Leading Article

A case for user charges in public hospitals

Mohammed H. Mufti, *MD, FRCS.*

ABSTRACT

The present decline in per capita expenditure on health in Saudi Arabia requires private funding to reduce pressure of health expenditure on the government budget. User charges would be an important source of revenue in the Kingdom where services cannot be cut and taxes are not imposed. User charges in public facilities would curtail over-utilization and reduce inefficient use of resources by providing a link between financial responsibility and the provision of services. The financial implication facing patients would encourage them to be more cost-conscience, and therefore their physicians would be encouraged to limit practices such as over prescribing drugs and the use of highly specialized diagnostic procedures for routine investigation or minor illnesses. Lack of economic incentives have led to a lack of concern for the cost of medical care. User charges would not only encourage both consumers and providers to be cost-conscious, but would raise revenue to ease pressure on the health budget, combat moral hazards and assert priorities. However, to be effective, and in order to make a serious impact on the health system, user charges must be extended to all government sectors and specialist hospitals and charges must be high enough to discourage inappropriate use of services.

Keywords: User-charges, incentives, revenue-raising, moral hazard, cost-conscious.

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User charges or cost sharing in health is usually imposed to accomplish various objectives. Some of the objectives that require patients to share in health care costs include revenue raising, combating moral hazard, asserting priorities, and conveying price signals to patients and physicians.

Raising revenue. Even though the proportion of Saudi Arabia's government budget allocated to health care has consistently increased, the continued decline in revenue from oil has meant that increases in real terms actually represent a decline in per capita expenditure on health. The need for private sources of funding to reduce the pressure of health expenditure on government budgetary outlays was highlighted in the Sixth Development plan.[1]

The overall Saudi economy has been growing in spite of the decline in government revenue. Much of this growth has been in the private sector. In advocating user charges in hospitals, which provide free health care funded by the government, one is merely stating that the private sector should shoulder its fair share of the health care bill. The nominal charges currently levied in few of the government hospitals represent a very insignificant proportion of cost of services provided and do not have the objective of raising revenue. This will need to change, as the current economic climate dictates a need to raise revenue to complement government funding.

Combating moral hazard. The assumption of moral hazard is that free services are likely to be abused by both patients and providers.[2] Inappropriate use of health services such as excessive tests, use of higher specialized setting, equipment and procedure than is necessary, duplication of services, and other inefficiencies in the Kingdom's hospitals have been widely reported. Free health care is said to have led to a loss of perspective on health care by patients, doctors, and administrators. Lack of economic incentives has in turn led to lack of concern for cost of care.

If the long-term financial sustainability of the

From the Security Forces Hospital, Riyadh, Kingdom of Saudi Arabia.

Address correspondence and reprint request to: Dr Mohammed H. Mufti, Security Forces Hospital, PO Box 3643, Riyadh 11481, Kingdom of Saudi Arabia. Tel. 477 6448. Fax. 479 2451. Email: mufti_mh@compuserve.com

health system is being put in doubt because of over-utilization and inefficient use of resources, those responsible, if identifiable, should bear the costs. A case in point is the problem of long-term care patients in acute care hospitals. Not only are user charges necessary for such inappropriate use of service, but charges must be high enough to discourage it. No doubt, if patients pay the full cost of long-term care provided in acute care settings, they will reconsider the wisdom of such waste of money. Also, patients who dictate the type of specialized diagnostic procedures to be used by medical professionals for investigating trivial and routine medical problems might review the wisdom of their choice of procedure if they had to pay for such unwarranted procedures.

Asserting priorities. Introducing user charges will help health authorities assert priorities. Exclusion from charges for services high on the priority list, such as primary health care, health education, and preventive health services will encourage their consumption. Of course those likely to be adversely affected by the imposition of charges, the poor, must be exempt. The government or some welfare/social security program may need to cover the poor and medically indigent.

Conveying price signals to the patient and physician. Due to free care policy, the fact that health goods and services have to be paid for, seems to be lost on both patients and physicians. If user charges were introduced out of concern for the new financial implication facing their patients, physicians would be encouraged to limit practices such as over-prescribing drugs and use of highly specialized diagnostic procedures for routine investigation of minor illnesses. User charges are expected to provide an incentive for the provision of higher quality care since patients who now have to pay will insist on it.

In Umeh's paper on future options for financing the Saudi health system, Umeh argued that user charges be introduced first, and later, a national health insurance program. While acknowledging the need to exclude charges at the consultation level of primary health care, and for the poor, the need to establish the link between cost and health services in the Kingdom before embarking on any health insurance, was emphasized. In his view, going from the current national health system directly to a national health insurance may be seen as something of a step backwards.[3]

One of the conditions that make an event insurable is the risk of losing a substantial amount of money if the event occurs.[4] The need to buy health insurance coverage stems from the risk of losing a huge amount in the event of sickness. Risk-averse individuals, who buy insurance, prefer the certainty of losing a small amount on insurance premiums than the risk of losing a bigger amount if sickness should occur without insurance coverage. To Saudis and the public sector expatriates, there is currently no risk of losing money in the event of illness, no matter how catastrophic. Yet, efficiency considerations require that some linkage between consumption and payment be established. In the absence of such linkage, gross over-utilization of medical services will continue.

Introducing user charges in public facilities is also advocated on the grounds that most Saudis can well afford the user charges required to complement government funding and curb over-utilization. Elimination, or even serious cuts in government funding, is not currently contemplated. Therefore, the charges, if introduced, will not be intended to cover the full costs of services. On the other hand, the economic reality is that the private sector is becoming dominant and many Saudis are becoming more affluent. It sounds reasonable to expect people who spend a huge sum of money on vacations and other leisure items to contribute a fraction of the cost of their health care.

Saudis are well aware of the wealth of their country, and generally regard free social services as their right rather than a privilege. Most social services, including education, health services, and utilities, are provided free or at a highly subsidized rate. The Government is generally expected to provide the highest possible quality of health care free of charge. The introduction of user charges will definitely not be accepted with any level of enthusiasm, and might even be resisted. It is not uncommon to see a Saudi protest vehemently to a pharmacist in public hospitals, at the suggestion that the prescription needs to be filled outside at the patient's expense. In short, the population has grown used to having the government provide things free of charge. Therefore, a smooth introduction of charges for health services in public facilities will require a high level of ingenuity on the part of the planners. Yet, charges will inevitably be imposed and at levels high enough to create funds and deter frivolity.

Introducing user charges in public hospitals may not be as dramatic a step as it sounds. The status quo is already changing, in that patients, albeit grudgingly, are increasingly having to fill some non-prescription drugs outside public hospitals, and paying nominal fees out of pocket. However, the clearest indication that Saudis can afford, and are willing to pay for medical care, is the extent of use of the fee-paying services provided in the private sector. Saudis account for about 70% of inpatient and outpatient services provided by the private sector, and despite the level and number of facilities in the Kingdom, some still travel abroad for medical care. A combination of the perception of good quality care in the private sector and the normal perception of low quality conveyed by services received free of charge explains the use of private sector services by individuals with access to free services in the public sector. This may also signal dissatisfaction with the public free care.

To be effective, and in order to make a serious impact on the health system, user charges must be extended to all government sectors and specialized hospitals. Hospitals in this sector, including the Armed Forces and the specialized hospitals, provide mainly tertiary and secondary level services, the abuse of which has greater financial impact than the primary and preventive level care provided in some MOH facilities. It is also widely believed that these facilities have better and more expensive equipment with low utilization rate (frequently 20% or less).[5] They also attract people who should receive services at the lower level general hospitals, and are, therefore, settings for the greatest misuse of highly specialized procedures for medical problems requiring lower level care. Again, exemptions will be necessary to make sure that high quality care is provided to the Armed Forces and anyone in need of such care. It will be foolish and irresponsible for example to require fees from accident victims or for occupational injuries. On the other hand, there is absolutely no justification for wasteful use of medical resources regardless of sector or occupation

Politically, it is unfeasible to reduce spending on health care, which might seriously affect the quality of care. Since residents do not pay taxes, it is not feasible to increase revenue through taxation to sustain even the current level of services. User charges are an important source of revenue in situations such as the Kingdom where services cannot be cut and taxes cannot be imposed. Household surveys in countries where taxes are used indicate that people are willing to pay for services that they deem of benefit to them, making user charges a less coercive way than taxation to raise revenues to finance public services. Moreover, efficiency, equity and social welfare can be improved if additional revenue generated is used to provide services to under-served areas or programs.

The main advantages of user charges include; encouraging both consumers and providers to be cost conscious; helping control the use of services by imposing financial disincentives on the consumer; providing a link between financial responsibility and provision of services which may be lacking under a national health insurance scheme; and raising additional revenue. The most serious concern about user charges is the impact on poor people's ability to seek needed medical care. There is evidence in developing countries with user charges that some groups with important health needs, the poor and those with communicable diseases or with vaccine preventable diseases, are not being met because of limitations to access to care caused by the introduction of user charges.[6-8]

If the foregoing portrays user charges as a simple option for raising revenue and improving quality and efficiency, it is not intended to be. Apart from the negative impact on poor people's ability to seek needed care, administrative issues are just as important. Administrative and transaction costs associated with collecting user fees include: costs associated with revenue collection where fees are retained for use in the facility; costs associated with their management; cost of training staff and publicizing the purpose of the fee and consultation; and costs due to other losses. If the cost of collection exceeds user charges, revenue will actually decline. Who gets to keep the revenue from user charges is another important administrative issue. If hospitals are simply supposed to collect the fees and forward them to the ministry of finance, there will be little incentive to collect the fees.

Furthermore, user charges essentially taxes patients at the point of service, affects far fewer people than premiums, and may be negatively viewed as a tax on the sick. However, because it counteracts over-utilization and frivolous use of services provided free of charge in public facilities, it is an important tool for achieving allocative efficiency. The same equity, efficiency and administrative concerns needed to evaluate a national health insurance program also apply to the design of user charges. To ensure equity, in most cases to care for the poor, some services must be exempt from charges. To ensure efficiency, charges must be set high enough to discourage frivolous use, but not so high as to discourage the use of needed or cost-effective services. To be worthwhile, as little a proportion as possible of the revenue would go to the collection of charges and to administering the fee system.

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