„A perspective for reforming health care system in Korea“

Seminar „Korea Institute for Health and Social Affairs“

May 2013

Freddy Schnitzler MSC, MHA
Vice President

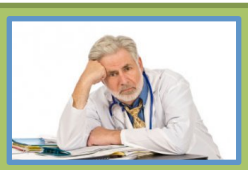
think NEXT
SAMSUNG FIRE & MARINE INSURANCE
SAMSUNG

Korea has achieved great gains in health during the past 30 years.
Despite this success, some challenges remain and new ones are emerging

WHO 2009

The Experience in Korea

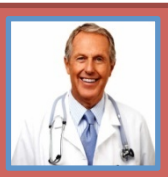
- Korea decided that **all Korean residents are covered for basic treatment** by a social insurance scheme
- Korea decided not to provide full cover leading to **high private expenditure**
- Korea operates **low contribution rate** yet leaves part of population uncovered **for major health expenditure**
- Korea decided to operate a **fully private provider system**, only partly controlled



All residents covered by **NHIC**

National Health Insurance Corporation
with strict price regulation, but fee for service!
(rd. 55% of THE)

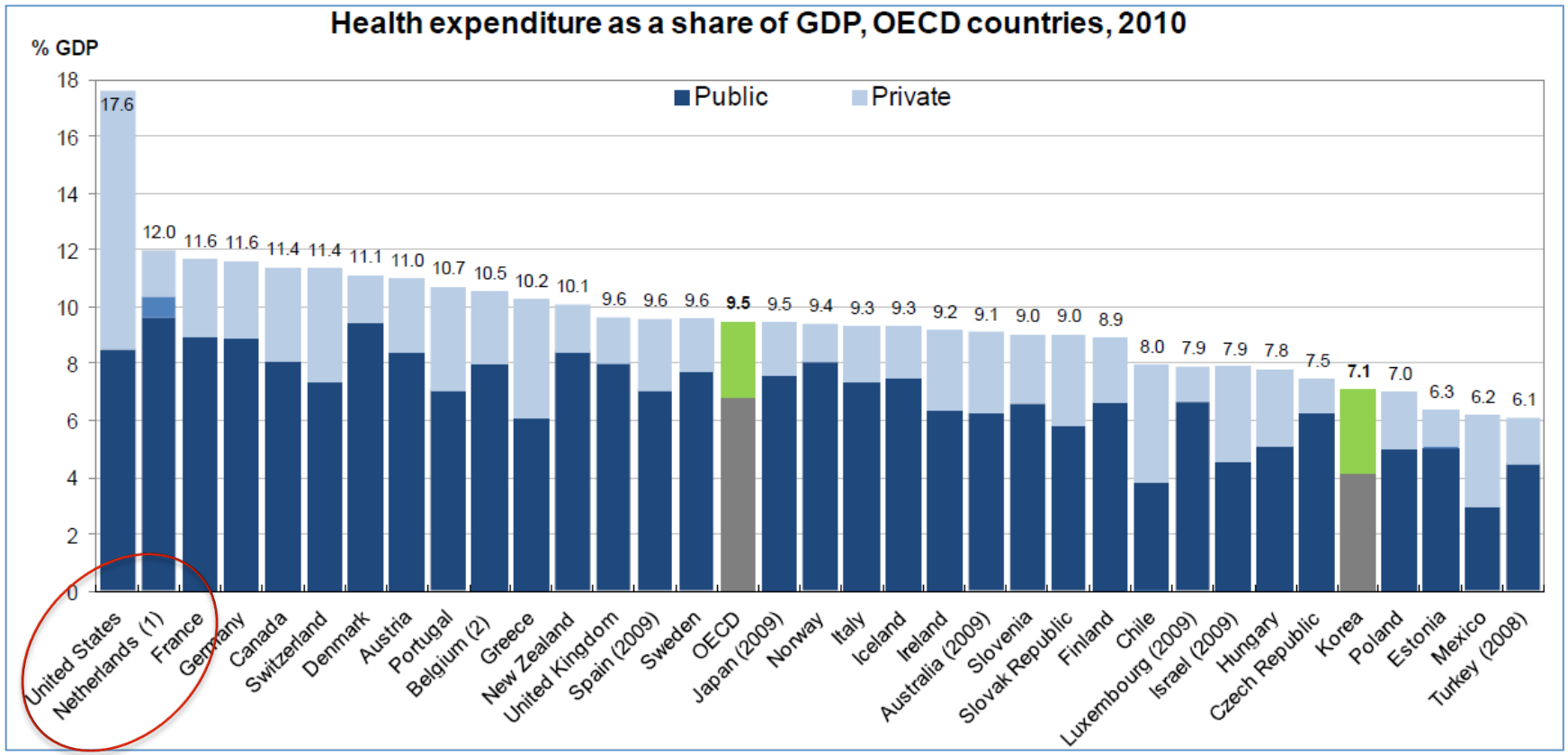
Co Payment



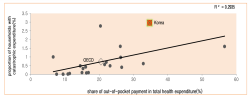
OOP
Out of Pocket Payments
Fees for services not covered by NHIC and **not underlying pricing regulation**

think NEXT SAMSUNG FIRE & MARINE INSURANCE SAMSUNG

At a first glance, health expenditure appear at low level compared to comparable industrialized nations



High **Out of Pocket (OOP)** payments lead to high individual payments and **highest extend of polarization → Shift to** public or **private insurance?**

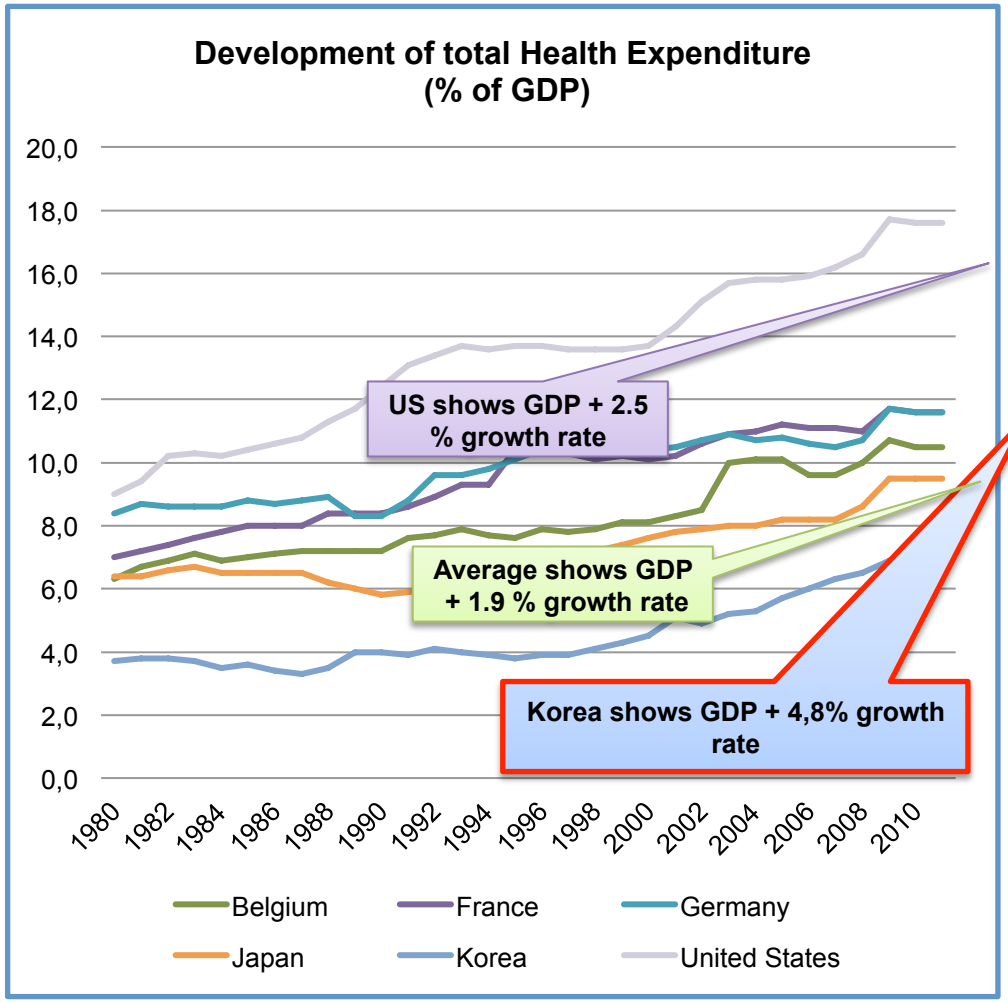


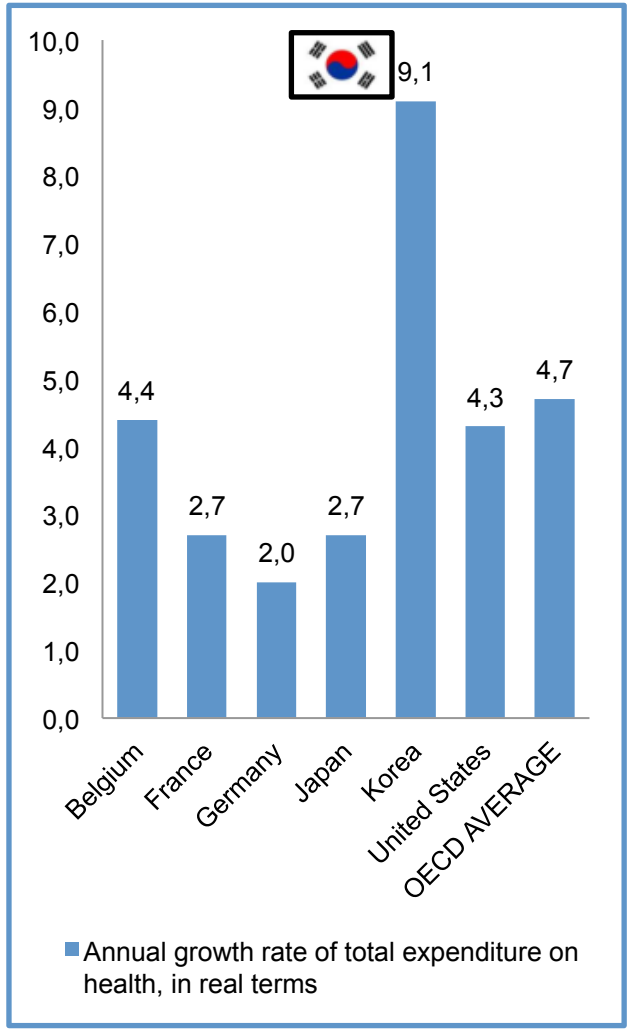
	THE (% of GDP)	Sources of financing (% of TEH)					
		Public			Private		
		Total	Gov't	SSC	Total	OOP	Priv. ins.
Canada	10.1	70.0	68.6	1.4	30.0	14.9	12.8
Germany	10.4	76.9	9.0	67.8	23.1	13.1	9.3
Japan*	8.1	81.3	15.4	64.0	18.7	15.1	2.6
Korea	**6.8**	**54.9**	**12.3**	**42.7**	**45.1**	**35.7**	**4.1**
UK	8.4	81.7	81.7		18.3		
US	16.0	45.4	32.7	12.7		12.2	5.2
OECD Ave.	8.99	72.7	40.4	36.0	27.3	18.3	5.6

* Data Source : JaEun Shin , KDI, 2011

Housholds pay
Taxes
NHIC premium
Out of pocket
Private insurance

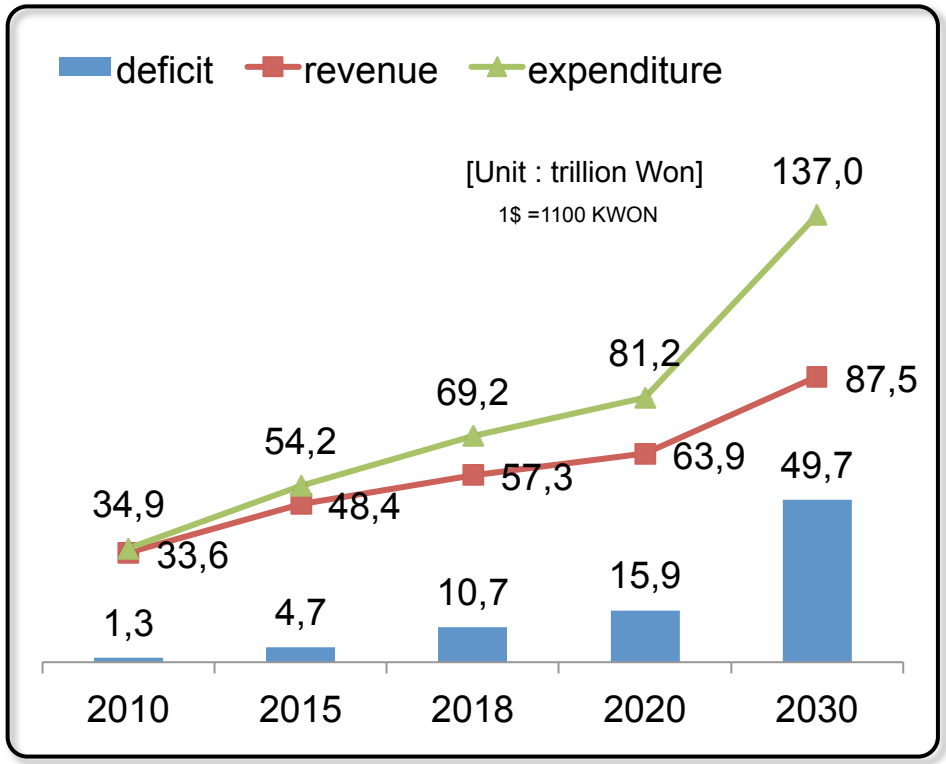
Though Korea's health care spending as share in GDP are still OK, its far above OECD average growth is challenging the sustainability of the system





Increase of health expenditure and decreasing income will threaten NHIC's financial status and lead to benefit cuts or premium increase

Estimate of Deficits in NHIC by 2030*



- In **order to get a fiscal balance**, the **contribution rate** should be **13%** of employee's gross salary in **2030**

Year	Contribution Rate
2010	5,64%
2020	8,55%
2030	**12,68%**
2070	**Our kids and grandchildern will be ruined!**

* Source : National Health Insurance Corporation, 2010

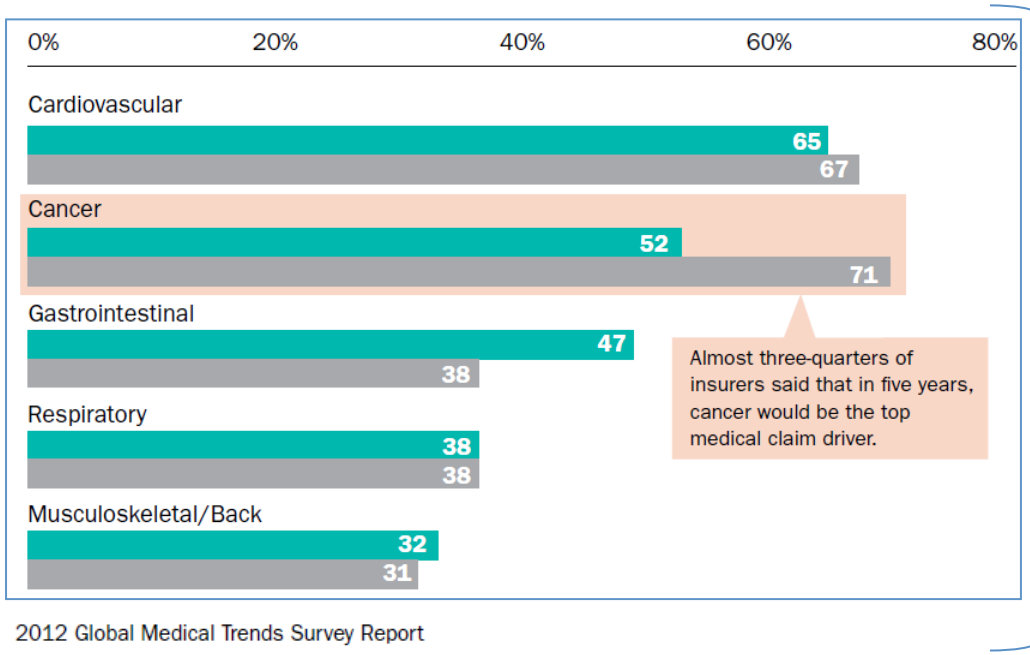
It is often communicated that AGING is the key driver of health care financing problems, yet……

→Population aging is one of **humanity's greatest triumphs**, … It is a great challenge. ….but it is not the reason for rising medical cost

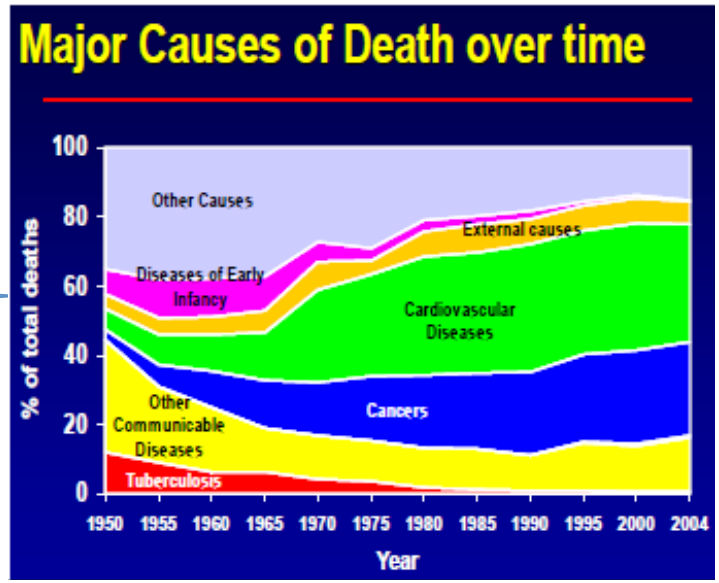
"Population aging is not found to be a significant determinant of health care expenditures according to the econometric analysis using OECD health data and time-series data for Korea. …….
……**we estimate that population aging contributes only less than 10 percent**"

Byong Ho Tchoe et al. , Korea 2010

Worldwide, the main reason for increased medical needs is the **rapid increase of chronic diseases.** **What about Korea?**



2012 Global Medical Trends Survey Report



	Asia Pacific	Europe	Latin America	Middle East/Africa	North America
1	Cardiovascular	Cardiovascular	Cancer	Cardiovascular	Gastrointestinal
2	Gastrointestinal	Musculoskeletal	Cardiovascular	Cancer	Cardiovascular
3	Cancer/Respiratory	Cancer	Gastrointestinal	Respiratory	Musculoskeletal

*Factsheet, "The Top 10 Causes of Death," June 2011, World Health Organization

Korea shows extreme negative development potential of chronic diseases → **upcoming risks for public and private insurance!**

One in ten elementary, middle, and high school **students are obese**, and every year the number of students who weigh 50% more than normal increases. **And seven in ten students** who responded to a health and fitness questionnaire **had at least one problem**, making for an emergency in the health management of elementary schoolers.
(Ministry of Education and Human Re-sources Development 2012)

"Seven out of 10 Koreans think drinking is positive, saying it helps in social relation-ships, yet Such a heavy drinking culture **leads to physical, mental, domestic and social problems,"**
(Chang Ki-hwun, Korean Alcohol Research Foundation 2012)

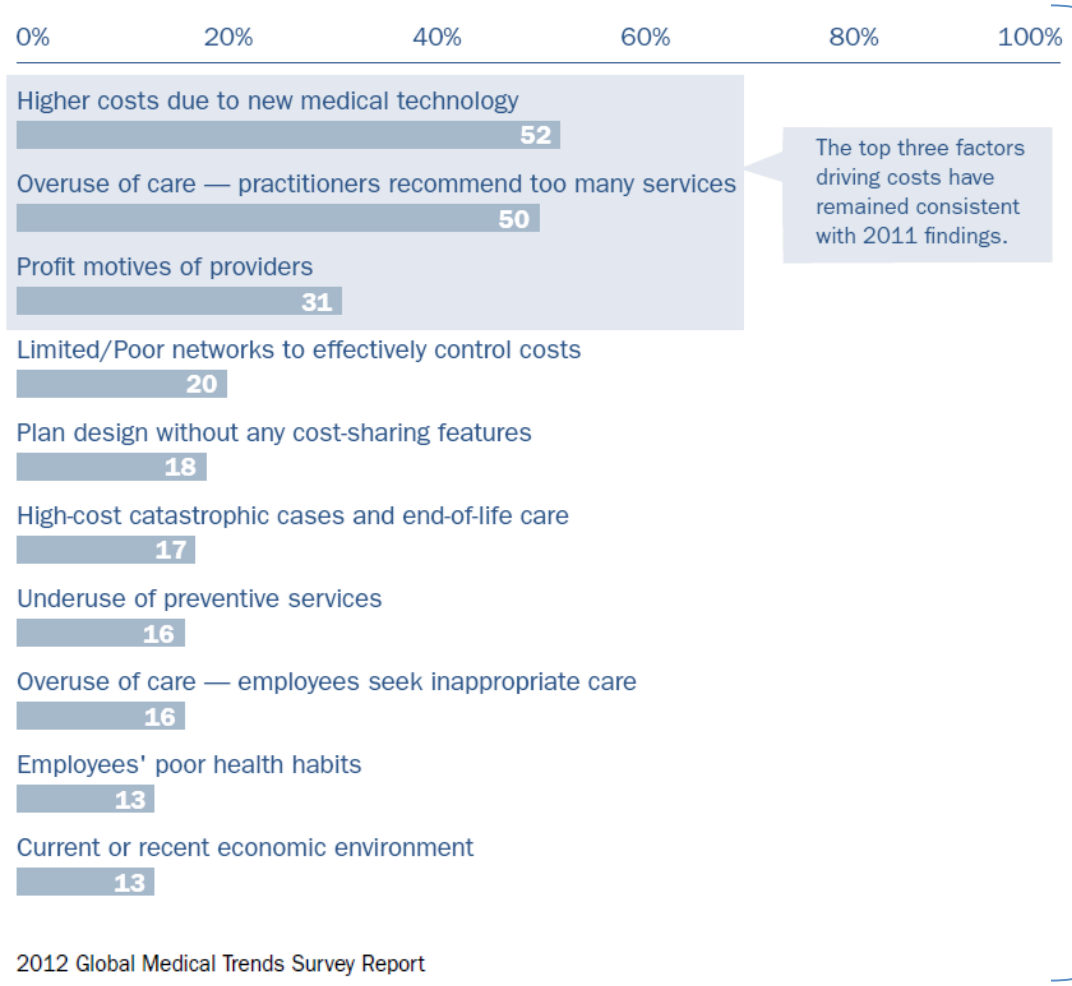
Koreans drink far more hard liquor than the Japanese or Americans → far higher rate of disease and death because of alcohol (WHO)

Already in 2009, **Korea** ranks amongst the **highest for potentially preventable admissions** relating to **COPD, asthma and uncontrolled diabetes among OECD.**
(OECD Review Korea 2012)

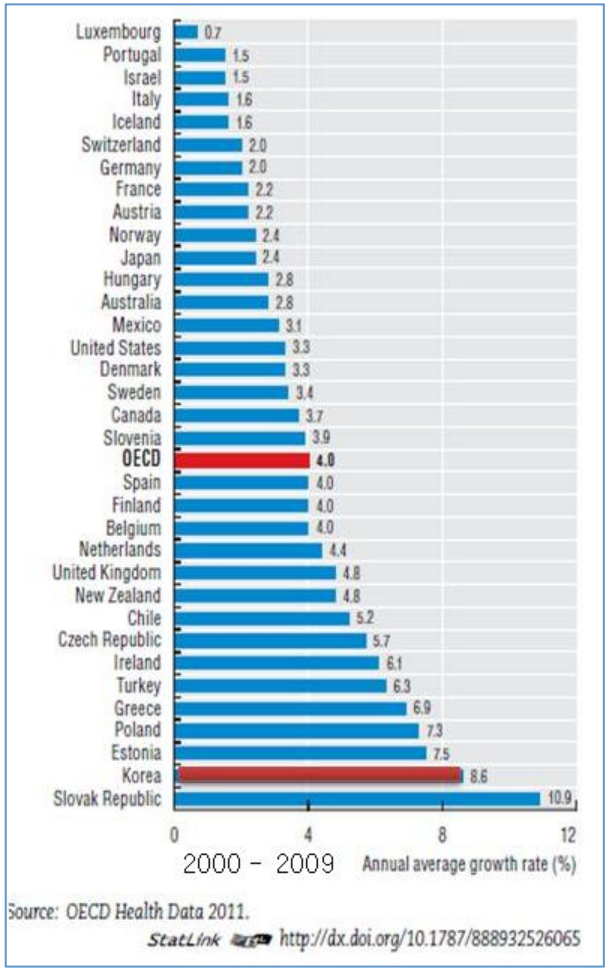
Korea's "First Challenge" – Lifestyle getting worse

	Challenge	Mitigation	Status
1	Current lifestyle leads to risk increase and development of chronic diseases	Lifestyle Modification, Prevention , Disease Management at early stage	Not developed

Further acceleration of expenditure growth follows world wide the same trends and ……**Korea tops the OECD growth rates again**



2012 Global Medical Trends Survey Report



Source: OECD Health Data 2011.

StatLink http://dx.doi.org/10.1787/888932526065

think NEXT SAMSUNG FIRE & MARINE INSURANCE SAMSUNG

The Korean Health Care System is **Technology Driven rather than Personal Care Driven** with limited results

KHIDI Website 2012

Indicator	*Korea*	*Year*	OECD average	*Year*
Total health spending as percentage of GDP	7.2%	2011	9.5%	2010
Total health spending per capita	2177USD	2011	3268 USD	2010
Growth rate in health spending per capita	9.1%	2000-10	4.5%	2000-09
Total health spending funded by public sources	57.3%	2011	72.2%	2010
Practising physician per 1 000 population	2.0	2011	3.1	2010
Nurses per 1000 population	4.7	2011	8.7	2010
Acute care hospital beds per 1 000 population	5.5	2010	3.4	2010
MRI units per 1 000 000 population	21.3	2011	12.5	2010
CT scanners per 1 000 000 population	35.9	2011	22.6	2010
Life expectancy	80.7 years	2010	79.8 years	2010
Prevalence of obesity among adults	4.1%	2010	22.2	2010
Proportion of adults smoking everyday	22.9%	2010	21.1%	2010

Source: OECD Health Data 2012 – Country Notes: How does Korea Compare

Who will pay the bill?

Average Length of Stay in Hospital >16.7 days vs. 8.8 days(OECD average)

(Source) 2011 OECD Health at a Glance (OECD 2012)

"One important consideration is that **Koreans utilize equipment more intensively – particularly high technology devices** – compared to other OECD countries.

They also **use more services** as measured by **outpatient visits** per population and **average length of stay in hospitals.**"
(WHO 2009).

The Insurance Industry is threatened, so far without sufficient information and possibilities of early interaction

	2008	2009	2010	2011(~Sep.)
Claims	88	270	472	344
Rate		207%↑	75%↑	
Total amounts	774,861,795	2,321,908,684	4,291,124,267	2,984,537,956
Rate		199%↑	85%↑	
Ave. amount per claim	8,805,248	8,599,662	9,091,365	8,675,982

SFMI Internal Research Sample 2011

Most new technologies are not covered by NHIC

Does **Industry** know the embedded **Portfolio Risk?**

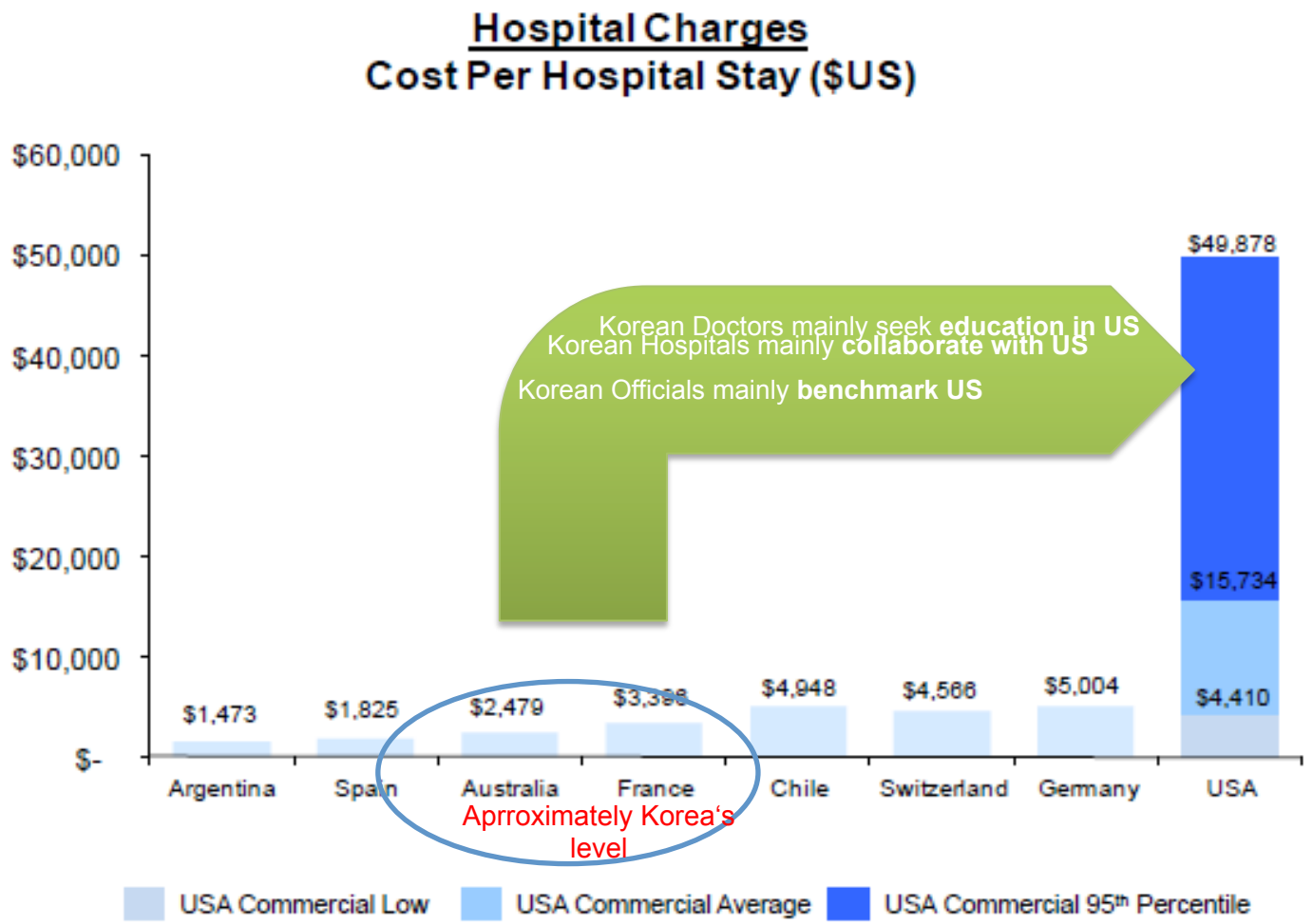
Hospitals are creative in enlarging technology driven care

think NEXT

SAMSUNG FIRE & MARINE INSURANCE

SAMSUNG

Benchmark for development of medical industry is to a wide extend focused on US developments…….



think NEXT SAMSUNG FIRE & MARINE INSURANCE SAMSUNG

Following experience in North America, most Asian countries foster insurer's approaches towards active health management – What about Korea?

To Control Cost, We Must Prevent and Manage Chronic Disease

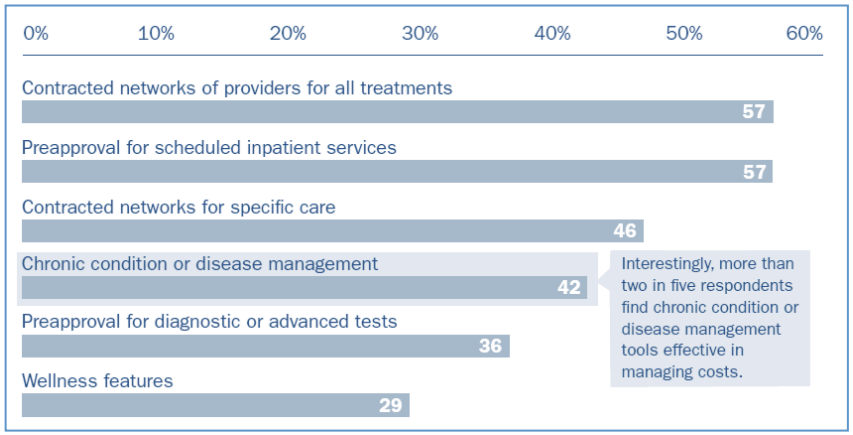
We are spending ***trillions*** of dollars on health care in the United States, but we are not spending the money wisely. Less than 1 percent of total spending goes towards prevention.[1]

75%

of every dollar spent on health care in the U.S. is for treatment of patients with one or more chronic conditions

	Personal health assessment	Lifestyle and health education	Chronic condition and/or disease management	Absence, disability, return to work	Emotional well-being support
All Countries	63%	72%	40%	34%	49%
Economic status					
Advanced economies	74%	67%	26%	37%	60%
Emerging economies	53%	78%	53%	31%	38%
Region					
North America	83%	100%	42%	71%	100%
Latin America	31%	74%	74%	52%	24%
Europe	67%	68%	24%	40%	66%
Middle East and Africa	73%	84%	48%	33%	64%
Asia Pacific	71%	66%	32%	10%	30%

Note: Country-weighted estimates



2012 Global Medical Trends Survey Report

Most of major measures to manage the risk properly are currently not applicable in Korea or prohibited for insurance companies, yet there are first signals for change

think NEXT SAMSUNG FIRE & MARINE INSURANCE SAMSUNG

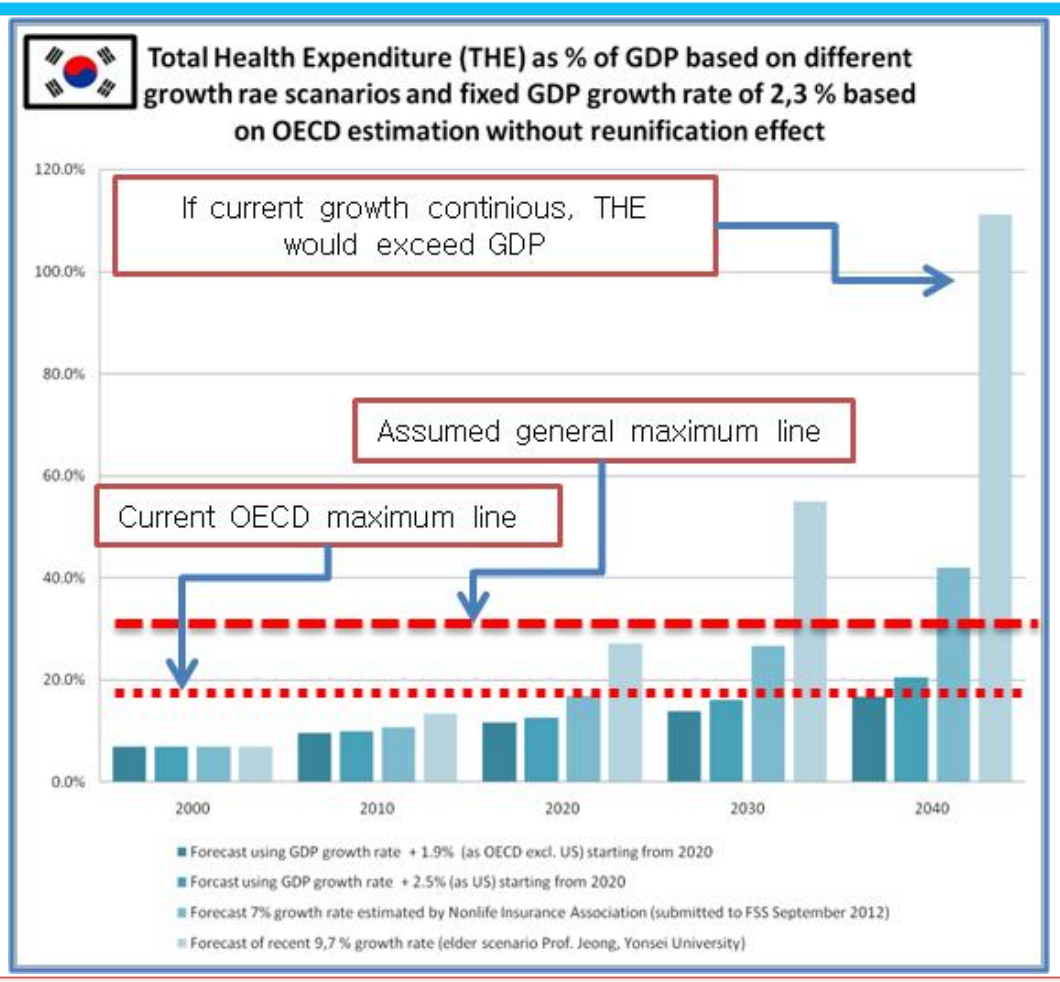
Korea's "Second Challenge" – technology and behavior driven increase of treatment cost

	Challenge	Mitigation	Status
1	Current lifestyle leads to risk increase and development of chronic diseases	Lifestyle Modification, Prevention , Disease Management at early stage	Not developed
2	Non – covered area is without any volume and pricing control	Need to develop payment systems and control of overuse by fee regulation or hospital networking	Not developed due to protecting laws

Control of medical expenditure on the provision side increase is extremely challenging

To protect the overall system (public and private) from failing, and leaving the mortgage to the children urgent matters need to be taken!

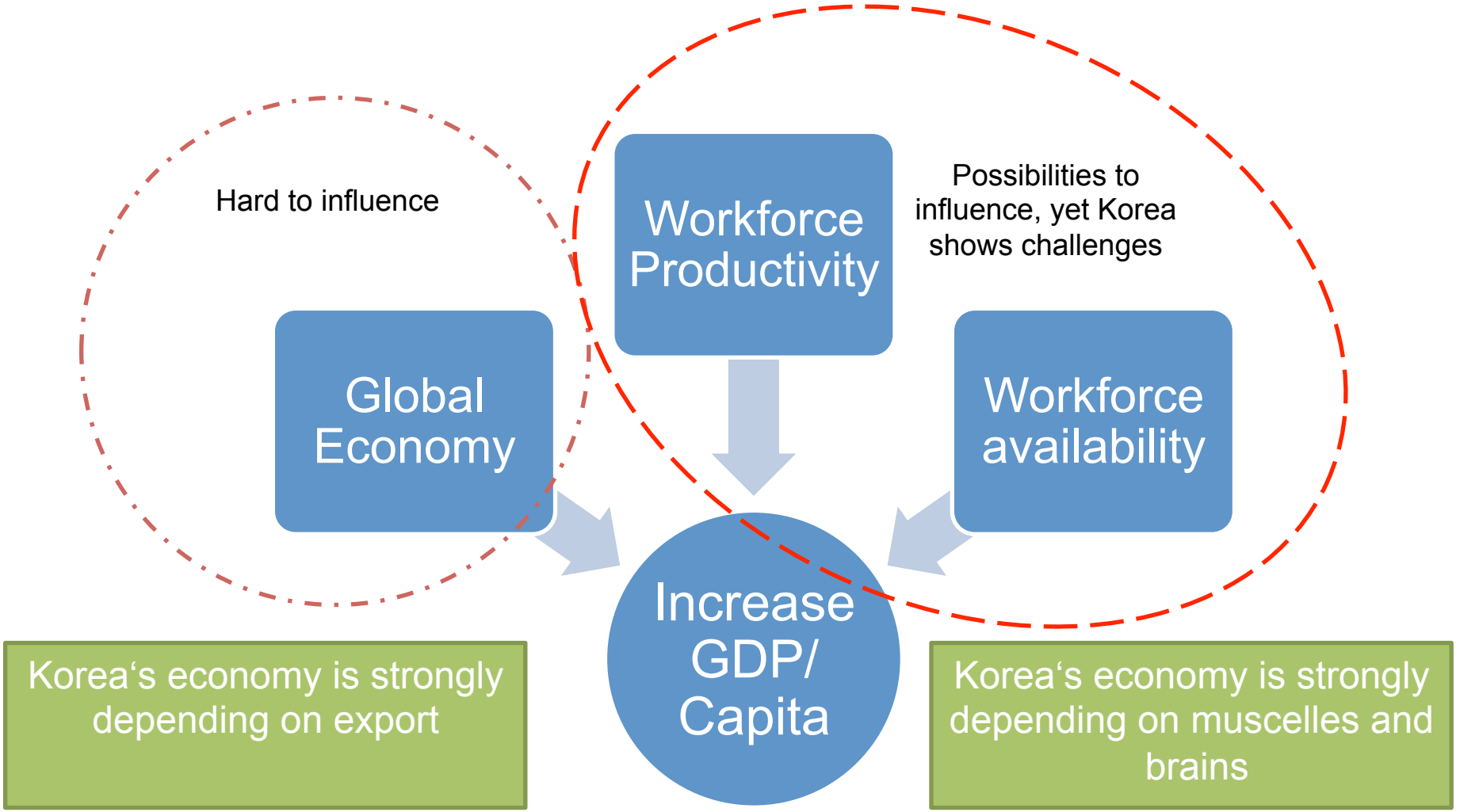
Economic growth and individual income will further decrease



Expenditure will further increase

Assuming that a level of more than 20% of THE in GDP is critical and 30% is not possible, then Korean needs to drastically bring its current expenditure growth down to 4 to 5 % maximum!

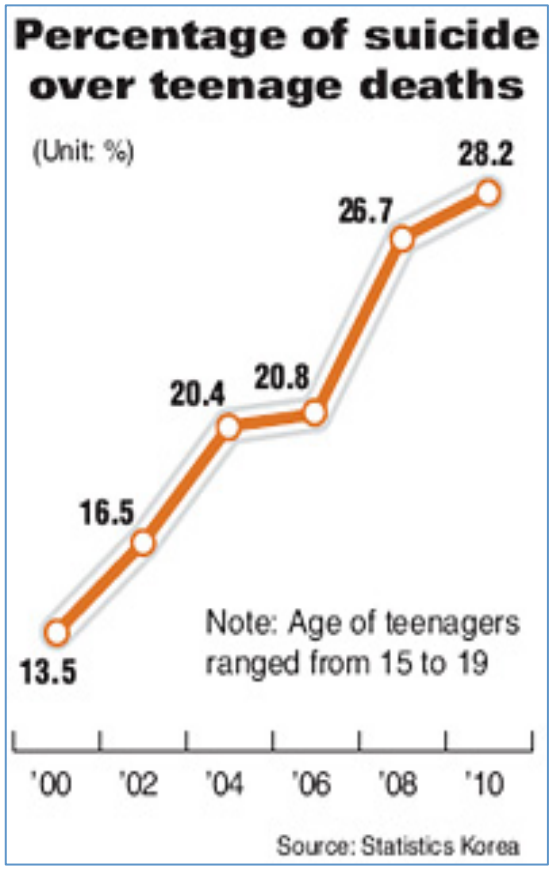
Key question: Can Korea create sufficient economic growth and maintain workforce sustainability seen its high dependency on export and human capital related production



Low birthrates, over education and psychological youth problems are not favorable to create a future efficient workforce

The biggest threat to South Korea's economic health isn't from North Korean aggression or Chinese competition. It's **from the country's low birthrate.**

Governor Kim Moon-Soo, 2011



Nearly 98 percent of Koreans aged 25-34 have completed high school, top among OECD countries

2012 edition of "Education at a Glance"

While **unemployment** among the over 30s averages between 3 and 4 per cent, it runs at **10 per cent among the under 30s**. These headline figures disguise the number of graduates in dead-end temporary jobs. **Some 34 per cent of unemployed men and 43 per cent of jobless women have attended college or university**

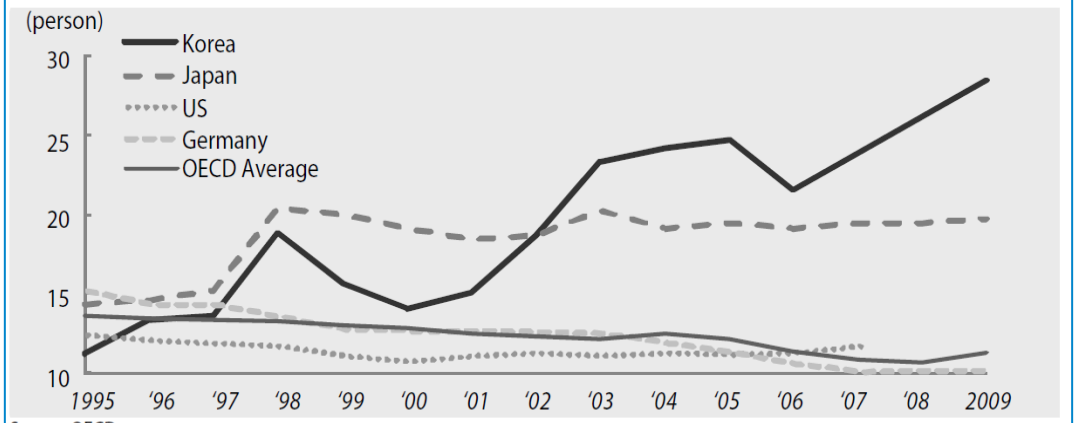
Financial Times 2010

Increasing medical and psychological problems will affect employability and health care cost

Only 36 percent of Koreans felt **satisfied with their lives,** much lower than the OECD average of 59 percent.

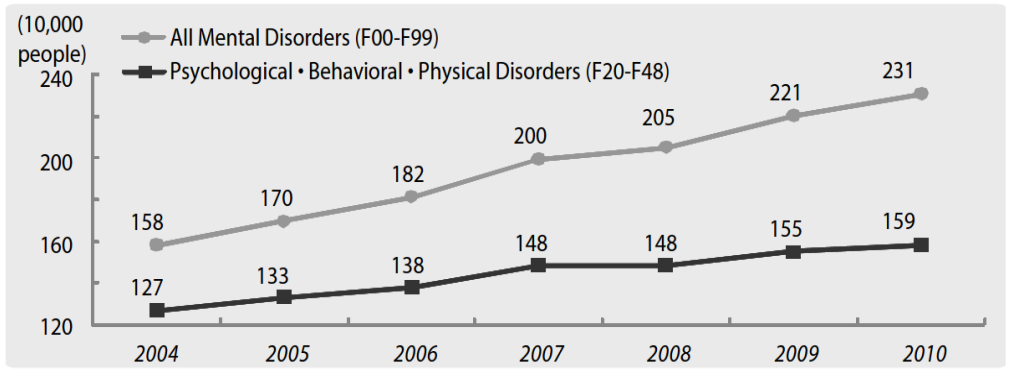
Well-being report OECD 2012

Suicide Rate per 100,000 People in Major OECD Countries



Source: OECD.

No. of Patients Treated for Mental Disorder

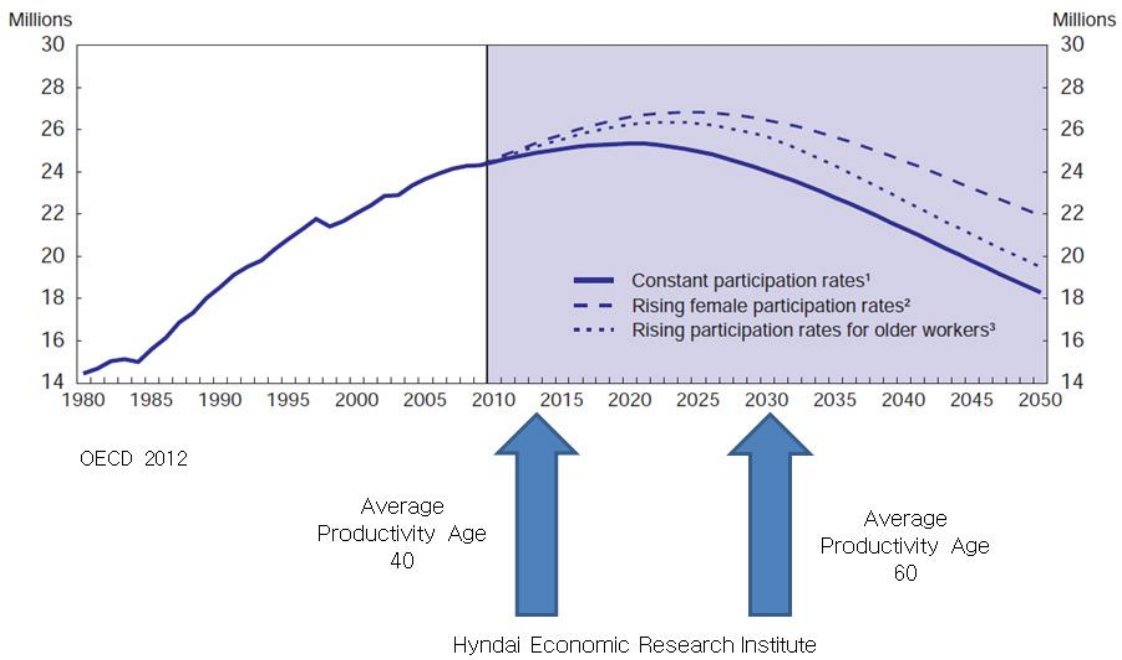


Note: F is an international code of diseases.
Source: National Health Insurance Corporation.

Korean employees are suffering from a great deal of work stress. **45 percent of Korean** employees picked **stress** as a **reason for leaving** their current **jobs.**

Copy from SERI Report

Current average productivity age of 40 years already shows inefficiency, yet needs to be extended to age 60 which is challenging with current work/health status



Informal **retirement between age 50 and 55 can not be maintained!**

Data OECD 2012

- Recent OECD survey found out that **Koreans work longest** hours compared to OECD average, yet shows **lowest productivity.**

- **Engagement of Korean employees is half of global** average and one third of China

- **33% of Korean employees** experience low level of productivity based on **serious health conditions**

(Data OECD 2012/Towers Watson Global Workforce Survey 2012)

think NEXT SAMSUNG FIRE & MARINE INSURANCE SAMSUNG

A regional research conducted also shows the need for improvement

Example: How does South Korea compare regionally?

Percentages of Thriving, Struggling, and Suffering Workers in Developed Asia

Workers are those who are employed full or part time for an employer

	Thriving	Struggling	Suffering
Australia	66%	34%	0%
New Zealand	61%	38%	1%
South Korea	47%	45%	8%
Singapore	36%	59%	5%
Taiwan	34%	61%	5%
Japan	25%	67%	8%
Hong Kong	23%	67%	10%

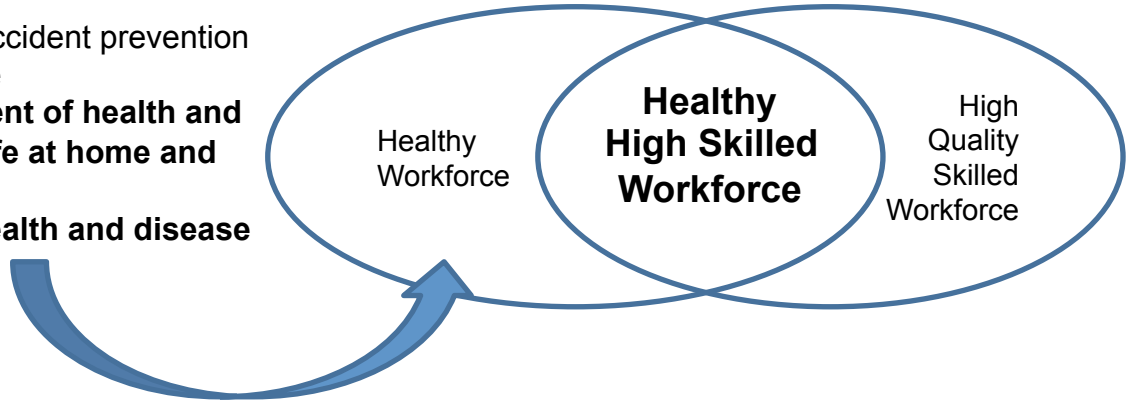
2011

GALLUP

Concluding: A healthy sustainable and engaged workforce is important to get grip on future economic growth and a healthy insurance population

Necessary Goal → **National Competitiveness Increase**

- Industrial accident prevention at workplace
- **Improvement of health and quality of life at home and society**
- **Lifetime health and disease prevention**



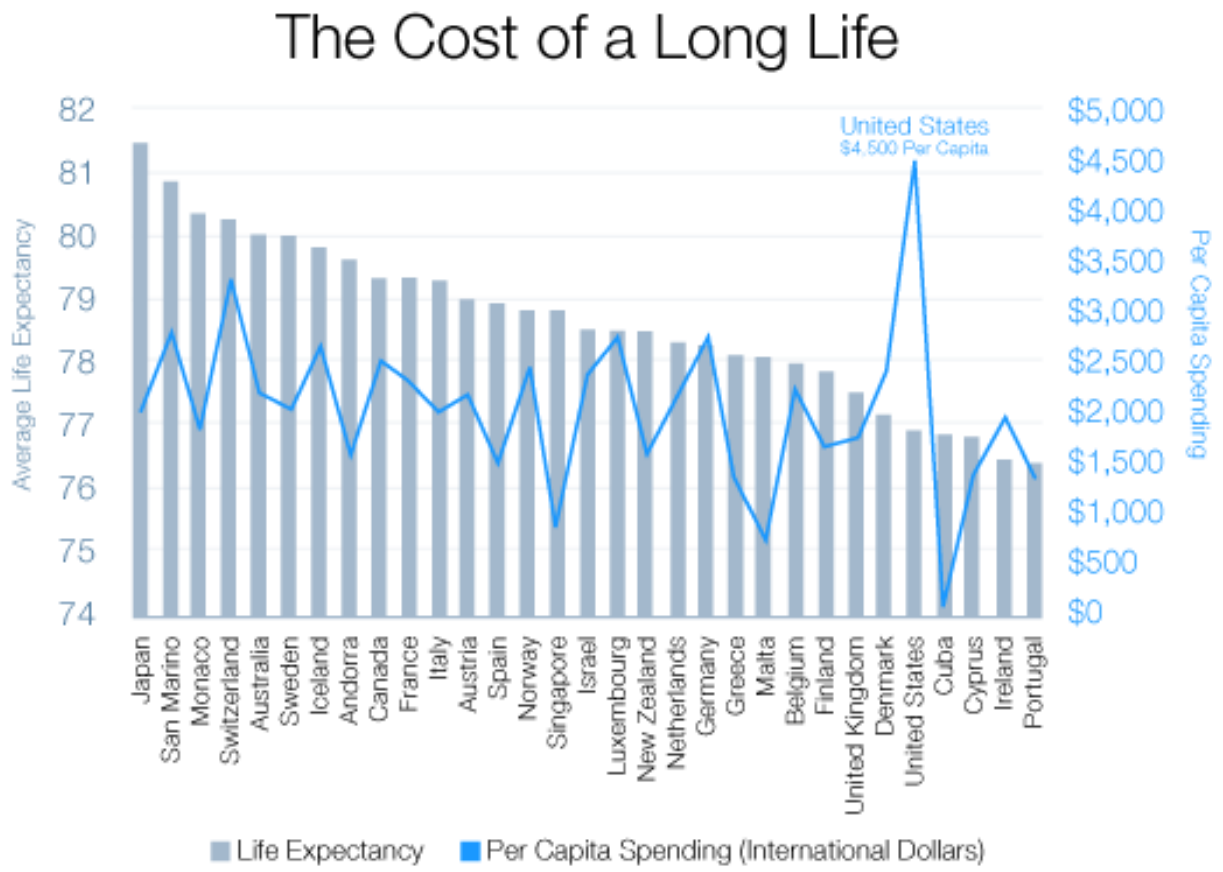
- Assignment of skilled workforce at the right time and in the right place
- Continuous improvement of quality (lifetime learning)
- Development of practical skills and techniques

Source:Yoon Jo-Duk, Korean Labor Institute 2008

Korea's "Third Challenge" – decreasing productivity and increasing work related disease

	Challenge	Mitigation	Status
1	Current lifestyle leads to risk increase and development of chronic diseases	Lifestyle Modification, Prevention , Disease Management at early stage	Not developed
2	Non – covered area is without any volume and pricing control	Need to develop payment systems and control of overuse by fee regulation or hospital networking	Not developed due to protecting laws
3	Fluctuating economic cycles with decreasing trend, declining access to workforce and productivity decrease caused by wellbeing absence	Increase of wellbeing by prevention and lifestyle modification, early detection of chronic and labor related health status as well as reintegration in case of disability	Not developed

Differences in health expenditure are also largely the **result of** how a **health care system** is organized and financed



Industrialized nations will need rational solutions to handle health expenditure based on public/private/charity models

Public Funding	Private Funding	Support of uninsurable people
• The Government must design a public system which is sustainable and clearly communicate the limitations • Government must encourage individual responsibility and support the development of private initiatives	• Private Market has to offer transparent solutions, guarantying the future cover at reasonable cost • For non-mandatory insurance, insurability will depend on medical conditions and affordability to pay. Goal is to offer cover to a wide part of population	• For people without chances to get insurance cover solutions have be found • Minimum social safety net must be guarantied for all • Insurance will have limits where then all society members have to play a role

*" **Health is a public service almost by definition**, Though private insurance is expected to play a greater financing role. **Finding the right balance between public and private health coverage** and Building the appropriate regulatory framework **is an ongoing policy challenge**." **Nicole Tapay , OECD 2005***

Organization as WHO, OECD and World Bank gave fruitful recommendation how to define the future role of PHI in Korea

Should PHI be considered as one future element of health financing and financial risk protection in the light of NHI's limits on coverage, a number of measures could be undertaken to overcome some of the above problems.

❑Understanding and knowledge of the functioning of PHI could be promoted, particularly among population groups with lower education levels.

❑**Lump-sum payment insurance** could be translated **into complementary insurance** schemes **to align PHI benefits with the actual costs** incurred.

❑Finally, standardization and regulation could be strengthened in order to enhance consumer protection, consumer information, and competition among the insurance companies.

❑There might be benefit to be gained from **transforming long-term PHI** contract periods between the PHI company and consumers (some over several decades) **into** contracts of **shorter duration**.

World Health Organization

September 2009,
Review on Korean Health Financing System

Korea has to decide urgently whether it sees voluntary health insurance as possibility to solve future funding problems of health expenditure

If VHI is to contribute to health financing policy goals…

- there must be a **strategy** for the market
- strategy and policy design should ensure **complementarity** with statutory coverage and avoid cross-subsidies from public to private
- otherwise VHI will not relieve pressure on public budgets and may undermine value in public spending
- the larger the market, the larger the **challenges** and the need for careful **regulation**
- if VHI is not **accessible** and **affordable** to those who need it, it is of limited use to health policy makers

* Source : Sarah Thomson, LSE, 2011

Since decades the Korean government considers extending the role of supple mentary private health insurance –Will we find solution by 2014

- 2002 Revision of Insurance Business Act: **life insurance** companies entitled to sell plans for actual medical expenses (effective as of 8/30/2005)
- 2005 Presidential Committee on Healthcare Industry Innovation established to Materialize policy strategies to reform healthcare industry

(above source: Jaeun Shin, KDI 2011)

- 2008 Working Level Council for Private Health Insurance under Deputy Minister of MOSF

(Press Release MOSF March 10th 2008)

- 2012, MoH announces Limits of NHIC and need for private insurance and provider competition

(Josunllbo June 1 2012)

- 2012, FSC announces structural product improvements in line with global standards.

(FSC 2012 August 30)

Lack of common objectives towards the role of private insurance is the main reason for slow development in Korea

Should future MERI products…	YES	No
…Be complementary to NHIC cover?	√	
…Be efficient in funding delivery of care?	√	
…Avoid unnecessary overuse (fraud, adverse selection, provider-driven care)?	√	
…Support health status and quality of life for elderly people?	√	
…Accessible and affordable for wide part of population?	√	
…Be sustainable life long in context with aging societies spendable income?	√	
…Be transparent and easy to understand?	√	

Can we say **YES** to the above questions

Why do we not act accordingly?

Korea's "Forth Challenge" – unclear definition on public and private role does not give incentives for long term development

	Challenge	Mitigation	Status
1	Current lifestyle leads to risk increase and development of chronic diseases	Lifestyle Modification, Prevention , Disease Management at early stage	Not developed
2	Non – covered area is without any volume and pricing control	Need to develop payment systems and control of overuse by fee regulation or hospital networking	Not developed due to protecting laws
3	Fluctuating economic cycles with decreasing trend, declining access to workforce and productivity decrease caused by wellbeing absence	Increase of wellbeing by prevention and lifestyle modification, early detection of chronic and labor related health status as well as reintegration in case of disability	Not developed
4	Unclear defined role of private insurance in funding and managing healthcare and various stakeholder opposition limits the overall development of long term solutions	Insurer need to show initiatives which create trust Governement to create regulatory framework to allow insurer to operate in the right way Insurer, Provider and public bodies to develop solutions	Initial awareness can be seen without any solutions in sight

Goal of future health policy is to make a healthier society -----before it is too late

"Health is a state of complete physical, mental and social **well-being** and not merely the absence of disease or infirmity."

- Preamble to the Constitution of the World Health Organization as adopted by the International Health Conference, New York, 19-22 June, 1946

The Governement has the role to act as facilitator and create the level playing field for all stakeholder

Shape a healthy society and a productive health workforce by:

- ✓ defining prevention, disease management as precondition to allow available resources to be allocated to efficient high quality treatment where needed
- ✓ defining the roles and responsibilities of the funding of healthcare (Government, National Insurer, Employer and Individual)
- ✓ defining clear role to private insurance and create a regulatory framework for managing health and its funding in an efficient way

Thank you for your attention