HEALTH SYSTEM REFORM IN CHINA: WHAT ARE THE OPTIONS?

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Executive Summary

1. Health system reform has been the subject of lively debate in China in recent years. This debate has reflected the broader question of expanded use of market mechanisms vs. retaining or re-asserting direct government control in key sectors of the economy.

2. While standards of medical care were relatively low in China before 1980, the health care system then scored highly with respect to equity of access and low direct costs to patients. Since then, the aggregate cost of health care has increased rapidly, and out-of-pocket charges even faster.

3. With higher costs, serious illness has become one of the main reasons why individuals and families fall into poverty. Surveys also suggest that many people forgo needed care because they fear the financial consequences of getting it.

4. From the 1990s, increasing attention has been paid to reforming the system of health care financing so as to expand the extent of risk pooling. There are now social insurance plans for urban employees, rural residents, and urban residents other than regular employees.

5. Each large city has its own Basic Health Insurance plan (BHIS), in which membership is supposed to be compulsory for regular employees. The total contribution (minimum 8% of each worker's salary) goes partly to an "individual account" (similar to Singapore's Medisave Accounts), and partly to a "social pooling account".

6. Coverage under the basic BHIS is limited to drugs and services in each plan's list of eligible items, and is subject to deductibles, co-payments and upper limits. Because doctors may recommend unlisted treatment methods and drugs, patients may still face high out-of-pocket charges.

7. In rural areas, counties are offering Collective Medical Scheme (CMS). Plans differ from place to place. The plans are voluntary, although subsidized by state and local governments. They are low-cost plans with benefits that are limited in various ways. Coverage in 2008 was reported at over 80% of the rural population.

8. In the last few years, voluntary but subsidized low-cost plans for urban residents not eligible for BHIS coverage have been introduced. The targeted population groups include non-employed dependents, retirees without BHIS coverage, the self-employed and some migrant workers.

9. Premier Wen Jiabao's speech to the National People's Congress in March, and briefings by the Vice Minister for Health Gao Qiang, outlined plans for increased state spending on health care, and for establishing a network of publicly owned and operated basic health clinics. It also announced increased subsidies for insurance coverage and a goal of universal insurance coverage by 2010.

10. Regulations to reduce patients' drug costs will also be introduced, by "de-coupling" hospital revenues from the sale of drugs. In exchange, hospitals will be given increased direct subsidies from the government.

11. An important direction for future health system reform will most likely be increased experimentation with other ways of paying providers than retrospective funding through fees for services provided. Alternative "prospective" payment methods include capitation for doctors and clinics and funding based on diagnosis-related groups for hospitals.

12. Two other important questions for the future are whether there will be requirements of referral from lower-level providers for treatment in higher-level hospitals, and whether individuals and firms will be allowed to opt out of social insurance plans if they acquire a competing private insurance plan (or self-insure) instead.