

## Beware the Pitfalls of Ill-Conceived Policy

Nadeem Esmail

The Bahamas' government is poised to begin debate on the National Health Insurance Act by November 29, with hopes of passing it by December 6. While the upcoming introduction of a new National Health Insurance Plan may seem a good thing to many Bahamians, all residents of The Bahamas should be aware of the potential pitfalls of such a plan. Importantly, the plan that is ultimately introduced in a short few weeks could have serious negative consequences for the performance of the health care program if it is poorly designed and may adversely affect The Bahamas' economy depending on how it is financed.

Both potential pitfalls deserve attention and consideration.

First, and foremost, according to the current draft of the Act this new NHI program is intended to be financed through a "reasonable equitable and progressive system" (s.9-2), which suggests a health care premium scaled according to income that is not related to an individual's risk of needing health care (risk rating). A new mandatory premium for health care that increases with income will decrease the incentives for investment, risk-taking, entrepreneurial activities, and working by reducing the value of any gains that might accrue from these activities. Bahamians must consider carefully the potential impact such a premium would have on economic growth in The Bahamas.

It is true that risk rating (such as that for family history or pre-existing conditions) can be inconsistent with the idea of a health insurance scheme that provides access to care for all regardless of ability to pay. However, some risk rating (such as that for smoking and other important controllable factors that affect health expenditures) is of value even within a universally accessible health insurance scheme.

There are a few additional concerns about future affordability and the impact NHI will have on the economy that should also weigh on Bahamians' minds.

All indications are that health expenditures in large developed nations are growing significantly faster than their overall economies, bringing the sustainability of their public health expenditures into question. That growth is related to both the growth in benefit levels over time and the general ageing of their populations (Kotlikoff and Hagist, 2005). If the future growth rates of NHI spending are similar to those in developed nations, and there is little reason to suspect they wouldn't be given the nature of the proposed program, the question of their sustainability is at least as important for Bahamians as it is for citizens of developed nations.<sup>1</sup>

There is one additional issue within the concern over economic affordability that does not appear to have been taken into account at all: the impact the introduction of NHI might

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<sup>1</sup> Notably, the Steering Committee on NHI has noted that The Bahamas would have to experience sustained economic progress in order to implement a "fully functional and progressive" NHI, which is not in keeping with recent economic experience (SCNHI, 2005; World Bank, 2005).

have on the practice of medicine in The Bahamas. Specifically, estimates of the cost of NHI are based on current data, which do not incorporate the effect of an NHI program on the health sector. Recently published research on the introduction of government insurance in the United States suggests that the impact of NHI cannot be assessed using current cost and intensity figures. Specifically, the introduction of public insurance in the US affected the utilization of hospital services as well as the introduction of new technologies and the intensity of care delivered by hospitals (Finkelstein, 2006). Put another way, the future cost of NHI is likely to far exceed current estimates because the current cost and intensity figures on which they are based will expand significantly following its introduction. This should elevate concerns about the impact of NHI on Bahamians and The Bahamas' economy.

It should be noted that the government is currently proposing that employees have the cost of their NHI premiums deducted from their salary (s.9-2a), which is a positive step forward from the Blue Ribbon Commission's proposals to require employers to share the burden of NHI financing (BRC, 2004). Since a premium cost levied on the employer will ultimately be paid by the employees through lower take-home wages, it makes most sense to simply require that individuals fund the entire premium themselves. The clear annotation of the cost of NHI premiums which are charged in full to insured individuals will also have the added benefit of greater cost recognition by the insured population.

In addition to being concerned about the potential cost of the NHI program and the effect that it is likely to have on economic growth (given the current financing plan) Bahamians should also be concerned about the structure of the NHI program itself. Does the government's proposal provide for a high-performing health care program or will it lead to poor value for money and rationing of health care through waiting lists and limited access to the latest medical technologies? While the current draft of the Act provides limited insight into how the system will ultimately be structured, there are some promising signs. At the same time, the current draft of the Act is remarkably vague with respect to health policy and in some cases makes poor policy choices.

With respect to the delivery of services, there seems to be a nod towards competition in service delivery, but it is limited by the imposition of contracts for services. Specifically, the government is allowing an output based remuneration system for physicians and facilities as an option in contracts for treatment (s.10-2b). Such a decision will be beneficial to the health care program because of the competition and consumer focus that result from money following patients. An allowance for regulations that require adequate patient records be kept by providers (s.11-2) also bodes well, depending on public access to these records and what they contain, for initiatives aimed at quality measurement and reporting.

On the other hand, the government is proposing that the NHI program would reimburse care at all public facilities while contracts will exist with other providers for the delivery of NHI services (s.10). This could have the effect of limiting competition to only those providers who are preferred by the commission, rather than encouraging competition for

patient care among a broad range of providers. There is also a question of how care in public facilities will be financed.

Ideally, Bahamians should take maximum advantage of the benefits created by the use of an output based payment mechanism by setting clear standards for quality, preferably assessed by an independent non-government third party, and then allowing any provider meeting those standards (public or private) who is willing to deliver services under the terms and conditions of NHI to do so. The resulting competition in the delivery of services would mean greater availability of health care and a higher standard of care than might be found in a less competitive environment.

This said, providers of health care in The Bahamas (be they public or private) should be aware of the potential for government to restrict the fees paid for health services to the point where it may not be economically feasible for non-government organizations to participate in the marketplace or to a level well below that which might be prevalent in a private marketplace. Such policies could result from the inevitable relationships between NHI and budgetary concerns and/or politically or ideologically motivated desires of the government in power. The effect on providers and patients from such policies are predictable.

With respect to the interface between providers and patients/users in the NHI system, the government appears to have proposed the inclusion of cost sharing or user fees – a good policy choice for the NHI program. Specifically, the proposed legislation states the Minister may make regulations that provide for “the sharing between the Commission and a NHI beneficiary of the cost of providing health care service to the beneficiary or class of beneficiaries” (s.15-1b). Such fees would lead to a higher-performing health care system by encouraging those in need of care to make a more informed decision about when and where it is best to access to NHI program. The idea, as described by Nobel Laureate Milton Friedman, is fairly simple, “Nobody spends somebody else’s money as wisely as he spends his own.” According to research and international evidence, when patients are responsible for some of the cost of their care, they use fewer resources (making more available for other patients and saving money overall) and end up no worse off in terms of health outcomes as long as low income populations are exempted from cost sharing (Esmail and Walker, 2005).

On the one hand, the current plan appears to make some basically good decisions about how providers might be remunerated (which may be offset by the desire for selective contracting with providers and by funding arrangements which are not output based) and cost sharing for services. On the other hand, the current version of the NHI proposal suffers from a lack of competition in the financing of publicly-funded health care services (the NHI program will be a monopoly government-run insurance scheme very much unlike the competitive insurance markets seen in Germany, Switzerland, and the Netherlands) and from a lack of detail about how the program will operate. The current proposal simply does not lay out or explicitly specify many of the policies that will ultimately be needed to serve as the structure for NHI. Importantly, many of the policies proposed in the past that might fill this void are the subject of very serious concerns

(Esmail, 2006). In addition, there does not appear to be any consideration being given to the privatization of health care facilities in The Bahamas or private tendering for other ancillary activities (such as medical equipment supply), which would according to the economic research and evidence improve the quality and efficiency of service delivery (Esmail and Walker, 2005).

To be clear, the discussion in this brief paper is not intended to dissuade Bahamians from implementing an NHI program. Rather, it is intended to inform their decisions about NHI and assist them in ensuring that the program which is ultimately implemented is one that works both for citizens today and for the nation tomorrow. It seems that many of the discussions in The Bahamas to date discuss primarily the short-term state of affairs while only giving a brief nod to the realities that will come to bear in the longer term.

The implementation of a universal insurance program is not a one-time change in policy, and it is likely to dominate discussions in years long after implementation. Indeed, in Canada, Medicare was enacted in the provinces in the 1960s and 1970s. It was then changed and reformed continuously. The most important piece of legislation guiding Canada's Medicare program today, the Canada Health Act, was not introduced until almost 14 years after Medicare became a part of the landscape in each province. Today, long after the introduction of Medicare in Canada's provinces, there is much discussion about the affordability and sustainability of publicly funded health care particularly as Canada's population ages. There is also much discussion and debate about rationing access to health care services through waiting lists and a lack of access to the latest medicine has to offer (which is the result not of a lack of finance in Canada but rather the consequence of poor policy choices). Thus, while many in The Bahamas might focus only on the impact of the recommendations over the next 2-3 years, and discuss only the increased access to care and how the cost of that care is to be handled in the near term, it is vital that Bahamians take a longer term approach to the implementation of NHI.

Such an approach requires considerations of the economic impacts of an income-scaled premium, the cost of caring for the aged as their numbers expand in coming years, the cost of health care after a universal insurance scheme is introduced, and the effects of current policy choices over the longer term.

Some of the government's current choices about NHI suggested in the current draft of the Act are indeed good ones, which must be codified clearly and carefully to prevent future politically motivated damage. Conversely, some of the policies chosen are poor ones that could be improved upon through a greater adoption of competition and appropriate financial incentives. In addition, it seems the decision on NHI has already been made for Bahamians without sufficient discussion of what this might mean for the economy.

Yes, the National Health Insurance Implementation Project has responded to my claims, made in a paper published by The Nassau Institute earlier this year (Esmail, 2006; NHIIP, 2006). However, their response used strong language in many places to make claims that stood on shaky ground or took points in the paper out of context. Still, the response from the Project was welcome and it suggested that there was indeed an appetite for debate and

discussion over the best path forward. For this reason, the rush to implement legislation in The Bahamas is particularly disappointing.

There is much still to debate in The Bahamas with respect to the structure of the NHI program and how it should be paid for. While a rushed decision today might seem a good idea politically, a hasty decision could lead to ruin or at least difficulties in the future. A well judged decision tomorrow, informed by all of the facts and thorough debate, would far better serve the interests of Bahamians.

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