

Health Insurance and Government Failure¹

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Introduction

This paper is a follow up to my earlier paper, [“Improving access to good health care: More private and cooperative HMOs, Don’t expand PhilHealth”](#) that I presented last June 30, 2009, in a 3CPNet forum. So the main arguments there will no longer be repeated here. A few issues will only be added or expanded here.

1. PhilHealth’s bloated claim of membership coverage

Table 1. Philippine Health Insurance Corporation (PhilHealth) members, 1st quarter 2009, in million:

Sector	Members	Beneficiaries
Private employed	6.58	27.95
Sponsored program (indigents)	3.39	17.08
Individually-paying	3.09	14.61
Overseas program	1.90	8.35
Government employed	1.88	8.85
Lifetime members	0.89	0.69
TOTAL	17.24	77.38

source: Stats & Charts, PhilHealth, 1st Quarter 2009,
http://www.philhealth.gov.ph/about_us/others/snc2009.pdf

¹ Expanded from the paper presented at the “Social Dialogue on Health Care” sponsored by PHAP (Pharmaceutical and Healthcare Association of the Philippines) and CHAT (Coalition for Health Advocacy and Transparency), PRRM, Quezon City, August 17, 2009

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The 77.4 million projected beneficiaries represents nearly 84% of the 92 million Philippine population early this year. But can 84 percent of all Filipinos, more than 4 out of 5, proudly declare that they are covered by PhilHealth?

The answer is No. Why?

PhilHealth made fuzzy if not lazy mathematical procedure of assuming that each and every member, paying by themselves or by their employers or by the politicians, has about 3.5 dependents on average. So each member is multiplied by 4.5 beneficiaries on average, and PhilHealth came up with 77.38 million Filipinos covered by the government health insurance program.

Below is the “multiplier” implied by PhilHealth for each sector. That is, number of members per sector multiplied by this number below, and you get the number of beneficiaries per sector in the above table.

Government-Employed	x 4.71
Private-Employed	x 4.24
Sponsored Program	x 5.04
Individually-Paying Persons (IPP)	x 4.73
Lifetime Members	x 1.68
Overseas Workers Program	X 4.39
Total	x 4.49

But not all PhilHealth members are married and have children and dependents. Many members are single, or maybe married but have no children or only 1 or 2 children. And not all singles can declare their parents as dependents unless the latter are without regular jobs and above 60 years old. They also cannot declare their grandparents, young nieces/nephews, or retired siblings as dependents. So most singles who are PhilHealth members have no dependents actually.

In my case, we are 3 in the family (me, my wife and my daughter) but in the PhilHealth statistics, they assume there are 4.2 of us in my household. My sister and her husband are both PhilHealth members, they have 2 children, so there are only 4 of them. But PhilHealth assumes there are 8.5 of them in their household.

Another way of double-checking this claim of covering nearly 84 percent of all Filipinos, is to compare PhilHealth membership with the labor force data by the National Statistics Office (NSO). The latest labor force survey by the NSO was April 2009.

Total employed (fully employed and under-employed) Filipinos as of April 2009 was 35 million. So PhilHealth members (17.2 million) are only one-half of all employed Filipinos. If we deduct those in the sponsored program, the 3.39 million indigents who are mostly unemployed, there are only 13.85 million paying members. This number is only 40 percent of all employed Filipinos. So how could 40 percent of all employed Filipinos cover 84 percent of the entire population?

2. Health inequity not addressed by PhilHealth

According to former DOH Secretary Alberto Romualdez, of the top 10 hospitals in PhilHealth claims, there is only one government hospital there, the rest are private hospitals. This implies that the middle class and even upper class of Philippine society who are PhilHealth members are the ones who maximize the benefits of hospitalization claims.

This is a bit ironic since the government health insurance is a social and political program that is expected to benefit the poor and the indigents (those in the sponsored program) the most. And since the poor would usually go to government hospitals and not the big private hospitals, it was also expected that government hospitals would be among the top claimants in PhilHealth claims. Seen from this angle, it can be inferred that PhilHealth has not only retained, it may have even exacerbated the health inequity in Philippine society.

But this may not be entirely correct. If we compare PhilHealth collections vs. payment, the bulk comes from and goes to, those employed in the private and government sectors. But nonetheless, the indigents and the individually-paying people claim about twice their payment and contribution to PhilHealth. Those employed in the private sector effectively subsidize these two groups. In the first quarter of this year, they contributed 60 percent of PhilHealth collections but got only 45 percent of benefit claims. See table below.

Table 2. Premium collections and payment by sector, 1st Quarter 2009

Sector	Premium collections		Benefit payments	
	Amount, P Mill	%	Amount, P Mill	%
Private	3,574	60.1	1,883	44.6
Government	1,186	19.9	946	22.4
Indigent	502	8.4	670	15.9
IPP	485	8.2	591	14.0
OFW	199	3.3	129	3.0
Total	5,946	100.0	4,219	100.0

3. PhilHealth in a way is a social project with political goals

Government health insurance is a social and political program meant to reduce health inequity in society. The agency tasked to implement it is PhilHealth, a government corporation. Since it is a political creation, its leadership and administrators are answerable and accountable to the high political leaders of the country. So while the officials of PhilHealth maybe answerable to me and the several million others who contribute monthly to its coffers, those officials are in fact more answerable to the President and the legislators by virtue of the political power that they hold, which includes their influence in the appointment and hiring of top national and regional officials of the said corporation.

One clear indicator of the politicized nature of this corporation is the uptick in membership of the indigents in the year where there was a Presidential election, 2004. From only 3 million indigent members in 2002 to 2003 combined, the number of indigent members shot up to 6.26 million in 2004, only to fall back to only 2.5 million the following year, where there was no election. The President and other politicians in the administration may deny it, but this “outlier” increase in indigent-members was a clear bribery to get more political votes for the administration.

It is expected that by next year, where there will be another Presidential election, the number of indigent members will shoot up once more.

Table 3. Indigent families enrolled, million:

1997-99	0.13	2006	4.95
2000-01	1.00	2007	2.72
2002-03	3.02	2008	3.26
2004	6.26	March 2009	3.40
2005	2.49	2010	6 or 7 or 8,..?

4. Market failure and government failure: Sectors with little government direct intervention

In food, there is not a single government restaurant or government carinderia or “turo-turo”, or government supermarket, and yet people are eating. Some food are cheap, some are very expensive, but most people eat at least 3 meals a day.

In clothing, there is not a single government clothing and jeans corporation, or government shoes and slippers corporation, but people have clothing and

slippers. Some are cheap, some are very expensive, but people have something to protect their body and feet.

In transportation, there is not a single government bus line, government jeepney or taxi or tricycle corporation, government shipping or airline company. But people are mobile. Those who can afford buy their own private vehicles or private boat or private plane.

Compare that in health care where there are government hospitals and clinics, government pharmacies and drugstores, and government health insurance. On top of that, there are plenty of government regulations of private enterprises and corporations in the healthcare industry, like the current drug price control of selected medicines. And yet public health problems are often more pronounced than food, clothing and transportation problems.

Why?

Competition and market dynamics respond to whatever big market failure is existing. Whereas more politics and more intervention exacerbate whatever is an ongoing government failure.

Product differentiation and market segmentation – different prices for different products and services for different people with different needs and different budget – is an excellent tool to correct any market failure. Different suppliers and sellers target their specific buyers and consumers, and the latter send certain signals (like price and quality preferences) to the former, which allow the former to adjust the products that they supply and sell to the public.

This spontaneous and quick adjustment is difficult and very slow when government comes in to politicize the delivery of certain services, like healthcare. Things become rigid and less flexible once politics comes in. The bureaucracies and rent-seeking behavior associated with various regulations and taxation get in the way as government comes in.

5. Taxation and hypocrisy

From “expensive medicines”, the government says it wants cheaper medicines, thus the “Cheaper medicines law”. And yet government slams various taxes on medicines that contribute to their high prices. There is clear hypocrisy there.

When PhilHealth was created (RA 7875, February 1995), it is explicitly stated.

“SEC. 15. *Exemptions from Taxes and Duties* – The Corporation shall be exempt from the payment of taxes on all contributions thereto and all accruals on its income or investment earnings.”

So government recognizes the distortionary impact of income tax and related taxes, that it has exempted PhilHealth and other government corporations from such taxes. So while private health insurance corporations that also provide healthcare services to the public are slam-dunked with various taxes and duties, the government health insurance corporation is exempted from such taxes and duties.

There is dual hypocrisy there. Taxing medicines that contribute to their high prices and still loudly call for cheaper medicines. Exempting a government corporation from taxes when the government wants more and higher taxes from almost everything and from everybody.

This explains, partly or largely, why the government has low moral ascendancy in expecting public support for its various programs.

6. So, is there government failure in health insurance?

Yes, there is. The same way that there is also market failure in health insurance. The only difference is that there are market solutions to market failure that are quicker to emerge if politics should step aside. Whereas government solutions to government failure results in more expensive and more bureaucratic way of solving problems.

Despite the “compulsory coverage” provision where “all citizens of the Philippines shall be required to enroll in the Program”, PhilHealth membership remains low, only 13+ million of paying members out of the 35 million employed Filipinos. If PhilHealth membership is voluntary and not mandatory, there should be less than 13+ million members, probably only one-half of that number.

