Financing a High-Performing Chronic Care System in Singapore

Donald Low
Associate Dean (Executive Education)
LKY School of Public Policy, NUS

Driving Forces in Financing Chronic Care

1. **Ageing demographics and rising citizen expectations**
   - Epidemiological transition from acute to chronic illnesses
   - Shift in consumption from the acute care sector to the primary, chronic and social care sectors
   - Rise in citizen expectation as the baby boom generation enters old age
   - Greater demands for intergenerational transfers

2. **Psychological burden of managing chronic illnesses**
   - Chronic illness prevention requires people to sacrifice current benefit for future uncertain gains
   - People tend to underestimate the risks that they would be afflicted with chronic diseases (due to the optimism bias, probability neglect, or bad-outcome denial) → under-invest in preventing chronic illnesses
   - Managing chronic illnesses is also burdensome: disciplined management incurs immediate/current costs, but the benefits are seldom immediate or salient.

Driving Forces in Financing Chronic Care

3. **Anti-senescence drugs and treatments**
   - Rise of specific drugs and treatments that slow the ageing process
   - Likely to exacerbate health inequalities; steepen the life expectancy gradient between social classes

4. **The "Cost Disease"**
   - Health and chronic care costs will rise faster than the average inflation rate
   - In the "stagnant" industries, productivity growth will lag the average productivity growth rate for the economy
   - But wages tend to rise just as fast as they do in the rest of the economy
   - Consequently, the price of services in those industries afflicted with the cost disease will rise faster than the average inflation rate.
   - Over time, these services will command an ever larger share of our incomes - whether at the household or national level.
   - Better deployment of health technologies might mitigate (but not eliminate) the cost disease

Implications for Chronic Care Financing

1. **Rising economic burden of chronic illnesses**
   - Costs to society will include not just the direct medical costs, but also the economic costs of reduced productivity of those still working, of lost capacity and non-participation in work due to premature morbidity
   - Another key component of indirect economic costs of chronic illnesses is social care, especially unpaid social care

2. **Taking a systems approach to the delivery of chronic care**
   - Chronic care has to be delivered in ways that are more horizontally connected or integrated than before
   - Historically, Singapore has tended to invest more in acute care institutions and less in primary and chronic care
   - Such an approach is inadequate for a much older population experiencing a higher incidence of chronic illnesses that need to be managed for many years
   - As much as possible, our financing system should create incentives for people to prevent the onset of chronic diseases, and to manage and treat them in the most cost-effe3ctive settings when they have such conditions

Implications for Chronic Care Financing

3. Getting the allocation of financial risks right

- Tax-financed systems – such as Singapore's – will come under greater fiscal stress
- Healthcare financing in Singapore generally efficient and sustainable, but increasing longevity and a higher proportion of older person in the population will inevitably raise national expenditure in healthcare
- State will come under growing pressure to expand its financing of healthcare
- The distribution of risks in chronic care also suggest that the state should make aggressive use of risk-pooling and social insurance
- This would mean expanding MediShield Life or augmenting it with a universal, long-term care insurance plan

Implications for Chronic Care Financing

4. **Dealing with the Cost Disease Sensibly**
   - Importance of sustaining productivity growth
   - Policymakers have to think quite differently about how all segments of society can afford good healthcare given the structural tendency of healthcare costs to rise faster than general inflation
   - As health and chronic care costs rise, government may be tempted to shift more of the costs to patients, to providers, or to private insurance in the hope that this would impose greater cost discipline in the system
   - This is misguided as such cost-shifting does not cure the underlying cost disease
   - Instead, it would lead to people cutting back of health expenditures and to excessive rationing, resulting in poorer health outcomes, higher demand for expensive acute care, and unequal access to good healthcare.