Problems and Prospects in Medical Insurance System Development

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Abstract. China has experienced remarkable economic growth since its reform and opening-up; the gross domestic product and residents' disposable income have both increased, and the disparity in income distribution has also come to light and become a common concern for all facets of Chinese society. China has already surpassed low-income nations in terms of income level. The level of national welfare should be raised even when the economy is expanding with excellent quality. This essay talks about how China's health insurance system has evolved and how it might be improved to better the lives of its citizens. This paper compiles and analyses the development process and policies of health insurance reform. The effectiveness of the program is assessed by examining if it has raised inhabitants' quality of life and reduced the disparity in income. Moreover, The divergence of economic and policy development between urban and rural areas, and, additionally, the government management fragmentation, are two primary challenges encountered in the implementation of the program. These issues are brought on by the economy's stage of development and the long-standing customs of the policy-making process. The social health insurance system must precisely assist special groups, expand fund investment, enhance social security mechanisms, and foster harmony between urban and rural areas in order to fulfill its mission of fostering social fairness.

Keywords: Health insurance system; welfare; Urban-Rural Integration.

1. Introduction

This paper will organise and analyse the development process of health insurance reform policy using the methods of feature analysis and trend analysis. The main difficulties encountered in policy implementation will be discussed, and the common needs of policy implementation subjects will be understood. The paper will also analyse the causes of formation and determine the themes and application directions that should continue to be focused on in the future.

China's economy has grown significantly since the country's reform and opening-up program was put into place. However, this growth has also exposed underlying issues such as uneven development, particularly evident in the significant income disparity among residents. This income gap is considered a notable structural contradiction. The Gini coefficient, an internationally recognized indicator used to measure income inequality, provides insight into this disparity. China's Gini coefficient in the middle of the 1980s was 0.16. By 2000, it had increased to 0.44, reaching a high of 0.49 in 2008 [1]. China's Gini coefficient has already exceeded the United Nations warning line of 0.4. The excessive disparity in income distribution can lead to a series of social conflicts and can also lead to a decline in aggregate social demand and slower economic growth. Social security is widely recognized as a crucial mechanism for regulating income distribution. It is widely agreed that social security has a "positive" impact on how income is distributed.

China's social security system, which has been growing for more than 60 years, has finally developed a comprehensive social security system that includes social insurance, social assistance, social welfare, and welfare and resettlement modules. An essential component of social security is health and social insurance [2]. T The Central Committee of the Communist Party of China and the State Council's Opinions on Deepening the Reform of the Medical Security System, released on February 25, 2020, make clear the critical importance of an effective mechanism for operating medical insurance funds to the maintenance of the medical insurance system [3]. Similar to this, the "14th Five-Year Plan for Universal Medical Security" emphasized the sustained emphasis on

bolstering the supervision of medical insurance funds and enhancing their use effectiveness and was approved by the State Council on September 15, 2021 [4]. Given that the basic medical insurance system for urban and rural inhabitants directly affects the wellbeing of more than one billion people, the effectiveness of its fund operation is crucial to the security and long-term viability of the system.

Since 2007, China's social medical insurance system has gradually expanded to include basic medical insurance for urban workers, basic medical insurance for urban residents, new rural cooperative medical insurance, and medical assistance for both urban and rural inhabitants [5]. By the end of 2013, China's medical insurance system had made tremendous advancements. There were 274 million urban employees with medical insurance, and 296 million urban and rural inhabitants were also insured. Additionally, the number of new farmers' cooperatives with insurance coverage reached 802 million. These figures indicate that the participation rate of residents exceeded 95%. The goal of attaining universal basic health insurance has thus been mostly achieved [6]. Nevertheless, as urbanization progresses and flexible workers frequently move between regions, certain issues have come to light regarding the dual urban and rural medical insurance system. These issues include the duplication of insurance coverage, the ineffective coordination between medical insurance in urban and rural areas, and the widening gap in medical coverage levels. These drawbacks have gradually surfaced due to these factors.

The purpose of this study is to look into the difficulties with health insurance implementation. It may be possible to resolve economic inequalities in development and raise population quality of life by making the health insurance system more operationally efficient.

2. History of Medical Insurance System

Since the adoption of the reform and opening-up policy, the development of China's medical insurance system may be divided into four separate phases: reform and exploration, initial establishment, ongoing improvements, and deepening reforms.

2.1. Reform and Exploration

In the early 1980s, in line with the economic reform and the reform of state-owned enterprises, the reform of China's medical insurance system was mainly focused on controlling medical costs and establishing a social medical insurance system with shared responsibility. The reform exploration was carried out in a gradual manner. Some enterprises and units promoted spontaneous reform with medical cost control as the core. Subsequently, certain local governments started actively participating in the medical insurance system‘s reform. The concept for the fundamental health insurance system was laid out in the Decision on Several Issues Concerning the Establishment of a Socialist Market Economic System adopted by the 14th Central Committee of the Communist Party of China in 1993 during its Third Plenary Session. This decision provided crucial guidance and set the direction for the reform of the medical insurance system. Pilot reforms have been carried out one after another in various regions.

As a result of the reform of the rural economic system, the rural cooperative medical system declined rapidly. The proportion of administrative villages practising cooperative medical care nationwide dropped sharply from 90% in 1976 to 4.8% in 1986 [7]. In the 1990s, the Chinese government made efforts to address the growing healthcare burden faced by farmers. To alleviate this burden, the state actively promoted the restoration and reconstruction of the rural cooperative medical care system. Several policy documents were issued during this period. However, despite these efforts, the overall impact and effectiveness of these measures were limited.; in 1998, the proportion of rural self-funded medical care was as high as 87.44% [8], and the medical burden of farmers was heavy.

During the exploration phase of the health insurance system reform, the main purpose was to promote and adapt to the economic system reform and to promote the social reform of the health insurance system. The government followed a bottom-up, local-to-central reform path during the process. The primary components of the reform are increasing medical cost management, developing

a medical cost-sharing mechanism, and vigorously supporting the reform of the publicly financed healthcare and labor insurance healthcare systems. In the reform, the government should focus on mobilising local enthusiasm, carry out comprehensive pilot exploration, and form a variety of reform models to lay an important foundation for the next stage of the system and play an important role in the advancement of the economic system reform.

2.2. Initial Formation

Since the late 1990s, China has made gradual progress in establishing and enhancing its medical insurance system. A framework for a distinctive basic medical insurance system compatible with the market economy has been initially developed. The basis for urban workers' medical insurance coverage was formalized in 1998. A new rural cooperative medical system was established for people of rural areas in response to the SARS outbreak in 2003. The State Council prioritized the gradual rollout of a basic medical insurance program for city dwellers in 2007, with an emphasis on serious illnesses to assist those in need, the government provided subsidies to cover the required family contributions for enrollment in the system. Furthermore, separate urban and rural medical assistance systems were established to alleviate the financial burden of healthcare for low-income families. These medical assistance systems primarily support individuals facing significant medical expenses in addition to their medical insurance coverage. The overall goal is to strengthen these systems while aligning them with the evolving socialist market economy.

2.3. Continuous Improvement

The "Opinions on Deepening the Reform of the Medical and Health System" were published by the State Council and the Central Committee of the Communist Party of China in March 2009. The urgency of establishing and enhancing a multi-level medical security system, with a focus on reforming the medical security system, was emphasized in this instruction. The creation and full implementation of a comprehensive medical insurance system for people of both urban and rural areas were among the main goals. To achieve this, the government would procure critical illness insurance from commercial insurance institutions and explore the development of a critical illness insurance system for urban and rural residents. The aim was to enhance medical insurance coverage for residents, provide better protection against major diseases, and alleviate the burden of such diseases. One suggestion was to create a special fund for critical illness insurance by allocating a fraction or fixed sum from the new agricultural cooperation fund and the medical insurance fund for urban inhabitants.

In July 2015, Chinese government issued another document that emphasized several areas for improvement, including fundraising mechanisms, enhancing security levels for residents, strengthening institutional connections, standardizing contracted services, and implementing strict institutional supervision and management. The objective was to advance the design and implementation of significant medical insurance systems. Additionally, systems in urban and rural areas were intended to be actively integrated and improved. Another important aspect was the reform of basic medical insurance payment methods, while also advocating for real-time settlement of medical treatment for individuals from different regions within the local area..

2.4. Deepening Reform

Since the 19th National Congress of the Communist Party of China, significant efforts have been made to comprehensively reform the medical insurance system, aiming to optimize its design and governance methods and promote the high-quality development of medical insurance. The direction of reform has become increasingly clear. The release of the "Opinions of the Central Committee of the Communist Party of China and the State Council on Deepening the Reform of the Medical Insurance System" in 2020 emphasized the urgent need to accelerate the establishment of a multi-level medical insurance system that covers the entire population. This includes coordinating urban and rural development and clarifying the roles and responsibilities of different government

departments. Moreover, the potential of medical insurance in poverty alleviation should be fully realized, providing appropriate and sustainable protection for individuals and families living in poverty. The role of medical insurance in poverty alleviation should be effectively utilized throughout the process.

3. Analysis of Existing Problems

3.1. Inefficient Operation

Between healthy and sick groups, as well as between high- and low-income groups, an equitable basic medical insurance program may help control economic redistribution [9]. Glenn conducted a study on the impact of the medical insurance system and tax system on income redistribution, using Sweden as a representative of the welfare state. The results showed that the medical insurance system significantly lowered the Gini coefficient and was responsible for nearly 80% of changes in income distribution. In comparison, the tax system accounted for approximately 10% of income redistribution adjustments [10]. Ervik's research revealed a notable correlation between the health insurance system and the reduction of the Gini coefficient. The findings indicated that the health insurance system played a substantial role in promoting fairness in income distribution among the population, accounting for 40% or more of the positive effect [11].

The shift of money from healthy people to patients and from young to elderly people is the essence of basic medical insurance [12]. In the existing research results in China, there is a viewpoint that medical insurance has a positive role in reducing income inequality. For example, Liu Na and Wu Yi pointed out that the risk-sharing mechanism has made China's medical insurance system a good regulator of household income redistribution overall [13]. However, another view is that social medical insurance has a reverse income redistribution effect; Chu Kejia discovered, for instance, that social medical insurance has widened the income difference among people, and the effect of the reverse adjustment is more pronounced in the eastern region [14]; Li Yaqing further noted that basic medical insurance for urban employees results in a phenomena of reverse redistribution, where the wealthy are subsidized by the poor [12]. Other scholars put forward different views from the first two, such as Liao Chuhui, Gan Wei and Richard Low. They concluded that medical insurance needs to have the ability to regulate income redistribution by studying the data of rural areas in western China [15].

When compared to the results of international research, domestic research still demonstrates that the impact of medical coverage on the system governing income distribution in the Chinese Mainland is minimal, despite being constrained by the choice of regional data and the influence of research methodologies. Healthcare services are an expensive necessity, and an inadequate medical insurance system may plunge impoverished families into poverty. The significance of basic medical insurance for lowering poverty and preserving social stability in China's social security system cannot be understated.

3.2. Urban-rural division

The health insurance system, as a component of social security, has the potential to contribute to income distribution regulation and enhance the overall quality of life. However, previous studies have highlighted the imbalanced impact of the health insurance system on regional income distribution. It has been observed that poorer regions are not adequately served. Basic health insurance, as a critical policy tool, is expected to effectively address income disparities. Unfortunately, disparities in policies and uneven development of primary health insurance in non-urban and built-up areas have led to in a health insurance system that has a counterproductive income redistribution effect.

First, subsidies for low-income groups still need to be included. There is not enough publicity about the medical insurance scheme, and some rural families do not know enough about medical insurance. This has led to some families not taking advantage of health insurance. Second, implementation is inadequate and does not truly reach the families most in need of assistance. Third,

the policy is not sufficiently developed to provide long-term stable protection for low-income families. Although in the short term, a certain amount of subsidy can help low-income families meet their urgent needs, in the long run, this still does not assist them in escaping poverty.

China's medical insurance system has long had numerous systems running concurrently since it is used to a dual-track system of urban and rural medical insurance systems. Urban and rural residential medical insurance has been integrated at this time, however the integration process has again led to numerous contributions and treatment regulations inside the system, creating yet another type of system division. Conversely, the unequal distribution of health resources across urban and rural areas and regions has also led to health inequality among Chinese citizens as a result of the objective restriction.

4. Recommendations and Outlook

First and foremost, in order to remedy any gaps in medical insurance coverage, the protection of special groups should be enhanced and medical insurance coverage should continue to be expanded. To strengthen the motivation and allure of the medical insurance system, the system design must be improved, and the policy should appropriately raise the level of medical insurance treatment. To increase the number of people covered by health coverage and to prevent and reduce the phenomenon of being unable to take advantage of medical insurance, the issue of medical insurance when seeking medical treatment in different locations must be improved. The government should use modern information technology tools to promote and publicise health insurance policies. In addition to that, the government needs to provide support to low-income and poor people to pay for schooling and otherwise subsidise their livelihood. This will help prevent poverty due to illnesses caused by the lack of health insurance.

Second, the policy ought to create a fair responsibility-sharing structure and improve the medical insurance investment mechanism. The government should strengthen data accumulation and quantitative analysis of basic medical insurance, gradually reform fixed contributions for residents' medical insurance, and improve the system for sharing contribution responsibilities between employers and employees. Additionally, the government should increase investment in medical assistance, provide greater support for vulnerable groups' contributions, and enhance central government financial assistance for medical aid in central and western regions, with the goal of achieving full availability of the basic medical insurance system.

Thirdly, policies should enhance the model of basic healthcare coverage, strengthen its integration and coordination, and foster more effective collaboration among various departments. The government should explore individual account family sharing, enhance the functionality of basic medical insurance individual accounts, and improve the efficiency of fund utilization. Efforts should continue to bridge the gap between employee and resident medical insurance systems and treatment levels through the enhancement of the integrated system for basic medical insurance among urban and rural residents. Furthermore, efforts should be made to enhance connectivity between different health insurance systems and between health insurance and medical assistance, defining different system’s responsibilities to establish a well-coordinated health insurance framework that alleviates the healthcare burden on low-income families and individuals.

Finally, the policy should strengthen treatment compensation and further alleviate the medical burden on participants. Improvements in the expenditure structure of the fund should be pursued, with the government establishing a comprehensive health insurance compensation mechanism that covers preventive medical expenses, major diseases, and hospitalization. Additionally, the payment methods of medical insurance should also be reformed, aiming to streamline procedures for seeking medical treatment across different regions by establishing a robust unified medical insurance information system.

5. Conclusion

This paper aims to examine the challenges and contradictions encountered in the development of the medical insurance system, identifying their causes through a comprehensive analysis of its historical evolution. The difficulties can be classified into two main aspects: the disparities in urban-rural economic and policy development, and the fragmented nature of government management.

The development of the medical insurance system has been intertwined with economic progress. The disparities in economic development between urban and rural areas have influenced the growth of the medical insurance system, which in turn impacts overall economic development. Inconsistencies in the medical insurance system between urban and rural regions have resulted in disparities in the protection of rights and benefits for residents. Rural areas, especially those facing economic challenges, experience a higher risk of poverty due to medical expenses, highlighting the need for adequate medical insurance coverage and exacerbating the urban-rural imbalance. Additionally, the presence of multiple parallel health insurance systems has caused confusion in their positioning and coordination.

To address these issues, it is necessary to enhance insurance coverage and utilization, implement targeted policies to assist individuals experiencing poverty, improve policy mechanisms, and increase capital investment. However, it should be noted that future medical insurance policies will continue to face various challenges, influenced by factors such as geographical and economic disparities. During the policy implementation process, new contradictions and problems may emerge. The primary concern remains the need to address the existing imbalances in development. To effectively tackle this issue, a thorough examination and analysis of various aspects of policy implementation are required, along with ongoing policy adjustments to align with the evolving development landscape.

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