



FINANCIAL LITERACY **FOR YOUTHS**



A Perspective of Healthcare Services





Global life expectancy is estimated to increase by more than a year between 2016 and 2021—from 73 to 74.1 years—bringing the number of people aged over 65 to more than 656 million, or 11.5% of the total population. [World Industry Outlook, Healthcare and Pharmaceuticals, The Economic Intelligence Unit, June 2017]

While ever-increasing life expectancy may seem great, global healthcare costs are rising at an alarming rate in response to the gradually increasing ageing population—where retirees will likely require long-term care. According to the U.S. Centers for Medicare and Medicaid Services, the U.S. spends approximately \$3.5 trillion a year on health care, or nearly \$11,000 per person. Global spending is projected to increase at an annual rate of 4.1% in 2017-2021, up from just 1.3% in 2012-2016, which is faster than the rate of inflation or wage growth in most countries.

This drastic upward trend of healthcare costs is alarming as it means healthcare will become more and more unaffordable for most individuals. This is due to patients having to shoulder a larger share of treatment costs—driving up out-of-pocket expenses. Insurance premiums have been increased to match the pace of healthcare inflation and governments are pressured to turn their attention towards this issue that has been silently creeping up on them. The question to ask now is: Why, and what are the solutions?

The Invisible Hand

In simple layman terms, economics is the science of scarcity. The painful reality is that in the economy as a whole, there are simply not enough resources (supply) to meet all the wants that people have (demand). For example, you would only have a limited supply of hospitals, say about 10, but have an increasing patient list that grows exponentially. This leads to the need for a drastic allocation of resources, causing the spike in price for the product—our healthcare service line.

Essentially, healthcare is fundamentally different from other goods. Healthcare is not demanded per se but is needed at specific times that differ from person to person. Its demand comes from the need to improve personal health which would facilitate the continuous productivity of an individual. Similar to how you need water in order to keep your body functioning; healthcare is considered a need

to prevent your “health capital” from dropping below the threshold and for you to continue to function well.

The maintenance of an optimistic “health capital” can be connected to our innate altruistic nature. ‘Altruistic’ in this context would mean a sense of selflessness that drives us to prevent someone from dying. In other words, it is when we simply cannot bear to see someone bite the dust, even if he is a person who is not related to us.

Hence, it is this “invisible hand” that affects the need for healthcare and establishes healthcare models that cater to said needs. The two extremes of the models are:

One-For-All vs All-For-One

The first extreme would be a one-size, fit-all model where healthcare services are administered by a single party, in which most cases is the government itself. Put simply, governments collect taxes, devise a budget and inject the monies back into the society in order to develop a sustainable and developed nation. Healthcare would be one of the many areas governments would spend on.

Governments play an all-important role in providing healthcare as healthcare in general should not be a profit-maximising industry. Instead, the well-being of the people should be the main objective. Public healthcare provision means everyone has access to this service regardless of their background. This solves various issues posed by the healthcare industry such as having an adverse selection of patients, the country’s overall life expectancy and production rate, etc. However, this one-for-all approach also brings problems such as a lower quality of treatment because of having to stick within budgets and rationalising the resources directed towards healthcare (economic resources are finite as aforementioned).

On the other hand, the other approach would include the private sector where many different institutions would cater to many different needs of consumers. Some familiar examples of that would be your health insurance, private hospitals and general practitioner clinics.

A privatised healthcare approach would not only give people a better alternative, but also encourage competition which would lead to more efficient healthcare services of higher quality compared to government bodies. Privatisation also helps bridge the gap between the exponential demand for healthcare and the limited resources provided by the government, that doesn't meet the expectations of the citizens. In a way, privatisation is essential for healthcare services to grow in efficiency and provide quality experience.

A perfect model does not exist but the most ideal one would be a hybrid where the government would oversee healthcare services to ensure that everyone has access to healthcare, while the private sector provides innovation to fill any lacunae where resources are limited.

The Healthcare Cost Challenge

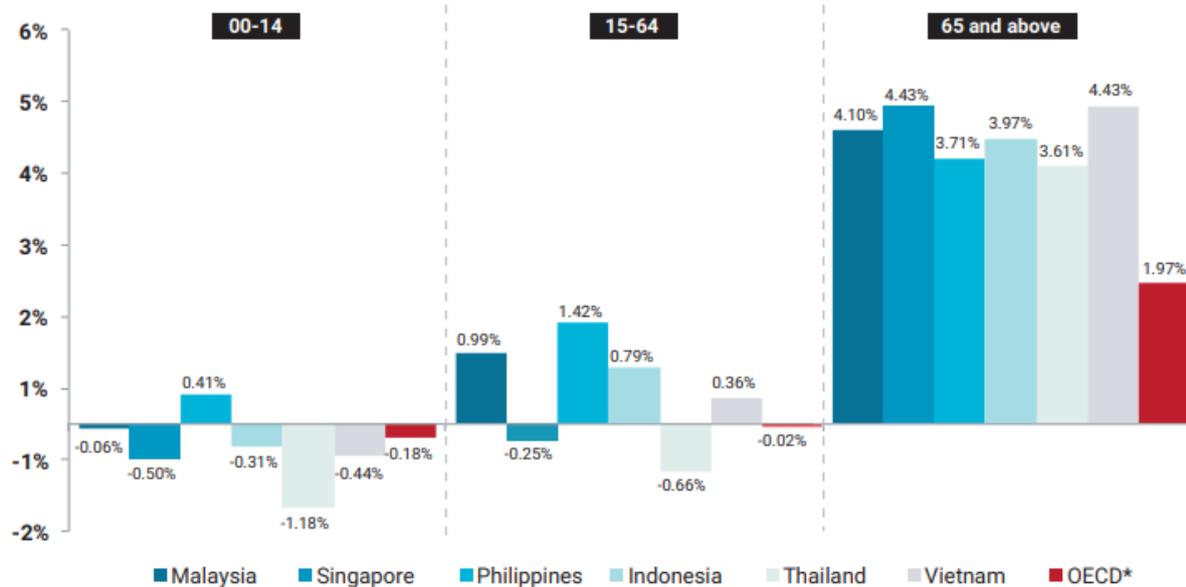
According to research carried out by Solidiance, an Asia-focused corporate strategy consulting firm entitled "The US\$320 billion healthcare challenge in ASEAN", Southeast Asia's major economies show that the growth of cost in healthcare per capita has been outpacing the growth in GDP per capita, meaning that ultimately the burden of healthcare cost is growing faster than the economical power to sustain them. The report forecasted an estimated total healthcare spending by ASEAN nations of USD 740 billion in 2025, which is an increment of USD 320 billion from the estimated spending of 420 billion in 2017.

At the moment, healthcare spending across the ASEAN 6 has already outpaced the economic growth of these nations. For example, Malaysia's gross domestic product (GDP) per capita in 2017 was US\$91, but the health expenditure per capita there was US\$105. Singapore has the largest gap between health expenditure per capita and GDP per capita among the ASEAN 6 nations. Singapore spends US\$142 on healthcare per citizen despite having an economic growth of US\$98 per capita.

However, the underlying issues have to be looked into before making a hasty judgement about the rising costs of healthcare because historically, healthcare spending outpacing growth is a sign of maturing economies in the developed world.

There are two main underlying factors highlighted in the report, namely the aging population as well as the prevalence of unhealthy practices such as smoking and obesity.

DRIVERS OF HEALTHCARE DEMAND – AGE CAGR
2015 – 2040 (%)



SOURCES: WORLD HEALTH ORGANIZATION, UNITED NATIONS, SOLIDIANCE ANALYSIS

NOTES: The data provided here is based on existing public health and economic databases up to the latest years available
*The Organization for Economic Co-operation and Development

It is without a doubt that the main drivers of healthcare demand are the aged population, which would most commonly be categorised as age 65 and above. Hence when the retirement-age population (age group 65-above) is outpacing the youngest (0-14) and the workforce (age 15-64) populations rapidly at a relative growth rate of 3-10 times higher in nearly all ASEAN 6 nations, it is said to be an indicator. An indicator that there is a large elderly population with an increased need for healthcare, while a relatively smaller workforce will have to produce the economic wealth to sustain the ever-growing demand for medicine, treatment and caretaking.

“A nation’s near-future elder population will be comprised of their working age population today”. With the prevalence of smoking and obesity in the current working population, it will translate into a high prevalence of severe non-communicable diseases in the future, resulting in a compound effect that will raise the need for healthcare by tenfold.

A Dose of Optimism

There are definitely ways to break or ease the cycle to lessen the burden in the future. One of those methods would be to improve healthcare delivery via more efficient resource allocations. More focus should be placed on prevention at early stages of treatment as intervention in early stages or even full prevention of diseases requires additional spending early on, but can greatly reduce costs in the future. A simple example of this would be focusing more on kidney transplants instead of continuous treatment through dialysis where not only will the costs be lower, but the quality of life will increase as well.

Generating new sources of healthcare funding is also a step to ensure sustainability in healthcare spending. Measures such as new taxation of unhealthy goods will allow increased revenue for the government and improve incentives to stop unhealthy practices at the same time. Mild and gradual taxation on items such as cigarettes and sugar would result in a net benefit for the healthcare system (if not the entire budget), given the reduced risks of illnesses.

Harmonizing and putting thought into the schemes related to our healthcare system is another step to improve the overall situation. In making a comparison between countries: Malaysia provides a practically free, full healthcare coverage for all citizens which requires massive spending and leads to constantly overstrained and under-equipped health institutions; Indonesia leaves a large part of healthcare spending to private out-of-pocket expenses where the state's funds are less burdened, but instead places burden on lower income groups who may forgo the very necessary treatments, widening the wealth gap. As previously discussed, the best course of action to take is a hybrid of both approaches and introducing manageable and effective co-payment fees for public hospitals.

Next, overhead costs can be reduced by streamlining processes. By capitalizing on digitalization, harmonization and intelligent management of patient data, the need for administrative procedures, as well as reducing misallocation and waste in-patient facing activities can be significantly reduced- i.e. by avoiding repeated tests and diagnosis through (controlled) sharing of patient data between institutions

Policy makers in ASEAN should be able to accept momentary discomfort of reforming the healthcare system before the situation worsens as ASEAN countries aspire to become fully developed nations. They need to remember that a strong healthcare system is a pillar of a developed nation.



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