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Paul Gray, Esq.,
Private Secretary,
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17/4/88

Dear Mr Gray, at flag

Thank you for your letter dated the 29th March, which I received recently. I have set out some comments below on the need for a reform of financing of health care and an outline of how it might operate.

Yours sincerely,
Michael Dutt.

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Cllr Michael Dutt, MD MRCP,
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INSURANCE BASED BRITISH HEALTH SERVICES

A). THE NEED FOR CHANGE.

1). Most current debate on the NHS focuses around arguments over increased efficiency or more resources. Yet both of these produce the same result, increased output. The figures show clearly that the Government's claims that output has increased already are true. Despite this, political criticism is effective on this issue, and unlikely to be solved by further increase in output alone, however achieved.

2). As Science and Medicine advance the potential demand for health services will grow among the public. This is fuelled by those in the medical and nursing professions who will point out that more and better treatment could be available. The Government relies on these same clinicians, with increased resources, to deliver the statistics on increased numbers of patients treated, who also indicate satisfaction with the service received according to opinion polls. Fundamentally it is likely that the criticisms of those working directly with patients will continue to carry weight with the public. It is most unlikely in my view that audit or changes in terms and conditions of service among doctors and nurses will refocus the debate on efficiency and away from the Government. Economic success and an aging population are further spurs to demand and public expectation.

3). It is a critical point that the NHS is tax funded and that as a consequence no one has any real sense of how much they spend on the NHS, and there is no individual choice from year to year over this spending. Against this background and one of

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rising expectations, it is easy for the opposition or health service workers to auction up the demand for resources.

4). I suggest the objectives of any change should be to devolve the decision on spending from the Government to individuals to a greater degree, in order to bring home the costs of health care and to allow individual consumers to participate from year to year in setting the amount spent.

5). In discussion on reform, the U.S. system raises fears sometimes. The U.S. has an extreme free market system, which they have been forced to temper with schemes such as Medicaid. We have an extreme Socialist solution. The European systems are somewhere between the two. The Germans do not differ only by having greater spending on private insurance. They differ also, crucially, on the public side in having a series of statutory insurance schemes. These bring home the real costs in a more direct fashion than tax funding can.

B). THE PROPOSED CHANGE.

All Government regulated health spending should be separated from public sector spending. National insurance contributions would be abolished.

There is no study on insurance system.
A State insurance company would be set up. This would offer insurance to everyone and would do so in relation to ability to pay. In the German system statutory health insurance schemes are similarly funded by policy holder premiums, but are not based on age or current health. Essentially, everyone pays the same percentage of income for insurance, so those who earn more pay more.

Each year the state company would set its premiums in consultation with subscribers. They would be invited to choose from a series of different rates and be given information on where the money might go. The state company would either set the following year's rate in relation to the responses received according to a statutory formula, or retain final discretion, having taken into account the views returned.

As a development of this ability to choose, the state company could be allowed to offer further specific benefits, (for example use of a side room when available), at an additional flat rate premium.

Private companies would be allowed to compete with the state company, provided they also offered insurance to all according to ability to pay.

Everyone would have to insure themselves with the state or an approved private company. This differs from the German system, where those above a certain income are left to make

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their own arrangements though they may use the statutory schemes if they wish. By insisting that all use the state or an approved scheme one could be certain of meeting the criticism that young high earners might opt out and obtain cover at low premiums, thereby depriving the public system of their otherwise potentially high contributions.

There would be no cross subsidy whatsoever from taxation. All public health spending would be raised from state and approved private schemes.

C). SOME QUESTIONS ON THE PROPOSED NEW SCHEME.

1). What would happen if people chose premiums which totalled less than current spending?

It could be argued this was their choice but initially however it would be prudent politically for the Government to take the power to insist that the state and approved private sector had to set premiums to raise the current level of spending.

2). What would happen if people failed to make a choice over which scheme they would use for insurance?

They would be insured compulsorily with the state company at the minimum rate.

3). What would happen, if following consultation, the state company set the rates so high that higher income earners felt that in absolute terms they were making an excessive contribution?

Given that lower income levels have to pay also this is unlikely. However this is why private companies would be encouraged to compete. To be approved they would have to accept everyone according to ability to pay and finance the health costs arising from that group of subscribers, but they could set for example a different percentage of income, subject to the provisions of C 1 above.

4). Isn't the consultation procedure a bit like a referendum and a major constitutional change?

Not really. If people choose between different motorcars they are making a choice in a virtually free market. There are particular reasons why the Government may need to be involved in the health insurance market, but anything which allows popular participation as well should be welcomed.

5). Wouldn't health costs spiral upwards?

Spending would be separate from public sector spending. If people chose to spend more of post tax income on a service this would be up to them. When they actually had to finance the consequences of their decisions they might not do so. Similarly health professionals could ask for more spending but if the

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public were not prepared to raise premiums their arguments would fall.

6).Doesn't the system depend on financing from employers as in Germany?Haven't employers in Britain voiced fears over this already?

No.This is not the German system.All funding would be direct from individual members of the public,so as to tighten the link between health spending and the individual.Current tax takes are not in marked pound notes,but it could be argued that a higher proportion of other public spending would be financed through company taxation while none would go to health.Income tax would be reduced by the equivalent of current NHS spending allowing for the abolition of national insurance contributions,to achieve a neutral effect overall.

7).Should or need the scheme cover the whole of NHS spending?

It could but it need not.Most of the political criticism centres around the hospital sector so the scheme could be introduced to cover the area of Hospital and Community Health Service spending of £11.328 billions.Traditional insurance principles work most easily in the acute sector with shorter hospital stays ,so the scheme could be further sub-divided to cover the acute hospital sector only.

8).What would be covered by the state and approved schemes?

Current NHS services to start with.Depending on the premiums chosen these might eventually cover private hospitals also,further blurring the distinction between public and private provision.

9).What about other private schemes?

People would of course be free to use these but only after they had insured themselves statutorily.The fact that the public system was clearly insurance based would probably accustom people to this type of system and lead them to insure privately or top up for increased benefits,without direct tax concessions.

10).What would happen to the current NHS structure?

This could be left as it is to start.Gradually however the influence of competing insurance companies would lead to a break up of the monopoly structure,with hospitals being owned by corporations or trusts.This would take politicians and civil servants out of running health insurance and health care and into a regulatory function which is more appropriate.

D).SUMMARY

The apparent advantages of the tax funded NHS;namely that all are covered according to ability to pay and that there is no payment at the point of delivery of the service,have mislead us

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into constructing a Government near monopoly in both financing and delivery of health care. Real costs are not appreciated by the public. The desirable elements can be reproduced through a compulsory health insurance system constructed to bring home real costs, increase popular participation in the decision making and gradually take Government out of an activity in which it need not and probably should not be directly involved.

MICHAEL DUTT.