Financing Healthcare

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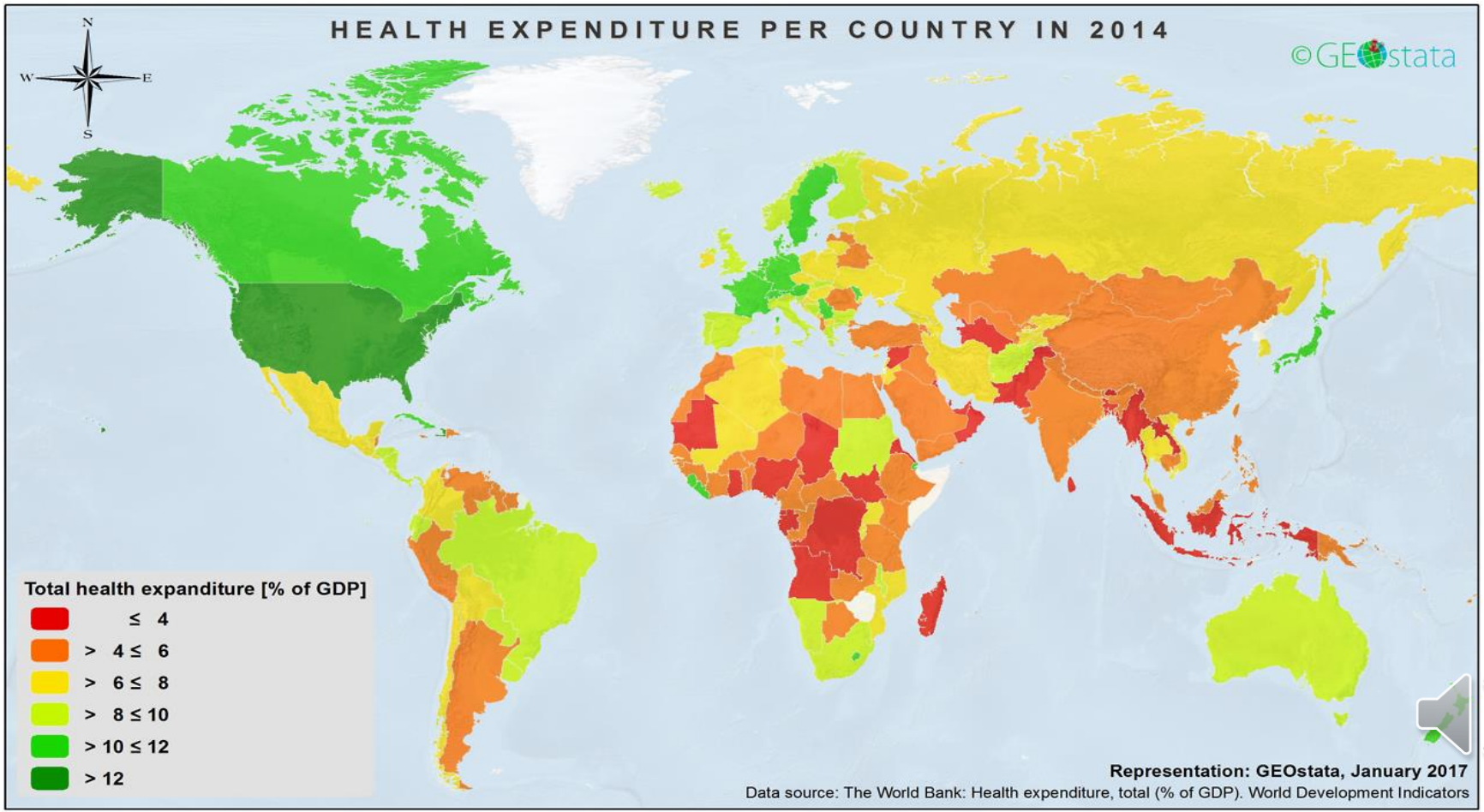
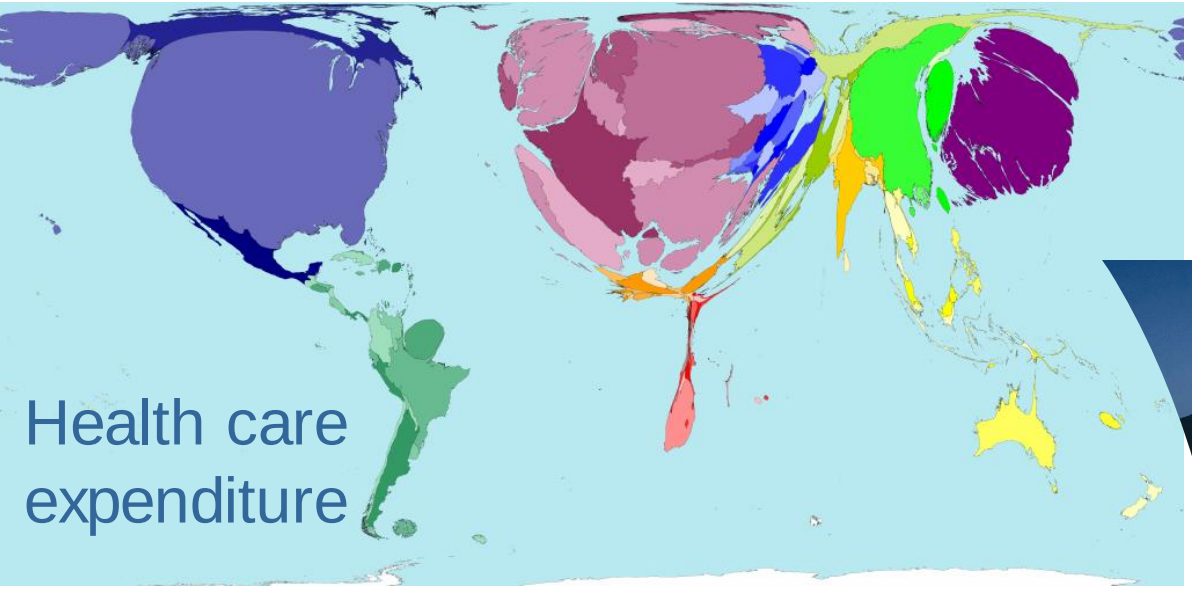
Introduction

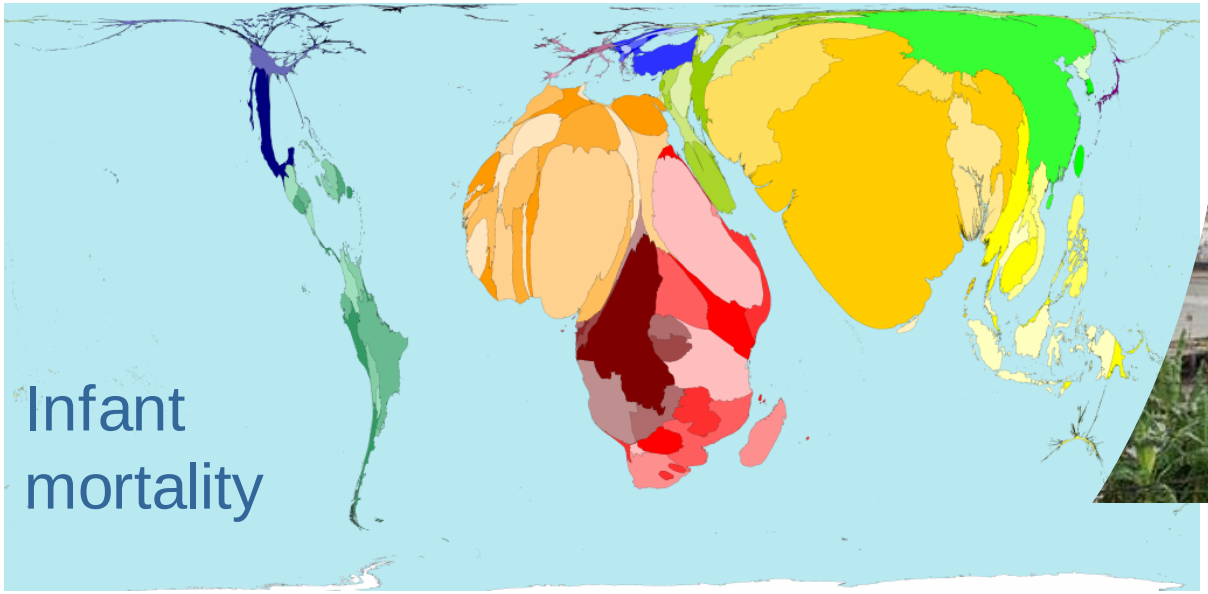
- **Health financing is a core function of health systems.**
- **Expenditure levels vary between countries.**
- **The amount spent on healthcare depends on wealth.**
- **In developing countries, financing is a major barrier to health care delivery.**





“wealthier countries are healthier countries”

WHAT DO YOU THINK??



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Why Healthcare Financing Matters

- **Healthcare financing is the backbone of strong health systems.**

In 2025, critical challenges need funding solutions:

- **Aging Populations**: Rising chronic diseases strain budgets (e.g., Jordan's elderly projected to reach 8% of population by 2025).
- **Pandemics & Climate Crises**: COVID-19 exposed gaps in emergency funding; climate-related health costs are escalating.
- **Technological Advancements**: AI, telemedicine, and precision medicine require sustainable investment.
- **Equity Gaps**: 30% of Jordanians lack health insurance (DOS 2023); OOP payments increase poverty.

Without financing, health systems collapse.

Objectives when funding healthcare

1. Equity in Access

Ensure **all individuals** receive needed care, regardless of:

- Income level
- Geographic location
- Social status

Without equitable financing, health becomes a privilege—not a right.

2. Efficiency in Spending

Deliver **best value for money** by:

- Prioritizing cost-effective interventions
- Reducing waste (e.g. unnecessary procedures)
- Using evidence-based resource allocation

3. Financial Protection

Prevent **catastrophic health expenditures** that push households into poverty.

Achieved through:

- Risk-pooling (insurance systems)
- Government supports for vulnerable groups

Definitions

Financing:

- *The process of securing and managing funds to pay for health services and systems.*

Revenues (إيرادات/عائدات):

- Funds received or expected by a healthcare facility, primarily from:
- **Patient services** (e.g. consultations, procedures)
- **Third-party payers** (e.g. insurance reimbursements)
- **Other sources** (e.g. government subsidies, donations)

Business structure

- **For Profit:**
- A for-profit organization objective is to **maximize profit** by generating revenue that exceeds costs.

Profit = Total Revenue - Total Expenditures

- Once the amount of revenue exceeds expenditures, this is called **profit**.
- **Revenue > Expenditures**:
  - Must cover expenses (salaries, equipment, taxes) **and** generate excess.
- **Breaking Even**:
  - Revenue = Expenditures (no profit/loss).
- **Investor Returns**:
  - Profits distributed to shareholders/owners.

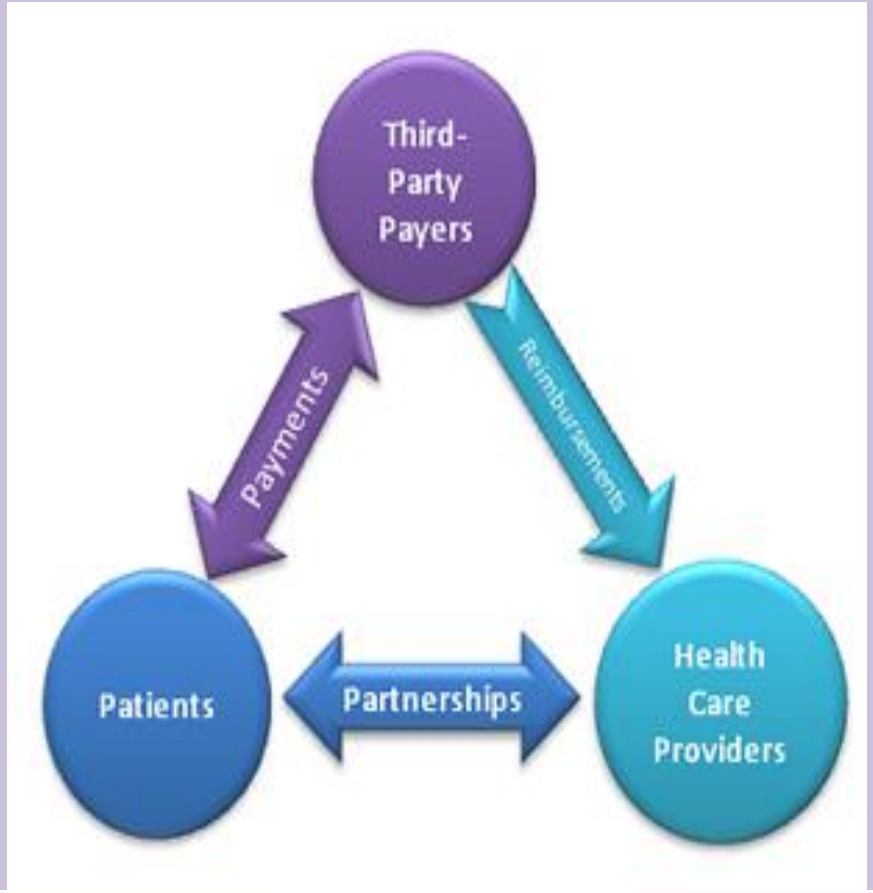
Business structure

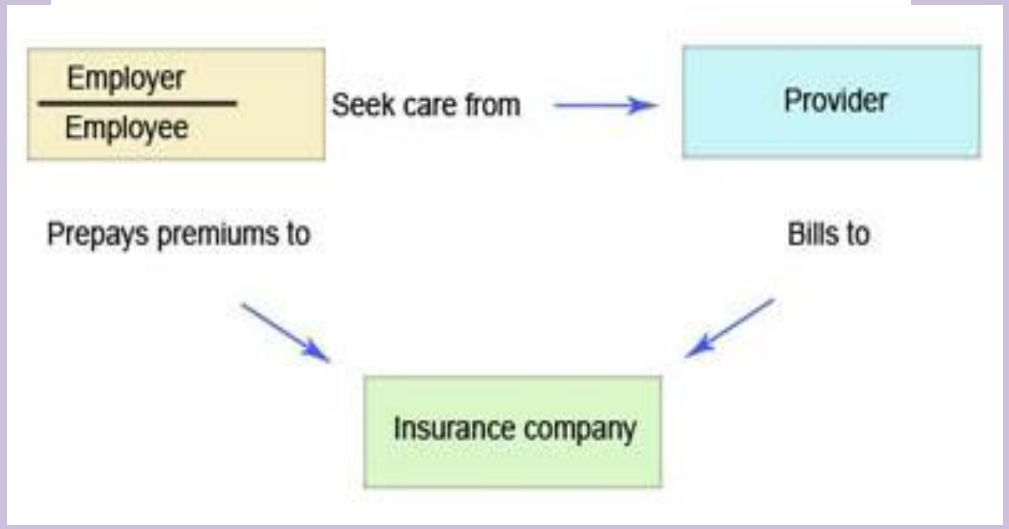
- **Not-for-Profit:**

- Break even while reinvesting all excess to improve services and expand access.
- The difference between a **not-for-profit** and a **for-profit** company is that:

1. **Profits are reinvested, not distributed.**
2. **A not-for-profit** corporations are tax-exempt (do not pay taxes).
3. **Fund sources** :Patient fees (if applicable), Grants, government subsidies, and charitable donations.

Donations are often tax-deductible for the donor.





Business structure

- **Third-Party Payers:**

Organizations (other than patients) that finance healthcare services by:

- **Covering costs directly** (pre-payment)
- **Reimbursing costs** (post-service payment)

Types of Third-Party Payers:

- **Public Payers**
  - Government programs (e.g., Jordan's Ministry of Health)
  - Social health insurance systems

Private Payers

- Commercial insurance companies
- Employer-sponsored health plans

Hybrid/Other

- Non-governmental organizations (NGOs)
- International donors (e.g., WHO, UNICEF)

Flow of finances

Revenue collection

Pooling of resources

Resource allocation

1. Revenue collection

- **Revenue collection:** How health systems gather funds from various sources.
- Revenue collection concerned with the *sources of revenue (who pays)* for health care, *the type of payment (what are the contribution mechanism?),* and *the agents that collect these revenues (who collects?).*

Who Pays?

- General population (taxes)
- Subgroups (insurance premiums)
- External sources (loans) (e.g. from World Bank).
- 'excluding donor contributions'

Collection Mechanisms?

- Taxation (e.g., income tax)
- Social insurance (e.g., payroll deductions)
- Private insurance premiums
- Out-of-pocket payments (direct payments made by a patient to a provider)

Who collects?

Collection agents (which in most cases also pool the funds and purchase health care services from providers):

- Governments **or independent public agencies** (such as a social security agency)
- Insurance funds
- Healthcare providers **(hospitals and health centers).**

Pooling of resources

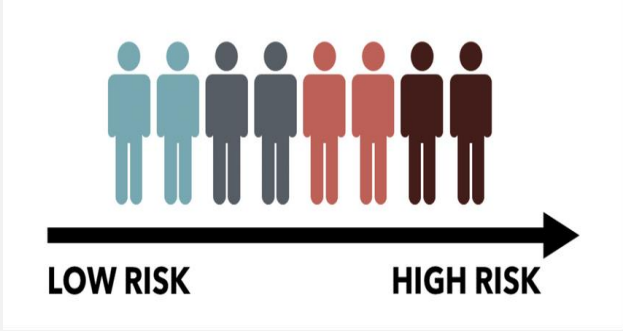
Pooling: Combining prepaid funds to share financial risk across populations.

When pooling resources:

- **Prepayment contribution:** Funds collected *before* need arises.
- **Equity**:
  - Contributions based on *ability to pay*
  - Access based on *health needs*
- **Risk Sharing**:
  - Healthy subsidize the sick
  - Wealthy subsidize the poor

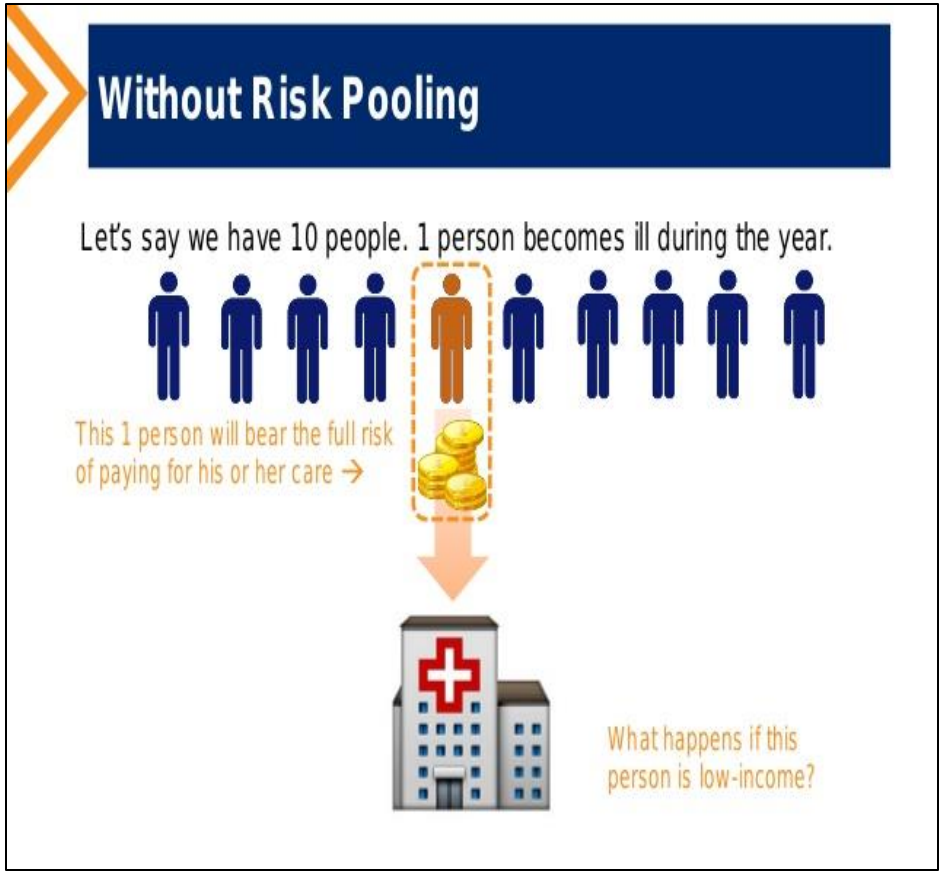
We pool two things: Funds and risk

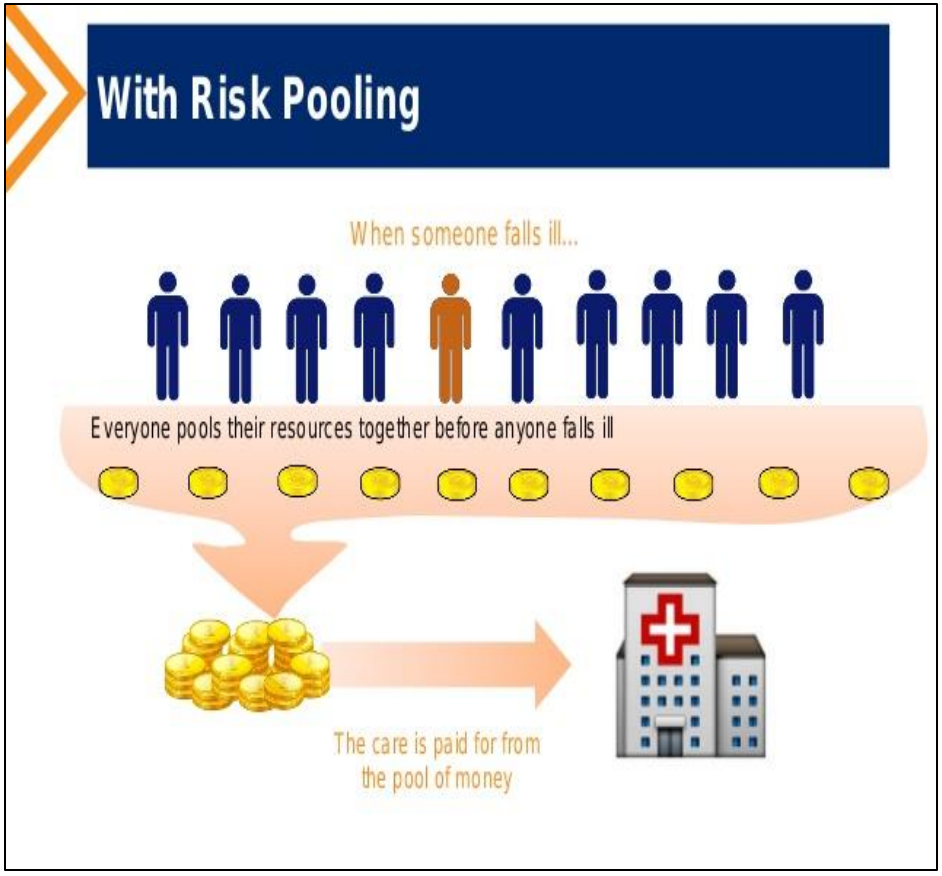
A mix of contributors is needed (contribution>need, contribution =need, contribution <need and zero contribution with need).



2. Pooling of resources

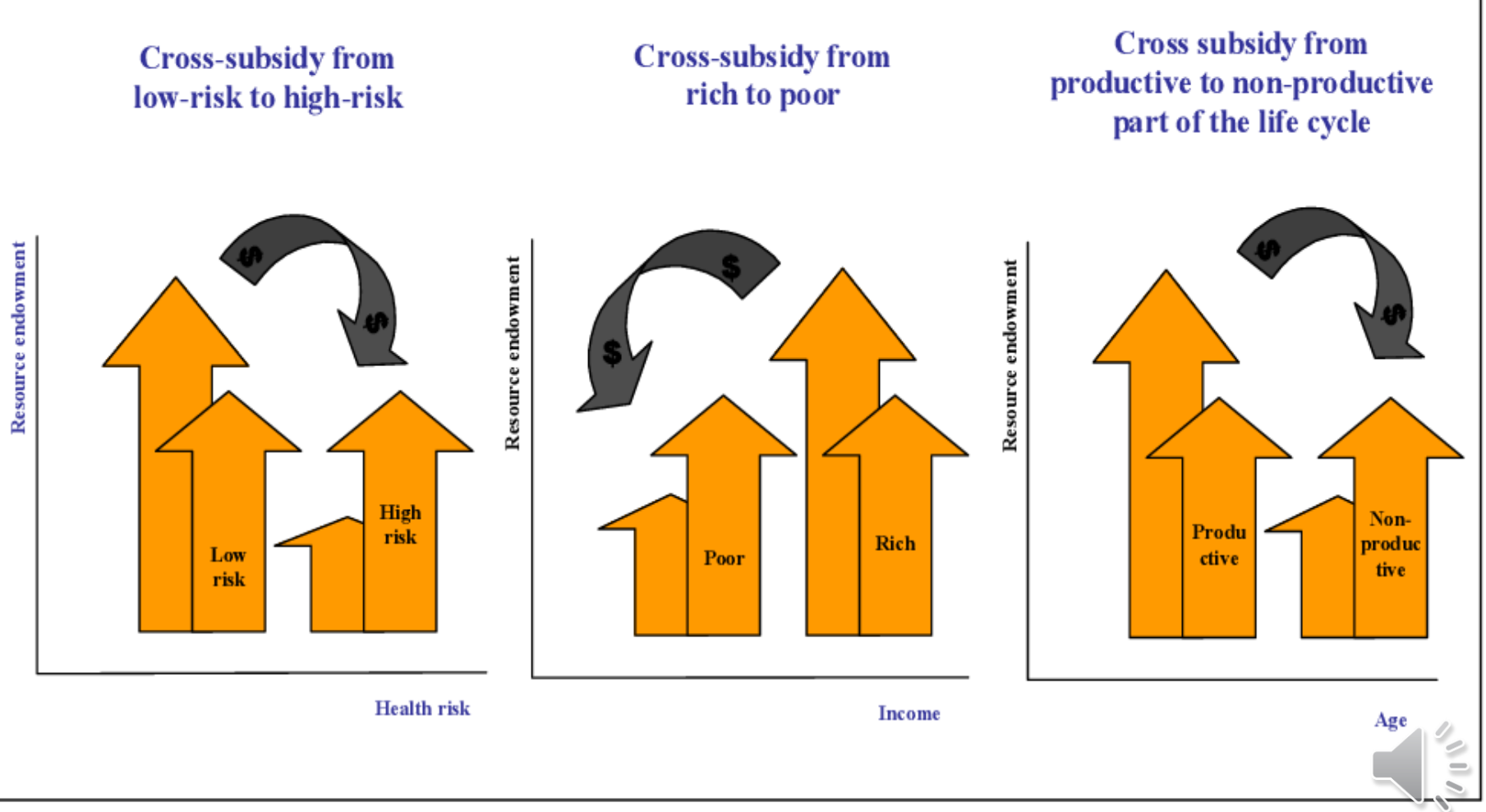
Sharing financial risk between contributors.





- Both tax-based health financing and health insurance involve pooling while fee-for-service (out-of-pocket) user payments do not involve the pooling of resources (each pays for own care).
- **How Pooling Works:**
- Pooling allows for **cross-subsidization** from low- to high-risk people (example: charging more than the cost of production for a service or a group → less than the cost of production can be charged for another service or to another group).

Risk Pooling: Cross-Subsidy /Redistribution



3. Resource allocation (Purchasing of health services)

- Distributing pooled funds to providers for services.
- Purchasing of health services is done by public or private agencies that spend money either to provide services directly or to purchase services for their beneficiaries.
- In many cases, the purchaser is also the agent that pools the financial resources.

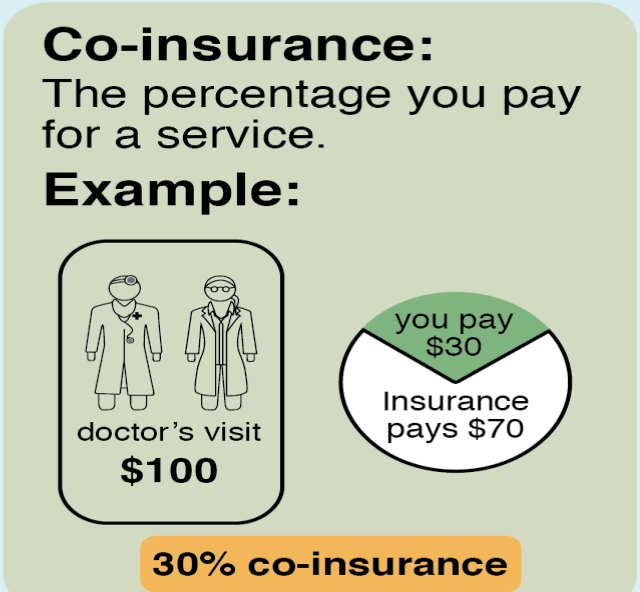
3. Resource allocation (Purchasing of health services)

- Purchasers of health services are typically the MOH, social security agency, district health boards, insurance organizations, and individuals or households (who pay out of pocket at time of using care).
- Purchasing can be either passive or strategic;

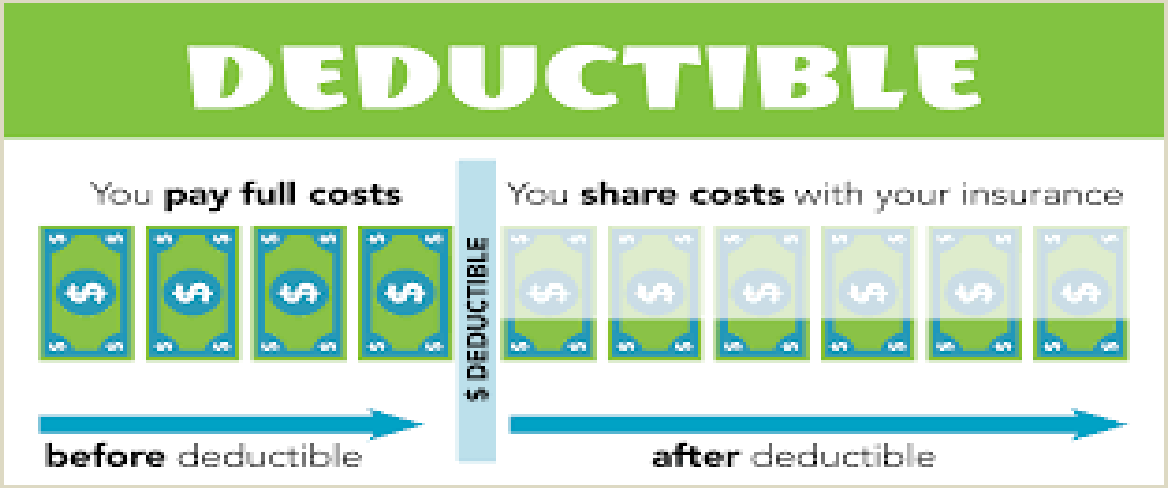
- **Passive purchasing→** follows predetermined budgets or pays bills when they are presented,
- **Strategic purchasing →** Value-based payments and Negotiate quality/price

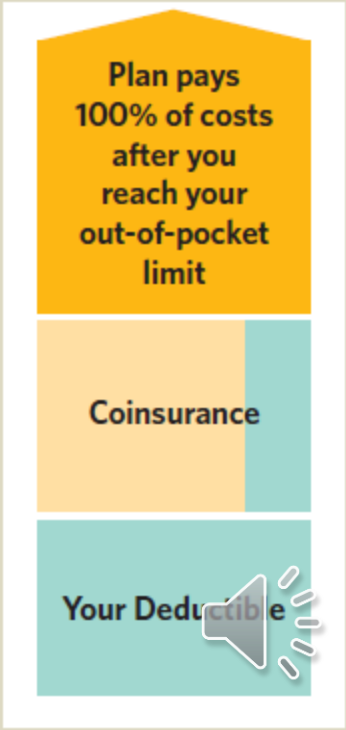
Patient Cost-Sharing Mechanisms

1. **Co-payment:** a fixed amount paid by the patient to the provider for each encounter *regardless of what is provided during the visit*.
2. **Coinsurance:** patient pays a percentage of the allowed amount, while the insurer pays the rest. For example, with an 80/20 policy, the third-party payer reimburses 80% and the patient pays 20 %.



3. Deductible: This is the amount of money that a patient must pay out of pocket each year before third-party payer benefits begin and is stated in the policy agreement between the policy- holder (the patient) and the third-party payer. **Annual out-of-pocket. threshold** before insurance activates.





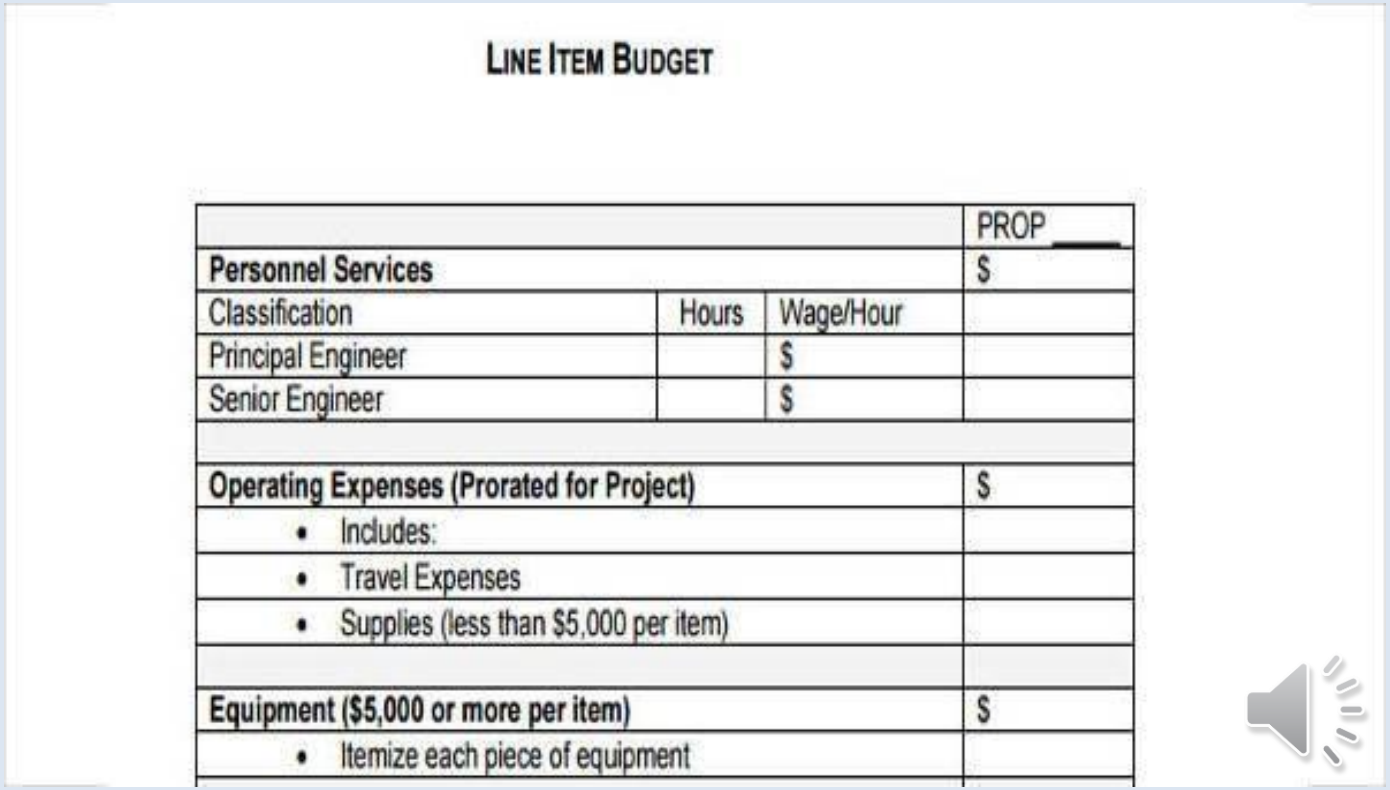
Payment Methods

- **The payment mechanisms are the following:**
- **Global budgets** A fixed annual amount allocated by governments to healthcare providers, covering:
- Hospitals
- Clinics
- Physicians

Allocations depend on:

The type of facility, its historical budget, number of beds (for hospitals), per capita rates, or utilization rates for past years.

- **Line-item budgets** A detailed budgeting method where funds are **allocated to specific expense categories**



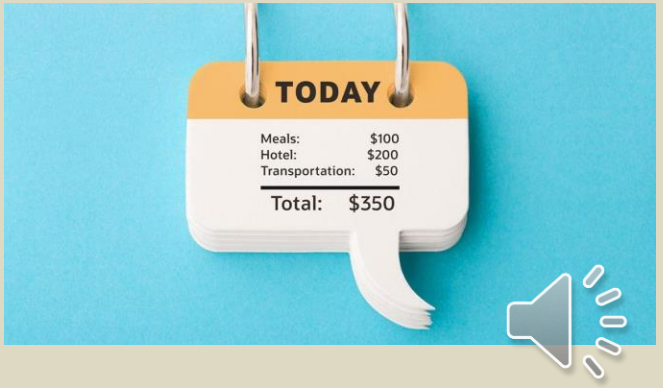
LINE ITEM BUDGET

			PROP ____
Personnel Services			$
Classification	Hours	Wage/Hour	
Principal Engineer		$	
Senior Engineer		$	
Operating Expenses (Prorated for Project)			$
• Includes:			
• Travel Expenses			
• Supplies (less than $5,000 per item)			
Equipment ($5,000 or more per item)			$
• Itemize each piece of equipment			

- **Capitation**
- **Fixed annual payment** per enrolled patient (e.g., $200/person/year).

- Paid to **primary care providers** (GPs, clinics) regardless of service usage.

- 200/year×1,000patients=200,000 annual budget
- **Per diem payment** **Fixed daily rate** paid to hospitals for each patient stay (e.g., $500/day).
- Rates vary by:
  - **Department** (ICU vs. general ward)
  - **Hospital type** (public vs. private)



- **Case-based payment** **Fixed payment** for treating a specific condition (e.g., $3,000 for a knee replacement).
- Covers **all standard interventions** (surgery, meds, rehab) for that episode of care.
- **Fee for service** **Payment per service** (e.g., 50 for a consultation,50 *for a consultation*,200 for an X-ray).
- Paid by:
  - Patients (**out-of-pocket**)
  - Insurers (**reimbursement**)

Key Trend: Jordan mixes global budgets (public) + fee-for-service (private).

Key Health Financing Indicators

- **Total Health Expenditure (THE) per Capita**

Definition:

- THE per capita = (Government + Private + Donor + Household Spending) / Population

Purpose:

- Compare spending across countries
- Track healthcare investment over time

e.g.
Jordan: $327
Saudi Arabia: $1,045
Egypt: $150
Turkey: $480

National Income Metrics

- National income is usually expressed as GDP (Gross Domestic Product) or GNI (Gross National Income) .

GDP vs. GNI

Metric	Definition	Key Difference
GDP	Value of goods/services produced **within** a country	Measures domestic production
GNI	GDP + net income **from abroad (remittances, investments)**	Reflects citizens' income

- GDP depends where the economic activity is located while GNI depends on where the people (owners of the labour and capital) are located

Jordan's Healthcare Expenditure: 2023

- **THE/GDP**: **8%** (JD 2.85B / $4B) The total expenditure on health is considered high for a middle-income country.
- **Per Capita**:
  - Health: **JD 260 ($366)** ▲12% since 2013
  - GDP: **JD 3,210** ▲9%

- **The Percent of Governmental Budget Allocated to Healthcare is: 10.7%**
- **Regional Rank**:
  - 2nd highest THE/GDP in Levant (after Lebanon's 8.4%)

In Jordan, health care is funded by the following sources:

1.

MOF is the major source of health care funds
The household → the second largest source

Sector	Share	Key Details
Public	68.2% (+2.5%)	**Ministry of Finance (40.1%), Social Security (18.3%)**
Private	29.4% (-2.2%)	**Household OOP (30.5%), Private Insurance (15.8%)**
Donors/NGOs	2.4% (-0.3%)	**Excludes UNRWA (0.6%)**

Health expenditures by function

- **Spending Allocation (2022)**
- **Curative Care**: **72%** (-3%)
- **Preventive (PHC): 19% (+3%)** ***(Still below WHO's 30% target)***
- **Drugs**: **24.1%** of THE (JD 620M) *(Down from 26.6%)*
- **Digital Health**: **1.9%** *(New category since 2020)*
- *The rest spent on* n administrative activities, training, and other activities.

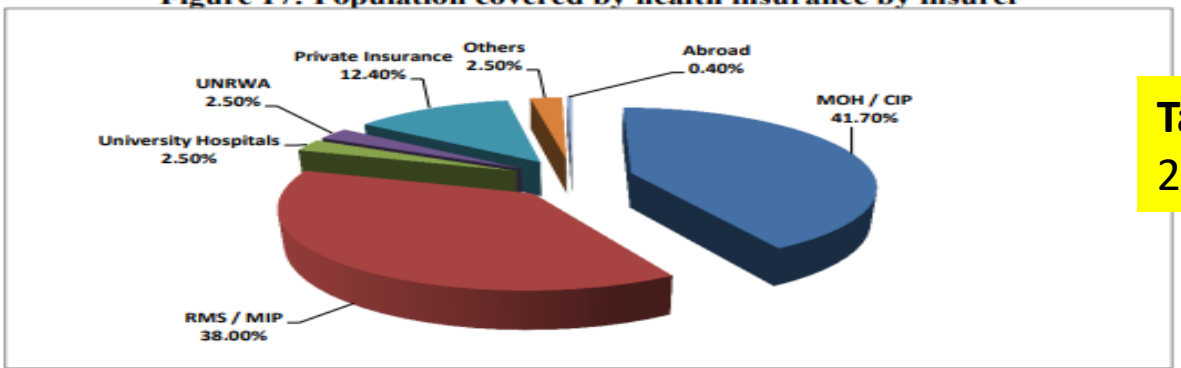
Health Insurance Coverage in Jordan (2023)

- **Total population: 62% covered (+7% since 2013)**
- **Jordanian citizens: 75% covered**
- **Exclusions**: ~5% (Royal Court exemptions)

Health Insurance available for:

- all civil servants and their dependents
- Children under six years old
- Segments of society that have been classified as poor by the Ministry of Social Development.
- Areas classified as least fortunate and remote areas
- Health insurance is issued to one member of the family of an organ donor (valid for five years).
- Health insurance is issued for a blood donor (valid for six months).
- for patients who suffer from certain medical conditions (certain infectious diseases, cancer, kidney diseases, tuberculosis, AIDS, and addiction to alcohol and drugs) regardless of their ability to pay

Figure 17: Population covered by health insurance by insurer



Target: Reach 80% coverage by 2025 (UHC goals)

Readings:

- https://applications.emro.who.int/docs/9789290226949-eng.pdf?ua=1
- https://andp.unescwa.org/plans/1159