

Spectre of ageing population worries economists

Having achieved so much in extending health-care coverage over the past 30 years, the Republic of Korea is faced with ballooning costs from an ageing population. Lee Ji-yoon reports.

Eighty-one-year-old Lee Yang-soon remembers how things were before the Korean War (1950–53). “Many women died giving birth,” she says, adding that, even after the war, health services were limited. Most pregnant women did not receive prenatal checkups and gave birth at home. “Even when babies were born healthy, some of them died without the exact cause of death being verified,” Lee says. Other health-care services were also poor then. “I was suffering from a skin disease. The medical costs were too expensive and the drug didn’t work well. I used to apply a Japanese ointment that my friend who travelled to Japan frequently bought for me.”

It took another 20 years for the situation to begin to change. In 1976, the government introduced the National Health Insurance (NHI) scheme, obliging companies employing more than 500 people to offer the scheme. In the ensuing decade, this obligation was extended to smaller companies, then government and private school employees and finally the self-employed, who were brought under the umbrella of mandatory national health insurance in 1989. Running parallel to the NHI, the Medical Aid Program, a government-funded public assistance scheme, was established in 1977 to provide free medical insurance coverage to eligible low-income individuals, about 3% of the population in 2008.

In the past 30 years, average life expectancy in the Republic of Korea increased from 64.8 to 78.5 years – close to the average among member countries of the Organisation for Economic Co-operation and Development (OECD). Infant mortality also improved, from 27 deaths per 1000 live births in 1977 to 5.3 per 1000 in 2007, better than the OECD average of 6.1. “Several factors may have contributed to the overall health improvement of people in the Republic of Korea, but the implementation of the health insurance system seems to be one of the most decisive factors,” says Seo Nam-kyu, a research fellow at the Institute for National Health Insurance, an affli-

ate of the National Health Insurance Corporation.

Lee Yang-soon’s daughter-in-law, Lee In-sook, born in 1958, would be the first to agree. A cooking teacher at a local food institute in Seoul, Lee In-sook gave birth to her two daughters in 1983 and 1987 and the cost of prenatal care was never a concern. “I felt no financial burdens when I was pregnant,” she says. “I visited hospital every month to have my baby checked.” Her first daughter was born naturally but with her second she needed a Caesarean section, and for that she had to meet the entire cost of almost 1.2 million won (approximately US\$ 1000). Two years later, when the mandatory national health insurance programme started, it covered 50% of the cost of Caesarean sections, and it now pays up to 80% of the total cost.

Sharing the cost of care is a generally accepted fact of life in the Republic of Korea where, according to the OECD, the total proportion of household expenditure on health care, including payments into health insurance, stands at 10.5% – less than the OECD average of 12.9%. But it is

a system with obvious limits. Cancer patients, whose treatment might involve multiple surgical interventions, chemotherapy and a prolonged period of hospitalization, may face huge bills as the NHI covers only 75% of the cost. Lee In-sook, who lost both her mother and a sister to cancer, considers additional private health insurance a necessity, even though it is expensive. Last year her mother-in-law had hip replacement surgery. While the NHI covered 50% of the cost, the family shouldered the remainder.

The Republic of Korea has the highest out-of-pocket spending of any OECD country, with 36% of total health expenditure coming directly from patient payments at the point of service in 2007. Inevitably, this results in unaffordable bills for some: in 2007, an estimated 3% of all households in the country suffered catastrophic expenditure, defined by the World Health Organization as an obligatory disbursement greater than or equal to 40% of residual household income after basic needs have been met. Seo Nam-kyu points out that, although it is still high, out-of-pocket spending



Three generations (from left): Lee In-sook, aged 52, her mother-in-law, Lee Yang-soon, 81, and daughter Paik Soo-ryun, 28.

is on a declining trend from a peak of 60% of total health expenditure in 1989, to 36% in 2007. Also, there is a yearly maximum of cost-sharing beyond which people do not have to pay.

There are two considerations here: one is health-care costs generally; the other is the proportion of those costs met by people out of their own pocket. On the costs front, there is concern. While total per capita health expenditure stands at only US\$ 1688 (compared with an OECD average of US\$ 2984), health-care expenditure is growing at 8.7%, which is faster than in any other OECD country (Turkey came second, but from a much lower base) and more than double the OECD average. A more chilling growth curve is revealed by the National Health Insurance Corporation, which reports a ten-fold jump in health expenditure from approximately US\$ 2.4 billion in 1990 to US\$ 29 billion in 2008; growth in the insured population meanwhile increased from 40 to 48 million.

There are several factors driving expenditure, including a rise in salaries and services covered, as well as over-reliance on high-tech medicine, over-prescription and high use of health facilities are all cited. The National Health Insurance Corporation records show that the number of hospitals and pharmacies nearly doubled over the past 20 years and, according to the



Lee Yang-soon relied on her family to help pay 50% of the costs of hip replacement surgery.

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World health statistics 2009, more than 37% of babies are born by Caesarean section. For Yang Bong-min, a professor of the School of Public Health at Seoul National University, a lack of regulatory rigour is at the heart of the problem. “Compared with other developed countries, the nation has been lenient towards over-treatment and over-diagnosis and has failed to control the whole system strictly,” he says.

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Yang Bong-min

In 2000, the government introduced reform that separated drug prescription and selling functions in the hope of reducing over-prescription and costs of medicines. But, according to Yang, the reform was inadequate and weak. “Due to pressure by doctors, pharmaceutical companies and other powerful stake-holding groups, no practical change has been made in the nation’s medical system or in people’s health spending,” he says, adding that doctors continue to prescribe expensive brand-name drugs rather than generic alternatives. Seo, from the Institute for National Health Insurance, believes the private sector needs greater regulation.

The need for reform is becoming more urgent as the Republic of Korea is predicted to become an “aged society” by 2018. According to the Ministry for Health, Welfare and Family Affairs, people aged 65 and older accounted for 10.7% of the total population as of July 2009 and the proportion is growing. For Yang Bong-min, this changing demographic is going to have a huge impact in future health financing. “If the elderly population continues using



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medical services and drugs at the current speed, medical expenditure in the Republic of Korea could surpass that of Japan in 2050,” he says. According to the *World health statistics 2009*, Japan spends around US\$ 2800 per capita while the United States of America spends US\$ 6700 per capita.

“A financially separate insurance system supporting elderly people is needed before the private sector dominates medical services for senior citizens,” says Yang. “The current long-term care insurance [for people aged over 65, funded by contributions as well as state and local governments] still has limits in financing.” According to Seo, the National Health Insurance Corporation continues to look for ways to secure financial resources, such as from taxes on liquor and tobacco, and streamline costs through a focus on disease prevention that includes promoting regular health check-ups for the elderly.

The growing ranks of the elderly are not only expected to change the rules by force of numbers; they will also figure heavily in the inevitable public debate. “Elderly people in the Republic of Korea tend to participate in politics actively. Along with their number, their political power will become more apparent within a few years,” Seo says, adding that legislators will have to give more thought to designing policy that reflects elderly people’s needs. ■