

Healthcare Reform in Urban China

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Abstract

After the People's Republic of China was founded in 1949, urban people who worked for the government and its enterprises were offered free healthcare. This benefit continued after their retirement. Due to the characteristics of socialism, a large majority of the urban population were included in this free healthcare system. The past 16 years, however, have seen a dramatic change in this coverage, significantly influencing urban living standards. This paper will discuss the causes, consequences and current adjustments in medical care reform. The impact on the daily lives of the urban elderly will also be the focus.

Background to the Current Landscape of Urban Medical Care

In 2009 China announced new strategies for reforming the medical care system. Planned changes and adjustments build partly on the previous reforms that began in 1994. As well as addressing certain remaining problems from the 1994 reforms, the changes target new issues created during the process of economic development and focus on current healthcare concerns. One such concern is the shortage of doctors at national-level hospitals and the very large population of patients requesting treatment at these public hospitals. Allowing private facilities to operate is one way of relieving pressure on an overburdened public system. Before 1994, there were no private clinics/hospitals offering medical services in China. Subsequently, a number of private hospitals have been established, but they are expensive. Even with health insurance, patients pay more for medical services at a private hospital than at a public one.

China's public hospitals are officially categorized into three different levels: national, city and local. Capacity is limited. National-level public hospitals, located in a few large cities such as Beijing or Shanghai, have more well-known doctors and advanced medical facilities. Many patients and their families would prefer care at national-level hospitals, especially when patients suffer from serious illness. But the high demand for service has resulted in an inadequate quantity of beds and a shortage of doctors and nurses. Families who cannot help care for their hospitalized relatives have to hire others to do so. In addition, healthcare reforms and the rising cost of medication have resulted in patients paying more out of pocket.

With the recent announcement of additional strategies for reform, if all the proposed changes can be realized, it is anticipated that the cost of healthcare to the individual will decrease each year. In the near future, the proportion of medical expenses paid by the government and publicly funded healthcare plans will increase and is expected to cover a large percentage of the total medical cost for individuals by 2020. Currently, the government pays 17% of medical expenses, publicly funded healthcare plans contribute 29% and individual out-of-pocket expenditures are 54%. It is anticipated that the coverage from publicly funded healthcare plans will increase to 48%, financial support from the government will be 32% and the individual's expense will decrease to 20% (Cai 2006). It is also probable that both private and public hospitals will continue to exist (Zou 2009) and will be able to serve more people in need. This coexistence will result in growth in the number of for-profit and not-for-profit hospitals. It is believed that by 2020, problems in efficiency of hospital services will be solved and drugs will be more affordable (Zou 2009). Health insurance coverage will soon increase, too. Projections show that by 2011, more than 90% of Chinese in both urban and rural areas will have basic health insurance (China.org.cn 2009). These planned changes to the healthcare service describe a promising future. A summary of China's healthcare system and its reforms will explain why such adjustments are required.

China's Urban Healthcare System Since 1950

Under the system that began in the early 1950s, healthcare services were provided under two different vehicles: a rural cooperative medical care system and an urban medical care system. In rural areas, where the population was involved agricultural activities, medical care was not a free-of-charge system. Because it differs greatly from the urban system, the rural system will not be the focus of this paper.

Prior to 1994, urban medical care was free to anyone who worked for the government and its enterprises. Following the characteristics of socialism – ownership by the nation's people – a large majority of the urban population was included in this free system. People paid only a registration fee when hospitalized; they were not charged for seeing a doctor or receiving prescriptions. The registration fee was not co-pay but was minimal: in the late 1980s, it amounted to ¥0.15 (Chinese yuan; currently two to three US cents). At that time, people in China received very low salaries. For example, a new college graduate earned a monthly income of ¥56 (a little more than eight US dollars today). Although Chinese people did not earn a great deal, the ¥0.15 was only small percentage of their income and was quite affordable, as it was the only fee for which the patient was responsible. The registration fee today is still considered relatively low, equivalent to one to two US dollars on average, depending on the professional level of the doctor. The current issue, which has become critical, is not the registration fee but the out-of-pocket expenses for co-pay and prescription drugs. The cost of medical care has increased dramatically since the 1994 reforms.

Changing Demographics and Their Impact on the Healthcare System

China's changing population is making a significant impact on the medical system. When the system was introduced in the 1950s, the Chinese population was on average young, and the group of elderly people was relatively small. In the ensuing 40 years, however, the number of people eligible for free healthcare has grown significantly. The population has increased from around 563 million in the early 1950s to over 1.3 billion today. Urbanization has also accelerated in the last two to three decades. In addition, with the increase in life expectancy in China, healthcare for the elderly has become an even more pressing issue, and many new concerns have arisen.

First among these concerns is the growing number of people in urban areas. Originally, the free healthcare system covered a majority of urban people because they worked for the government or its enterprises. At the end of the 1980s, an estimated 150 million people, including both workers and retirees, had coverage (Chen 1994). Second, only a small proportion of the total population had access to free healthcare. At the end of the 1980s, China's population exceeded 1.1 billion people, and 26.2% of the population, around 300 million, lived in cities. None of the approximately 800

million rural residents had access to free healthcare, and only about one half of city dwellers had coverage (Chen 1994). Living in an urban area did not mean free healthcare. Third, the system was often abused. For example, some people wasted prescription drugs because they were free of charge. Fourth, the most serious issue was that a small proportion – around 13% – of China's population was enrolled in the system yet consumed a large percentage of the national revenue. According to Song (2001), the total amount spent on the free healthcare system in 1978 was ¥27 billion (about 3.9 billion US dollars). This increased to ¥774 billion in 1997 (about 112 billion US dollars). Put another way, the cost of free healthcare in 1997 was 28 times higher than in 1978, yet China's total national revenue increased by only about 6.6 times in the same period (Song 2001). The increase in healthcare expenditures for the free system had become a heavy financial burden in the process of China's economic development.

There are also many other social reasons for reforming the system. A few examples include rapid population growth, recent economic reforms, the growth of urban areas and a rapid increase in the number of people with coverage. Growth was especially rapid from the late 1980s to the early 1990s. The government realized that the burden of expenditure on free healthcare had become inconsistent with the goal to increase per capita income for the Chinese people. The free medical care system was hindering the advancement of the nation.

1994 Reforms to the Healthcare System

To address the many issues, the government began reforming the system and reducing its financial inputs by rationally allocating medical expenses to three different accounts: the government, the government-owned enterprises and individuals. Reform focused on reducing costs to the government and enterprises for medical care of their employees and retirees. These individuals were now required to pay a certain percentage of their own healthcare. This change would certainly accelerate the China's economic growth and development. However, for the first time, people who had depended on free medical coverage would bear a heavy financial burden of the cost, particularly in the case of retirees on fixed incomes.

Three major changes were involved in medical system reform in the 1990s. The first change was to broaden healthcare coverage by enrolling more people in health insurance. As a result, medical insurance is paid by both employers and employees. For example, in some of the basic plans an employee pays at least 2% of his or her income for health insurance. The business, for its part, contributes 7% of the employee's total pay for health insurance (Song 2001). According to Ministry of Labour and Social Insurance policies, laid-off individuals receive free health insurance coverage during the period in which they receive unemployment benefits. Furthermore, retirees do not need to pay for health insurance. They are covered by their former employer, using funds paid by current employees (Ministry of Labour and Social Insurance 1999).

The second change was to establish a personal medical account. With this change, individuals are responsible for part of the payment when they see doctors, use hospital facilities or buy prescriptions. Medical expenses are now partly reimbursed by employers. People without a job, such as those who have been laid off, enroll in social healthcare insurance according to their residential district. This group pays a fixed fee for medical insurance, which also includes insurance for their pension on retirement.

The third change involved coverage for expenses when seeing doctors or being hospitalized. The extent of coverage depends on different healthcare plans, drugs that are used and treatments provided. For instance, I observed and informally interviewed a Chinese patient at a national-level public hospital in 2008. This patient needed a pacemaker. After discussing options with the doctor, he chose an imported pacemaker and had to pay a large proportion of the expense personally. Imported medical devices and drugs are more expensive than those that are locally manufactured and they are not included in the coverage.

Recent Reforms to Update the Medical System

According to public opinion, reform of the Chinese medical system had been falling far behind

when compared with the rapid economic development in 1990s. To bring the medical system up to date, other reforms were required, too.

Increased Development of Private Medical Facilities

One major reform was the establishment of private hospitals and clinics. These services, though more expensive for patients than public hospitals, can provide higher quality service, such as shorter waiting times and better care. Because of China's large population, public hospitals are overcrowded every day. Patients or family members must get up early or sometimes stay overnight in the long line outside a national-level hospital, waiting to register in order to see a doctor. Because doctors can only see a limited number of patients daily, these hospitals restrict the number of patients that can be admitted. The situation is especially true in large and well-known hospitals that attract more patients and their families. People go to mid-sized or small local hospitals only for non-serious health problems. The situation is most serious in Beijing, because patients from many other areas come to the capital city expecting to find a good doctor. The availability of beds in these hospitals is especially tight, so anyone needing surgery must wait for weeks.

Establishing private hospitals has undoubtedly helped address overcrowding in public ones. Today, many private hospitals have begun to accept social health insurance coverage, although, even with coverage, these hospitals are still expensive. As a result, patients spend more from their own pockets. However, many of these private hospitals are located in communities and willing to provide extra services such as home visits. Public hospitals seldom offer such services. According to the announcement of new strategies for further healthcare reform in 2009, increased development of private hospitals will be highly encouraged. It is expected that the coexistence of public and private hospitals will solve the issue of a limited number of doctors and hospital beds in public facilities. Similarly, the cost of seeing a doctor in a private hospital will likely be partly covered by patients' health insurance.

A Growing Interest in Dental Care

Another example of healthcare reform is the recent interest in dental care. However, Chinese health insurance does not include dental insurance, and individuals pay for their own treatment. In the past, Chinese people did not go to dentists regularly. More than likely, if they saw a dentist they had a specific problem, such as a toothache, bleeding or the need for a crown. However, recently people have begun going to dentists for teeth cleaning. Many small dental offices have been established to meet people's growing needs. These clinics are located in or close to residential areas and are convenient for people to visit. I visited a private community dental clinic in Beijing in 2008. The office was clean, and the dentist was professional.

Renewed Support for Traditional Medicine

Traditional Chinese hospitals are also undergoing reform. Only a few hospitals provide traditional medicine and treatments such as Chinese herbs and acupuncture. In China, many people, especially older ones, prefer using Chinese herbs to Western methods to address their health problems. In the era of free medical care, these hospitals functioned the same way as other hospitals and were also faced with an overwhelming demand for services. Because of the large number of patients and limited number of doctors in well-known Chinese herbal hospitals, it is still difficult to register to see a traditional Chinese doctor. Now, however, many retired Chinese medical doctors are allowed to practice traditional Chinese medicine in private clinics and hospitals and in Chinese herbal pharmacies. This has helped reduce pressures on public traditional Chinese hospitals.

The Impact of Healthcare Reforms on the Elderly

The 1994 healthcare reforms had a significant financial impact on the lives of the urban elderly. This group of retirees, numbering about 30 million or 25% of the total elderly population, was previously enrolled in the free healthcare system. The reforms, however, required them to pay part of the cost

of their medical care. Elderly populations have a reduced income after retirement, yet they consume more healthcare resources in all societies. According to Tang and Wang's report (1999) on their study of the health conditions of the 130 million Chinese elderly, 35% were healthy and 40% considered themselves well, while the remaining 25%, about 30 million, were reported to be in poor health or have an illness. Tang and Wang (1999) further mentioned that in the city of Beijing alone, about 100,000 people of 60 years of age and older were suffering from illness or poor health. From the above data, there is no doubt that the elderly are in need of some type of healthcare. Due to low life expectancy when the People's Republic of China was founded in 1949, the inclusion of full medical coverage for the elderly people was not an issue. But life expectancy in China has grown considerably, from 67.8 years in 1981 to 71.8 years in 2001 (People's Daily Online 2002) to an estimated 73 years or more in 2010. In 1949, the age of a senior citizen was defined as 60 years. This definition has not changed, although many scholars suggest changing it to 65 years or even older.

Reforming the free system has undoubtedly placed a significant financial burden on the Chinese elderly. Many who retired long before the reform have a particularly difficult time due to the low pension they receive. To study the issues of the Chinese healthcare system, I visited China in 2007 and 2008. These trips helped me to further understand current medical care reform and the health and financial circumstances of the elderly. I spoke with a group of retirees in Beijing and found out that their pensions ranged from ¥1500 to ¥4000 a month. Most of the people who received about ¥1500 (220 US dollars) had retired from a manufacturing job, whereas those with about ¥4000 a month (580 US dollars) had been government officials. The amount that these retirees spend on their monthly medications also varies from person to person, depending on their health conditions. It is important to realize that the standard of living in China is much lower than in the West.

Among the people I spoke with was an elderly woman who had cancer and other health problems, including high blood pressure and heart issues. Two thirds of her monthly pension of ¥2500 (365 US dollars) was spent on drugs. She received an 80% reimbursement for Chinese-made drugs, under coverage from her previous employer. However, she had to pay for some of the imported drugs she needed to take daily and was refunded only a small percentage of the cost. I also interviewed a former government official whose monthly pension was more than ¥4000. Due to his relatively high status in his previous position, he was fully reimbursed for most of his medical costs, such as hospital expenses and drugs. The exception was imported products, such as his pacemaker, which he had to pay a large percentage of by himself.

China has become an aging society. The one-family-one-child policy was intended to reduce the country's population and enhance its economic development. The effect of this policy, however, combined with the steadily increasing life expectancy of the Chinese, has created a new social issue: the growth of the elderly population. The growth of this group in China is different from that of other aging societies. China now has the largest aging population in the world. Over 130 million people are 60 years of age or older, constituting about 10% of the total population. This segment of society is growing by 3.2% per year. By 2050, the number of elderly is projected at 400 million, or 26.5% of the total population (China.org.cn 2004).

As well as the size of the elderly population in China, there are other differences when compared other aging societies. For example, the growth rate of the elderly in Chinese urban areas is much more rapid than in rural areas. The population in more densely settled areas is aging more rapidly than in less populated areas. Also noteworthy is the increase in the oldest-old population, those of 85 years of age and older. This group is projected to reach 94.48 million in 2050 (People's Daily Online 2006), or one in five of the total elderly population, and constitutes the fastest growing group in the entire elderly population.

The growth rate of the Chinese elderly is not synchronous with economic development (Li 2005), and this is a major problem in terms of Chinese economic development. Scholars characterize this social phenomenon through a popular phrase: "Begin aging before getting rich." In most Western societies, the growth rate of the older population corresponds with urbanization and industrialization. In this situation, people "become rich before getting old." It has enabled these advanced

societies to finance services necessary to support seniors, including social security benefits and healthcare. Many Chinese scholars have already realized that the growth in the elderly population has hindered economic development and placed a heavy economic burden on current workers (China.org.cn 2006). Providing healthcare for the elderly population poses unique challenges for China.

Healthcare system reform is a complicated issue in any society. It usually requires a long time to make changes and apply them, due to the time needed for people to adapt, especially if financial planning is required. This is especially true for Chinese who previously had years of free healthcare. Furthermore, reforming the medical care system in China was not a gradual change but a rapid one. This has brought even more serious challenges. The problems encountered in Chinese society as a result of reforming the healthcare system can provide learning points for other countries.

Lessons from China's Experience in Reforming the Healthcare System

1. The reformed system costs people more than they are able to pay. This is especially true for the elderly (Lu 2003), whose pensions are much lower than a current worker's salary. Healthcare costs are unaffordable to someone on a retirement income. The financial difficulties that some aging people face make them more victims than beneficiaries of healthcare reform (Lu 2003).
2. When the Chinese government launched the reforms, they did not explain the details adequately to the public. As a result, many people do not understand the detailed policies. In the process of talking to the elderly when I was in China, I felt strongly that the majority were unsure of their benefits in the reformed system.
3. The reimbursement system was too complicated. People were required to go to local social services in order to be reimbursed for only a certain percentage of the total they had spent, which meant that patients and their families had to pay the full cost in order to see a doctor. Then the individual would go to the local healthcare services office to make a claim, and the money was deposited into his or her bank account. The issue that resulted was that many people did not know in advance what the reimbursement amount would be. This was because of the different costs of products made in China compared to imported medical devices and drugs. The complexity of the policies resulted in misunderstandings and dissatisfaction with the system. The Chinese healthcare system now practices a new policy that requires patients to pay only their share of the cost when seeing a doctor or using hospital facilities. The percentage of payment that had to be paid up front and reimbursed later no longer applies. This has not only significantly simplified the healthcare payment process, but has also greatly reduced patients' financial burden.
4. Prescription drugs in China are expensive. Although the government has made an effort to lower prices, it has been ineffective. The high cost of drugs is a problem for people, especially for the elderly, who may be able to afford to see a doctor but may not be able to afford the medication prescribed for them.

The Road Ahead

The problems described above have resulted in public complaints about the policies and practices of healthcare reform. Misunderstandings have led people to feel uncomfortable when visiting a doctor because they do not know how much their share of the cost will be. Consequently, some people do not see a doctor until they are seriously ill, which in the end is more costly. Due to the rapid growth of the elderly population, Chinese society has not yet been able to establish a fund for healthcare services for the elderly. However, after more than a decade of healthcare reform, policy makers have recognized that there have been many problems. For this reason, the Chinese government announced new policies in 2009 to address the existing issues. It is expected that with these future changes, the problems the elderly have to face will also be improved.

The reforms begun in 1994 have brought a radical change to the lives of the Chinese, especially the elderly who had once received free healthcare. After retiring from the labour force, the living standards of most people have dropped, due to the combination of lower income and annual inflation. As discussed earlier, if free healthcare had continued, most retired elders in urban China

would not need to worry about their healthcare expenditures. With the reform, however, all groups have to pay part of their healthcare cost. Medical expenses have become a heavy financial burden for the elderly due to their longer life expectancy, specific healthcare needs and limited financial resources. Therefore, understanding the ways in which the elderly are dealing with the reform and their attitudes toward it will provide essential information to all other societies and healthcare policy makers, especially for Medicare reform.

Healthcare reformation is a complex issue. This is true not only in China, but also in any other society. With an increase in the proportion of aging populations around the world, governments will be increasingly challenged to pay for the care of their people. In addition, the health conditions of the elderly, their special care needs and financial conditions should be addressed. These are important research subjects when planning for healthcare reform in the future.

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Population in China

<http://factsanddetails.com/china.php?itemid=129&catid=4&subcatid=15>

Elderly Population to Double by 2040

<http://english.sina.com/world/2009/0720/257073.html>

Who Will Care for the Elderly in China?

<http://www.bgsu.edu/downloads/cas/file35700.pdf>

Gender Differences in Health among the Elderly in China

<http://www.prb.org/Articles/2009/chinaelderlyhealth.aspx>