

The NHS Plan

A plan for investment
A plan for reform

A Summary

2000

Chapter 3
**Options for
funding
healthcare**

Funding the NHS

Current sources

- **General taxation**
 - sales tax, income tax, etc
- **‘National Insurance’**
 - employees & employers
 - +1% earmarked (post-‘Wanless’)
- **Out-of-pocket charges**
 - co-payments for pharmaceuticals
 - (not insured)
- **Generated income**
 - sales of land / assets

Tax funding: sustainable?

Alternative options

- Increase private medical insurance
- Increase charges / co-payments
- Adopt social insurance
- Define 'core services' & exclude 'non-core'

Efficiency criteria

Costs

administrative; fragmentation;
deadweight costs promoting change

Incentives within healthcare, for:

cream skimming; adverse selection;
supplier-induced demand;
economising (generics etc);
investing (eg in prevention)

Incentives in wider economy, for:

working; earning; productivity

Equity criteria

Who pays more?

rich/poor; young/old;
healthy/unhealthy

Exemptions

produce 'cliff edges' &
high marginal 'tax' rates

Needs-based / access

or income-based / pro-
cyclical

Assessing the alternatives

Criteria	More PMI	More charges	Social insurance (Bismarck)	Smaller “core” service	More tax
Costs	Deadweight Admin Purch’power	High admin cost	?	Setting boundary	Low cost Purch’power
Healthcare incentives	SID	Less prevention?	SID	?	Less SID
Economic incentives	[OK]	[OK]	Payroll taxes	?	[Income tax]
Equity - \$	Regressive	Regressive “cliff edges”	[Depends on design]	Regressive	Progressive
Equity - H	Regressive	Regressive	[OK]	Regressive	Progressive