

# Korea's Recent Health Financing Experience: Change in Pharmaceutical Reimbursement by Economic Evaluations

For presentation at the Health Care Financing  
Academic Exchange, Hong Kong

December 2003

by

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Korea

## Health Care System

- Social health insurance
  - covers 96% of population
- Dominant method of payment
  - fee-for-service
  - DRG under experimentation
- Almost free choice of providers
  - weak referral channel

## Service Delivery: Dominant Private Sector

### ⌘ Private sector dominates

- ☒ has been growing rapidly for the last 40 years
- ☒ is the major provider
- ☒ has much impact on performance of the system

## Service Delivery: Private Sector

### ⌘ Service provision by private sector

- share of private hospitals: >90% of all hospitals
- clinics: all private
- public health center: provide public health services and basic ambulatory services

### ⌘ Public provider's share in hospital beds

- Hong Kong, Singapore: more than 80%
- Korea(23%), Taiwan(33%)

## Characteristics of Korean System

- ⌘ Within the social health insurance framework
- ⌘ Dominant profit-seeking private sector is
- ⌘ Reimbursed by FFS
- ⌘ Under the environment of weak referral channel

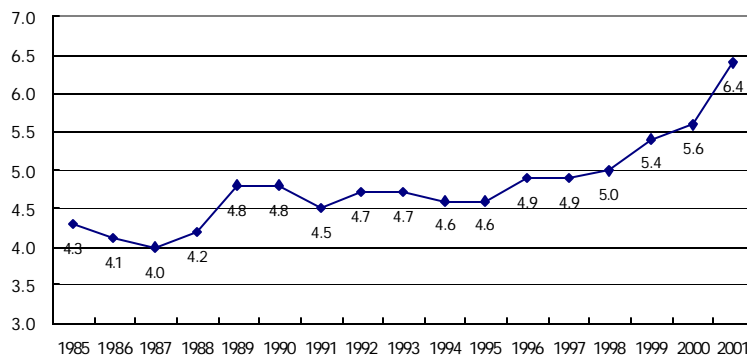
The Current Healthcare Environment Is  
Changing and Is Becoming Very Cost  
Sensitive

## Rising Health Care Costs

⌘ Health care costs are rising rapidly in Korea, due to

- ⊞ Characteristics of the system
- ⊞ Other factors common to many countries, such as
  - ⊞ population aging
  - ⊞ Innovative technologies
  - ⊞ increasing health consciousness/patient expectations

## Percentage of NHE out of GDP : 1985-2001



Source: KIHASA, 2003

# Insolvency of NHI

(unit: billion Korean Won)

	'93	'94	'95	'96	'97	'98	'99	2000	2001	2002
Revenue	4,116	4,608	5,435	6,326	7,297	7,849	8,692	9,529	11,642	13,890
Expenditure	3,363	3,869	5,054	6,413	7,679	8,709	9,561	10,538	14,051	14,651
Annual Balance	752	739	382	? 88	? 382	? 860	? 869	? 1,009	? 2,409	? 761
Accumulated Surplus	3,432	3,926	4,121	4,002	3,785	3,036	2,244	919	? 1,811	? 2,572

Source: National Health Insurance Corporation, 2003

## Health Care Financing

- ⌘ NHE(national health exp)/GDP is over 6%
- ⌘ Households are major source of financing
  - ☑ insurance exp./NHE is about 34%
  - ☑ government exp./NHE is 12%
  - ☑ direct HH payments/NHE is 54%
- ⌘ Health budget/central gov't budget is around 2%

## Health Care Financing

- ⌘ Weak public financing
  - Public share of total health expenditure('98): 46.2%
  - This includes NHI expenditure
- ⌘ High user charge
  - OOP expenditure: 43.8%
  - Raise the issue of equity to health care

## Reform in Health Care Are Considered

- ⌘ Change in prescription rule
- ⌘ Establishing patient referral channel - family doctor program
- ⌘ Reform in payment-reimbursement method
- ⌘ Strengthening public provider capacity
- ⌘ Consolidation of insurance funds

## Two Major Recent Health Reforms

- ⌘ Separation of prescribing and dispensing of drugs (SP: Separation Policy)
  - ☒ Law passed in 1994
  - ☒ Planned to be implemented in July 1999
  - ☒ Actually implemented in July 2000
- ⌘ Consolidation of insurance funds
  - ☒ Organizational merger: two steps
  - ☒ Complete by July 2000
  - ☒ Financial merger in July 2003

## Consolidation of Insurance Funds

- ⌘ Up to 1998, low economies of scale with large number of small funds (374 funds, each fund covering less than 200,000 beneficiaries)
- ⌘ To enhance efficiency on insurance manag' t, all funds were merged into a single fund
- ⌘ Inequity with different premium levels among funds was another reason for consolidation of funds

## NHI Reform for Sustainability Considered

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- ⌘ Change in reimbursement method
  - ☒ FFS – DRG -- Global Budgeting
- ⌘ Design a separate elderly care system
- ⌘ Introduction of economic evaluation into health care delivery on
  - ☒ medical treatment
  - ☒ equipment and device
  - ☒ pharmaceuticals

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## Introduction of Economic Evaluation into Health Insurance Decisions

## New Act on Economic Evaluation Introduced: Sep. 2002

- ⌘ Act: 'Guidelines for determining and adjusting new medical technologies'
- ⌘ chapter #8: Evaluation of new medical technology
  - ☒ Sec.1: on economic evaluations, the panel considers substitutability and cost-effectiveness...
  - ☒ Sec.2: based on economic evaluation, the panel determines limit price, relative values, coverage.....
- It stipulates the use of economics evaluations for decisions regarding the use of new medical technologies (drug, diagnosis, equipment)

## Current Pharmaceutical Reimbursement under NHI

- Almost all the drugs that receive market approval are automatically listed as insurance covered drugs in Korea
- Cost and effectiveness of drugs are not counted in the reimbursement decision

## Proportion of Drugs in the Insurance Reimbursement List: Late 1990s

- ⌘ Korea: nearly 100%
- ⌘ UK: 86%
- ⌘ Germany: 76%
- ⌘ Denmark: 62%
- ⌘ France: 55%
- ⌘ Italy: 50%
- ⌘ Austria: 56%
- ⌘ Switzerland: 30%

## Possible Areas of Application of Economic Evaluation: Case of Pharmaceuticals

- ⌘ To be in the reimbursement list or not
- ⌘ In determining the reimbursement level
- ⌘ Pricing
- ⌘ In classifying primary (essential) or secondary drug

## Pharmacoeconomic Guideline is Being Developed

- ⌘ Is under preparation by a government task force and a group of experts
- ⌘ The first draft for public hearing will be available in early 2004
- ⌘ Could affect the stream of insurance resources

## Pharmacoeconomic Guidelines

- Formalize and standardize information requirements
- Provide guidance for consistency and scientific rigor in outcomes research studies to be submitted
- Provide inputs (e.g., methodology framework and evidentiary standards) to pricing and reimbursement decision making process
- could may function as an additional hurdle in access to new medicines

Source: P. C. Langley. *Pharmacoeconomics*. 1999;(16(3):211-224.  
J. Hjelmgren. et al. *Value in Health*. 2001;4(3):225-250.


## Users of Pharmacoeconomic Studies

- Insuranec authority
  - Formulary decision
  - Reimbursement level
  - pricing
- Pharmaceutical companies:
  - To determine the value of a product for all stakeholders
- Clinicians
  - To provide those products that meet clinical needs
  - Medical decision making for the best care

Source: R. Taylor. *PharmacoEconomics*. 2001;19(suppl 2):33-38.

## Implementation of EE Policy

- However, actual use of economic evaluation is still not happening in Korea
  - Few professionals with experience in using economic evaluation
  - Unsatisfactory or incomplete evaluation methods and guidelines
  - Lacks a capacity of review at the government side
  - Capability of corporations to conduct research with economic evaluation needs to be developed

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- Gradual implementation of guideline is desirable
    - ☒ By category of new drugs
    - ☒ Over time

## Anticipated Impact



### ⌘ Pharmaceutical

- ☒ Financial burden for preparation
- ☒ Prolonged period of approval/reimbursement decision
- ☒ Competition on the ground of outcomes(effectiveness)

### ⌘ Insurance authority

- ☒ Purchase health outcomes, not products
  - ☒ i.e., pay more only if gain more health
- ☒ More efficient allocation of financial resources