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The Best of Both Worlds?

How the Private Sector Can Contribute to Public Healthcare

The Best of Both Worlds?

With the stark divide between the private and public sectors in Singapore, can there be a more sustainable framework to integrate both, to meet growing healthcare demands? While the public sector remains the anchor of the healthcare system in Singapore, the private sector is generally considered to be more efficient at allocating resources and productive due to the profit motive. *SMA News* looks at the private sector to see how it can meaningfully contribute to public healthcare, and the challenges it might face. Dr Jeremy Lim and A/Prof Cuthbert Teo share their thoughts on how the private sector, while maintaining a patient-centric approach, can make a difference.

A Bigger Private Sector – A Good Thing for Singapore?

By Dr Jeremy Lim, Editorial Board Member

There has been an explosion of interest and investment in private healthcare in Singapore. Private healthcare providers see opportunities and investors increasingly regard healthcare positively as an attractive and relatively safe sector. This has caused concerns amongst public sector administrators and Ministry of Health officials, with some calling for a clampdown on this growth to "protect" the public sector. This at face value is peculiar, surely willing private resources poured into an area of national need is a good thing?

The "optimist"

The expansion of private healthcare capacity is good news given the urgent need to ramp up healthcare infrastructure to meet the demands of Singapore's changing demographic as well as manage the increasing rates of chronic diseases. Given this scenario, the availability of more capacity in the private sector should be viewed favourably. On the economic front, the rising affluence of neighbouring countries and demand for the sort of high quality healthcare Singapore offers presents opportunities for Singapore to capitalise on, to entrench ourselves as the medical hub for the region and create good jobs for Singaporeans.

The "pessimist"

There is however a potential downside which will largely depend on how well Singapore can integrate the public and private sectors. If simplistically seen as competition for scarce medical talent and a brain drain from the public sector, then we run the risk of a lose-lose situation where cost escalation results and "dis-synergies" with fragmentation occur. In this scenario, a bitter war for talent and patients arises with damaging wage spirals, a potpourri of deeply siloed systems with patients falling through the cracks, and unhealthy competition encouraging unethical behaviours.

It would be better for Singapore to cast aside these zero-sum mental models; we need to reframe this private sector expansion in terms of how the increased capacity can be harmonised with national healthcare needs for the benefit of all Singaporeans.

Patients. At the Heart of All We Do.

Let's go back to first principles and consider this from the perspective of putting the best interest of the patient first. What do patients want? Patients want high quality healthcare at affordable prices, an integrated framework where information flows seamlessly between medical facilities, and the best doctors regardless of public or private are available to treat the most complex conditions.

Hence, the most important question to ask about the

expansion of private healthcare is "Does it benefit Singapore?" and be pragmatic about it with no false ideologies. We should be encouraging private healthcare that publishes clinical outcomes, has transparency in pricing, uses electronic medical records and avails to subsidised patients through portable subsidies or public-private partnership models. We should be discouraging private (and public) healthcare that creates silos between different practices, does not share data openly and transparently, and seeks quick profits through over-charging and over-servicing without regard for the longer term erosion of the Singapore brand of healthcare.

Can the public and private sectors work together?

The short answer is "of course". We all want the same things – good patient outcomes, high job satisfaction and a reasonable profit margin. The public sector besides mitigating the risk of healthcare becoming a political hot potato, ploughs the margins back to support research and education, while the private sector delivers a return to shareholders. We need a healthcare ecosystem that recognises the interests of all parties and respects these interests, whether they be votes or dollars, as legitimate. Singapore's healthcare system is already creaking under the strain of an ageing and enlarging population. As Deputy Prime Minister Tharman Shanmugaratnam has said, "We need all hands on deck to manage the healthcare challenges of the future." Let's not wait for an SMRT-type misadventure to expose the strain and put patients' lives at risk.

Hence, the most important question to ask about the expansion of private healthcare is "Does it benefit Singapore?" and be pragmatic about it with no false ideologies. We should be encouraging private healthcare that publishes clinical outcomes, has transparency in pricing, uses electronic medical records and avails to subsidised patients through portable subsidies or public-private partnership models.

Dr Jeremy Lim is CEO of Fortis Healthcare Singapore. He has written about the mechanics of public-private partnerships in the Straits Times *and* Business Times *previously and is increasingly coming to the view that mental models are the real barrier to genuine public-private partnerships which can benefit Singapore and Singaporeans.*

Involving the Private Sector in Healthcare

By A/Prof Cuthbert Teo, Editorial Board Member

An ideal market economy is one where goods and services are voluntarily exchanged for money at market prices. However, in the real world, every market economy suffers from imperfections which lead to ills like unequal spread of wealth. Therefore, no government keeps its hands off the economy. Government intervention can comprise taking on roles (like providing security) in response to market mechanism flaws, regulating businesses (like banks), subsidising businesses (like scientific research), or imposing taxes (to redistribute wealth and provide services). Economically, government functions include encouraging efficiency, promoting equity, and fostering macro-economic growth and stability.

Every generation has its battleground for warring views on the role of government in economic life – and the economics of healthcare is no different. Should healthcare services be publicly (provided by government) or privately (uncontrolled by government) funded? George Bernard Shaw crystallised the argument when he said, "Although we might be justified in trusting that bakers will bake us better bread because they thereby profit, it would be madness to give surgeons a pecuniary motive to cut off your leg."

The healthcare industry has three characteristics which contribute to rapid growth – high income elasticity of demand, very rapid technological advancement, and increased insulation of consumers from healthcare prices (by third party payments). All these forces contribute to a rapid growth of expenditure on health.

All governments thus are concerned about how to pay for healthcare. The strategies might include raising revenue, pooling risks and resources, and making sure that healthcare delivery is efficient and cost effective. These strategies can rely on public sources (taxation, social insurance) or private sources (out-of-

pocket payments, private insurance).

Paradoxically, most capitalist countries (except possibly for the US) assume great responsibility for the provision of healthcare, mainly because of values like equity and fairness. But there are also reasons of efficiency, like the provision of public goods that the market will not efficiently provide, and also inefficiencies in insurance markets. These inefficiencies can arise from information asymmetry among patients, doctors and insurance companies. They can also arise from adverse selection (where low risk individuals may choose not to buy insurance because they are faced with average risk premiums), and from moral hazards (where insurance companies reduce incentives for individuals to avoid risk by healthy behaviour).

Over the years, the demand for healthcare has increased. The main drivers of increased healthcare costs are the rapid ageing of the population, the increasing range and number of interventions available due technological advances, and rising expectations. At the same time, there has been a gradual shift of the financial burden from the government to the private sector. This shift is in line with the government's approach that with catastrophic illness and access by the poor taken care of, the question "Who pays?" is not an appropriate question, because ultimately it is citizens who must bear the burden, whether through insurance premiums, employee benefits or taxation.

The fact of the matter is that countries which assume public responsibility for healthcare are experiencing runaway costs, long waiting lists, rationed access to expensive technology, and even denial of care. The trend is therefore towards involving the private sector in the provision of healthcare– partly due to insufficient government resources, and partly because government-run systems tend to be inefficient.

Singapore is unique among developed capitalist countries in its success in achieving good health outcomes at a relatively low economic cost. Singapore's life expectancy is one of the world's highest, and its infant mortality rate is one of the world's lowest. Singapore's health spending is equivalent to about 3.5% of GDP – compared to the global average of 8%, and a range of 6 to 14% in OECD countries. It has been said that the success is attributable to Singapore's health financing system, which combines individual responsibility with targeted subsidies.

The public sector provides 80% of hospital care, while the private sector provides 80% of primary healthcare. Singaporeans are entitled to basic medical services at government polyclinics and hospitals, at regulated and subsidised rates, whereas rates in the private sector are unregulated. Patients pay part of the cost, and pay more when they demand higher levels of service.

Singapore's health financing system consists of various schemes (particularly the 3Ms – Medisave, MediShield and Medifund), which are designed to promote individual responsibility, protect the poor, and address potential market failures. Medisave promotes individual responsibility because it is derived from an employee's salary, and uses co-payments and caps on fees and charges to discourage unnecessary use. MediShield and MediShield Plus are programmes where individuals can buy insurance against catastrophic illness using Medisave. To ensure that no one is denied basic medical care, Medifund was set up where the interest income is disbursed to patients who cannot pay, based on applications reviewed by medical social workers and hospital review committees.

Besides the 3Ms, other schemes include Eldercare (a fund for care in nursing homes), ElderShield (a low cost insurance to protect against severe disability, where those above the age of 40 are automatically enrolled and pay using Medisave), and direct subsidies (to restructured hospitals, polyclinics, and nursing homes). Thus Singapore's health financing system uses incentives to avoid unnecessary use of medical services, low cost insurance, and both targeted and direct subsidies.

However, there are those who argue that while Singapore's health system delivers excellent health outcomes while restraining costs, not all the success is entirely due to the financing system, but also due to the characteristics of the country (its small size, high national savings rate, high education level, high income, and a relatively young population). These factors are not replicable in many other countries.

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Currently, there are other challenges to Singapore's healthcare system. These include the need for cost containment, the push to become a regional medical hub, and ensuring

quality of care and patient safety. Theoretically, the rate of rising healthcare costs is not a problem if it is matched by a similar rate of rising national income, but this is not so in reality. In addition, Singapore faces tough times ahead, with a maturing economy, an ageing population, and globalisation (international competition and global financial instability). The Economic Review Committee recommendations like reduction of Central Provident Fund contributions (which affect Medisave) and the growth of the health sector (medical commercialisation) will affect healthcare costs.

The fundamental weakness of Singapore's cost containment policies is that while they moderate demand in the public sector and government expenditure, they do not address demand, supply, and spending in the private sector. It does not help that the major players in the private sector are listed companies, and that there are continuing efforts to make Singapore a regional medical hub (where there is a risk of expensive activity based medicine).

The private healthcare operators are set for robust growth, with an increasing share of healthcare spending, driven by changing demographics (an ageing population, falling fertility rate, labour to sustain economic growth, foreigner induced growth), rising affluence (boosting demand for advanced healthcare, shifting bias to private healthcare), and more medical travellers. These operators see Singapore (and other regional countries) as key growth drivers. Regional expansion, aggressive acquisition of land, asset monetisation, and dividend pressure will increase costs, which will eventually be passed on to consumers (patients), unless efficiency is increased tremendously. Underutilised hospital assets like beds and operating slots also increase demand, and lead to potentially inappropriate use.

Paradoxically, public health financing reforms may also increase the use of healthcare in the private sector (e.g., raising Medisave daily withdrawal limits and limits for psychiatric bills, extending Medisave use for chronic diseases and diagnostic tests, reducing co-insurance requirements and increasing claim limits, extending age coverage, reduction of subsidies for permanent residents and removal of subsidies for non-residents). Other catalysts for a shift to private healthcare services include means testing (which already indicate that many heavily subsidised patients can afford to be admitted to less subsidised wards), portability of healthcare benefits (concentrated in the public sector, extending to the private sector), and medical tourism. With medical tourism, international market competition (which will influence domestic market competition) will determine price.

With a growing demand and supply, there will be concerns of unnecessary and inappropriate care. We need to look at indicators like safety, effectiveness, patient-centredness, timely care, efficiency and equity. Professional self-regulation may be insufficient, and more regulation to protect patients and control provider behaviour might be needed.

What then is needed to achieve the goals of cost containment, and of ensuring quality and safety? This might be addressed by ensuring fair competition (to ensure correct pricing and good quality), helping consumers make the right choice (by correcting information asymmetry – e.g., by publication of indicators like pricing and outcomes), and increasing cooperation between providers (e.g., electronic medical records exchange, sharing of expensive technology like PET scanners). The key weakness in preventing the achievement of these goals is perhaps the lack of health policy research, with a rigorous and systematic collection and analysis of data.

Regulations aimed at the private sector could include ensuring coverage of essential services; preventing cherry picking; stimulating public health strategies; market intervention to ensure availability of essential products at low cost; ensuring distribution of private institutions to non-choice locations; ensuring the use of accepted clinical methods; ensuring provision of appropriate care; spreading financial risk; setting of maximum prices for procedures where necessary; enacting consumer protection laws; increasing consumer awareness of what products and services are available (including different insurance plans); and publication of quality indicators. SMA

Thoughts to share? Email news@sma.org.sg.

Dr Cuthbert Teo is trained as a forensic pathologist. The views expressed in the above article are his personal opinions, and do not represent those of his employer.