IT?

The issue is whether it is possible to devise a regulatory framework which will make market forces operate in the theoretical manner,

BUT

which will take into account the special features which complicate the treatment of health services as tradeable commodities

AND

will fully preserve universality and equitable funding

MANAGED COMPETITION : WHAT IS IT?

The managed competition model provides a positive answer to this question. It would involve:

- **comprehensive amalgamation of programs**
- **population-based funding of program delivery**
- **substitution of market incentives (I.e. price signals) for many features of the command economy --- such as government regulation, subsidy of providers and direct service provision.**

MANAGED COMPETITION : WHAT IS IT?

FIRST,

All existing publicly funded programs to be combined into a single program:

- - - - - hence

removing barriers to efficient substitution

MANAGED COMPETITION : WHAT IS IT?

SECONDLY

Clear and separate roles for Commonwealth and state governments:

Commonwealth government:

* **to legislate and regulate coverage, benefits and the "rules of the game";**
* **to collect revenue and pay for all services, by risk-adjusted capitation grants to budget holders**

State governments:

* **to plan and provide publicly provided health services;**
* **to supervise and underwrite regionally-based public budget holders**

with resulting elimination of cost-shifting

MANAGED COMPETITION : WHAT IS IT?

THIRDLY

Private sector funding and service provision would be substantially integrated into the national program:

* **private budget holders would receive risk-adjusted capitation payments for all people enrolled with them**

* **and would provide them with all benefits and services covered by the program**

* **but would also collect premiums to cover administrative costs and additional services (including, at least, a minimum access to private hospital care -- not covered by public budget holders)**

MANAGED COMPETITION : WHAT IS IT?

The combination of

- competing budget holders being responsible for meeting --- out of their global budgets -- the costs (less any legislated copayments) of all services provided to their enrolled populations

  and

- providers having to contract with budget holders for payment for these services

would constitute an environment much more conducive than at present to efficient resource use

MANAGED COMPETITION : OUTCOMES

The rationale of the managed competition proposal --

is NOT conceptual neatness

but that IT IS THE ONLY WAY

IN WHICH IT WILL BE POSSIBLE TO DEAL WITH A NUMBER OF SPECIFIC PROBLEMS

- - - - - which are increasingly intractable under the present arrangements.

MANAGED COMPETITION : OUTCOMES

(1) COSTS

- How to contain total outlays on health care in the face of rising real costs, without imposing increasingly severe and arbitrary rationing of particular services AND/OR extending inequalities of access
- (subset of the above) how to contain the costs of pharmaceuticals
- (another subset) how to improve management of aged care
- how to improve management of care provided to people with multiple and/or chronic and degenerative conditions -- i.e. co-ordinated care

MANAGED COMPETITION : OUTCOMES

(2) SERVICE DELIVERY

- how to maintain and support the public hospital system as a pillar of the health system as a whole
- how to support and improve the availability of health services to non-metropolitan populations
- how to improve/support the primary care system (especially general practice)

MANAGED COMPETITION : OUTCOMES

(3) ORGANIZATION

- how to resolve disjunctions in the system due to inconsistencies between private and public sector financing and provision - - - - the growth of corporate medicine will intensify this problem
- how to make better use of the $2 billion plus private health insurance subsidy
- how to eliminate Commonwealth/state service overlaps, cost -shifting etc

MANAGED COMPETITION : IMPLEMENTATION

POLITICAL DIFFICULTIES:

Ideologically, managed competition lies in a no-man's-land, between two rigidly held positions.

Fortunately this is not my problem: the role of an academic health economist is to point out the destination, not to steer the course!