

Research on the Difficulties and Reform Paths of Basic Medical Insurance Individual Accounts in China

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Abstract

In 1998, China established the basic medical insurance system for urban employees, combined with the individual accounts. However, disadvantages of individual accounts have gradually appeared in recent years. This paper elaborated the background and original intention of the individual accounts, analyzed the problems and causes, sorted out the typical reform modes, and finally put forward policy suggestions on the improvement of individual accounts.

Keywords

Basic medical insurance, individual accounts, reform path.

1. Establishment of Individual Accounts

1.1. Background

Since the reform and opening up policy, the planned economic system has gradually disintegrated, and the publicly funded labor insurance medical system is unattainable. On the basis of the reform practice of the pilot, in 1998, the State Council promulgated policies to create a basic medical insurance system for urban employees adapted to the socialist market economic system. Apply a system model that combines a pooled fund with individual accounts, and formally introduces individual accounts into the basic medical insurance system.

Under the system model of the combination of the accounts, the basic medical insurance fees paid by the employees are all recorded in the individual accounts, and the basic medical insurance fee paid by the employer is divided into two parts, one part is used to establish the pooled fund and the part is transferred to the individual accounts. The funds in the individual accounts mainly cover outpatient expenses, the personal out-of-pocket portion of the hospitalization costs, and the cost of purchasing medicines at the targeted pharmacies. Insured persons may use their own discretion within the scope of the relevant policies [1].

1.2. Purpose

The establishment of a combination of the accounts model aims to play the role of mutual assistance of the pooled fund, as well as the self-restraint and saving role of individual accounts, so as to make the basic health insurance system more equitable and efficient. The original purpose of individual accounts is: First, to encourage workers to pay medical insurance, and promote institutional reform. The original labor insurance is the former Soviet model of state-owned enterprises, and the employees do not pay. Set up an individual accounts to enhance the enthusiasm and initiative of employees to pay [1]. Second, to achieve the accumulation of individual health insurance funds to meet the challenges of aging. The funds of the individual accounts are used for medical consumption and special medical funds are accumulated for the insured to resolve the risk of medical expenses in old age. Third, to curb excessive medical consumption and control the rapid growth of medical costs. Set up individual accounts,

strengthen individual self-responsibility, cultivate the awareness of insured persons to save medical expenses, reduce the moral hazard, control the growth of medical expenses.

2. The Problems of Individual Accounts

The establishment of individual accounts mobilizes the enthusiasm and responsibility-sharing consciousness of the insured and realizes the transformation from the public-funded medical insurance system to the social medical insurance system. But after more than twenty years of operations, individual accounts abuses gradually exposed. Development is in trouble. Not only the accumulation and restraint function is not obvious, but also the fair efficiency is insufficient, the use of non-standard.

2.1. Individual Accounts: A Flawed System

There is a lack of fairness in individual accounts. The use of individual accounts is not in line with the principle of mutual assistance in insurance and is not conducive to the redistribution of social insurance [2]. Individual accounts are part of the basic medical insurance fund, but funds cannot be transferred between different groups of people, nor can they be transferred to pooled fund. Individual accounts lack a common altogether and cannot be spread and share risks.

On the other hand, the principle of financing individual accounts is unfair. First, retired workers do not pay insurance premiums but enjoy individual accounts benefits. Second, the employer's contribution is transferred to the individual accounts on the basis of salary. Low-income people are less resilient to risk and have less money in their individual accounts.

The use of individual accounts is inefficient. Individual accounts crowd out the size of the pooled fund and reduce the efficiency of health insurance funds [2]. The employee medical insurance fund is composed of two parts, and the medical insurance fund is transferred into the individual accounts, which will inevitably reduce the pooled fund. As shown in Table 1, the cumulative balance of individual accounts has been increasing year by year, reaching ¥ 728.4 billion in 2018, and the average cumulative balance in the ten years from 2009 to 2018 accounted for 38.9% of the total balance of employee health insurance. The higher balance level affects the ability of the pooled fund. Thus reducing the efficiency of the health insurance fund. Besides, individual accounts balances are unevenly distributed. The balance of funds in the accounts of young and healthy workers is large, and retired and chronic workers is low [3]. The phenomenon of idle and insufficient funds in individual accounts coexists[4].

Table 1. The Cumulative balance of individual accounts

Year	Cumulative balance of the pooled fund (¥100 million)	Cumulative balance of the individual fund (¥ 100 million)	Percentage of individual accounts balances (%)
2009	2661	1394	34.4%
2010	3007	1734	36.6%
2011	3518	2165	38.1%
2012	4187	2698	39.2%
2013	4807	3323	40.9%
2014	5537	3913	41.4%
2015	6568	4429	40.3%
2016	7772	5200	40.1%
2017	9699	6152	38.8%
2018	11466	7284	38.8%

Table 2. Balance per capita of individual accounts

Year	Number of employee insured (millions)	Balance per person in individual accounts (¥)	Medical expenses per person in hospital (¥)	Percentage of medical expenses(%)
2009	219.37	635	5684	11.2%
2010	237.35	731	6194	11.8%
2011	252.27	858	6632	12.9%
2012	264.86	1018	6980	14.6%
2013	274.43	1211	7442	16.3%
2014	282.96	1383	7832	17.7%
2015	288.93	1533	8268	18.5%
2016	295.32	1761	8605	20.5%
2017	303.23	2029	8891	22.8%
2018	316.81	2299	9292	24.7%

2.2. Individual Accounts Has Not Worked

The individual accounts accumulation function is not valid. The per capita balance of individual accounts is insufficient, resulting in weak resilience to risk. Table 2 shows that the cumulative balance per person in 2018 was approximately ¥ 2,299, representing only 24.7% of the per capita medical expenses of inpatients. It can be seen that the individual accounts summary of the balance although large, but the per capita balance is not enough to bear the burden of old age disease. At the same time, individual accounts funds are also at risk of depreciation. Health insurance funds are mostly banking, and the return on individual accounts is usually lower than the current rate of inflation[5].

The constraints on individual accounts are limited. Medical service information has a serious asymmetry, the main determinant of medical expenses in the provider of medical services. The patient's impact on the supply side is very weak in terms of treatment options and treatment costs. Individual accounts cannot effectively control the growth of medical expenses because they cannot constrain the demand-inducing behavior of medical service providers [6].

2.3. Individual Accounts: Difficult To Supervise

Unclear ownership of individual accounts exacerbates moral risk and the motivation for capital withdrawal. Individual accounts funds have funded attributes and can only be used for medical expenses. On the other hand, individual accounts funds can be inherited and belong to private property. Unclear property rights of individual accounts make people expect the present value of future wealth skewed. Therefore, leading to the blind expenditure and waste of funds, prompting the insured to overuse medical resources [2].

In 2016, the National Audit Office of China conducted a special audit of health insurance funds in some areas, surveying 2002 targeted pharmacies. ¥ 140 million of individual accounts funds were withdrawn in cash or used for expenses such as the purchase of daily necessities, involving 539 targeted pharmacies. Second, there are difficulties in regulating individual accounts. The use of individual accounts involves the insured persons, medical institutions, pharmacies, commercial banks and other interests [5].

3. Reform Practice of Individual Accounts

From the above analysis, the system of individual accounts is flawed, inefficient, and difficult to regulate. Account reform is imperative, and China's provinces have launched reform exploration. There are two modes of reform practice, weakening and activating individual

accounts. Weakening mode: gradually reduce the size of individual accounts funds, and even cancel individual accounts. Activation mode: Expand the scope of individual accounts use or beneficiaries.

3.1. Weakening Mode

The model reduces the balance of funds in individual accounts by modifying the accounting method for individual accounts. In 2010, Chengdu City adjusted the standard for the entry of individual accounts for medical insurance for employees. After all personal contributions are included in the individual accounts, the employer's transfer rate shall be reduced by 0.01%. In 2018, Zhuhai City implemented the new regulations on the allocation of individual accounts, simultaneously reducing the proportion of individuals and employers to transfer, so that the average proportion of individual accounts for health insurance decreased from 53.7% to 49.7% [7].

Another option is to cancel the individual accounts to replace some of the functions in the outpatient co-ordination. In 2008, Dongguan City took the lead in establishing a unified social basic medical insurance system, the implementation of outpatient and inpatient co-ordination throughout the city. All employees do not have individual accounts, and their staff out-patient funds are raised from employers, employees and the government. At the same time, Dongguan City to improve the level of community health services, and with a strict community first consultation, step-by-step referral and two-way referral system. In that year, Dongguan city insured people enjoyed basic medical insurance treatment of 23.9158 million, of which community outpatient settlement (including referral) 23.1315 million.

3.2. Activating Mode

This reform expands the scope of payments and improve the utilization of funds in individual accounts. Most regions extend individual accounts payments to health care products, medical devices, commercial health insurance, etc., thus optimizing the use of balance funds. Xi'an individual accounts can pay the retail pharmacy health food costs, Guangxi individual accounts can pay for drugs, medical equipment, medical materials, disinfection supplies and health food costs in the retail pharmacy. In 2016, Shanghai explored the pilot of individual accounts purchase commercial health insurance. The insured person may voluntarily purchase commercial medical insurance agreed to by the municipal government for the person who has the balance funds. About 82,000 people in Shanghai purchased commercial health insurance in 2017.

Another way is to expand the range of beneficiaries and achieve family solidarity. Extending the beneficiaries of individual accounts to families, the model adjusts the function of individual accounts and acts as a mutual aid. In 2015, Guangzhou implemented a reform policy, and the balance of funds can be used to pay for the medical expenses of relatives. In 2016, Zhejiang Province began to introduce family assistance in individual accounts, allowing it to pay basic medical insurance premiums for spouses, children and parents (close relatives) over the years. Under the that policy, a total of 530,000 people benefited in 2017, with the individual accounts balance fund spending ¥ 570 million.

4. Conclusion

The weakening model reduces the size of individual accounts funds and expands the capacity of the pooled fund, thus enhancing the level of protection of the pooled fund. The activating model reduces the balance of funds in individual accounts, optimizes the use of the means, and spreads the risk of disease among relatives. Obviously, both models are trying to control and reduce the size of individual accounts funds, strengthen the role of basic medical insurance mutual assistance and spread risk. The 13th Five-Year Plan for Deepening the Reform of the

Medical and Health System proposes to "improve individual accounts and carry out the co-ordination of outpatient expenses". In the long run, it is the general trend to phase out individual accounts and establish outpatient co-ordination.

In the process of gradual reform of the phasing out of individual accounts, the system model of consolidated accounts will continue for some time. During this phase, transfers and balances of individual accounts should be reduced and the size of funds in individual accounts reduced. Simultaneously promote the work of outpatient co-ordination, and finally establish a sound outpatient co-ordination.

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