Out-of-Pocket Health Expenditure: Pattern, Determinants and Policy Implications

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The present paper aims at examining distribution of Out-of-Pocket (OOP) health expenditure across six Indian states and analysing determinants of OOP health expenditure. For this purpose, World Health Survey data for the year 2003 are used. Findings show that poor households, households from rural area, and households with more children and elderly persons spend larger proportion on health care. Education and insurance reduce OOP health expenditure and thus can be explored as possible policy instruments to reduce OOP health spending.

I Introduction

Large out-of-pocket (OOP) health expenditure causes economic distress to households and results in impoverishment. In the case of an Indian household, health expenditure is one of the main reasons for falling into poverty (Krishna 2004 and 2006). In recent years, the Indian government has introduced schemes to reduce OOP health expenditure in the light of its close connection with poverty. However, before forming any policies some questions need to be addressed: What is the distribution of OOP across income groups and states? What are the factors that increase the proportion of household budget spent on health care? How effective is health insurance in reducing the share of OOP expenditure in household budget? The present paper attempts to answer these questions.

In India, around 70 per cent of the total expenditure on health is OOP payments by households (Government of India (GoI) 2005). The share of the government is lower than 20 per cent. Further, as a part of the health sector reforms initiated in the early 1990s, most of the Indian states have introduced user charges in public health facilities for patients belonging to families above the poverty line. As a result, households have to bear most of the expenses in the event of health shock, which may lead to a fall in consumption expenditure below the subsistence level. In India, health insurance coverage has been very

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1 See GoI (2007).