

Definition: What is Resource Allocation?

Resource allocation is the distribution of resources - usually financial - among competing groups of people or programs. When we talk about allocation of funds for healthcare, we need to consider three distinct levels of decision-making.

Level 1: Allocating resources to healthcare versus other social needs.

Level 2: Allocating resources within the healthcare sector.

Level 3: Allocating resources among individual patients.

An Example of Resource Allocation

Let's consider an example: A community receives a gift of \$100,000 from a wealthy donor to spend on healthcare, education and housing. The funds can be distributed among the three areas or dedicated to a single area, such as healthcare.

Level 1 : At this level, community members consider how to distribute the funds among one, two or three of the competing programs. For example, should the funding be split in three equal portions or should one program, possibly under-funded in the past, get all or most of the money?

Level 2 : Assuming that healthcare gets a portion of the \$100,000, the next decision community members face is how best to direct the spending among competing healthcare interests. Should most or all of the funds go to hospital care and medical equipment? What about the public education program that promotes healthy lifestyles and behaviors (like exercise or immunizations) that prevent disease? Or, community members could decide to spend the money to purchase health insurance for those who can't afford it.

Level 3 : The next level of decision making involves distributing the financial resources among individuals. Most communities have policies and guidelines to insure fairness in these situations. Decisions at this level include: Who gets the next available heart for transplant? And, who sees the doctor first when there are many people waiting in an emergency room?

Why is Resource Allocation needed?

Because of increasing demand for healthcare services and rising costs to provide those services, Americans must choose how to allocate healthcare dollars.

Rising cost of healthcare

Resources spent on healthcare have increased over the last century. Americans are spending far more resources on healthcare than do citizens of any other industrialized nation. Why?

- Continued medical advances have led to more accurate diagnoses and better treatments, but also have increased the cost of healthcare.
- The aging population is growing. Nearly 36 million Americans (more than the entire population of Canada) are age 65 or older and account for a majority of healthcare expenditures.
- More people are living with chronic disease and disabilities, including AIDS.

Healthcare rationing

Rationing refers to the conscious decision to exclude certain people from a service or treatment that they need. Rationing takes many forms. Rationing occurs when a state determines who is eligible for Medical Assistance insurance. It also occurs when deciding which patient on the waiting list gets an organ transplant. Rationing is also utilized when prices are set for health insurance and health services that some people cannot afford.

Oregon Health Plan

Oregon has implemented an innovative health plan that rations health care by developing a prioritized list of treatments. A cut off line is then set to determine which services would be covered and which would not. The plan serves to increase access to health care for more Oregon residents but cuts down on the range of services covered

This plan allows Oregon to provide health care access to a greater percentage of its residents, but it raises a number of ethical considerations. If ranking health care services is based on improving quality of life rather than medical or biological outcomes, how do we evaluate quality of life? Is it ethical to refuse to medical care based on cost-effective rankings? Does the method of ranking by quality of life discriminate against people with disabilities?

Responses and attempted solutions to the problem of limited healthcare resources

Since health is valued very highly in American society, there have been many attempts to reform the system. These reforms have attempted to either increase the financial resources directed to healthcare or to use limited resources in the best way possible. Reform attempts have included efforts to:

1. **Increase efficiency.** By curtailing waste and unnecessary care, providers can be more efficient. Methods include evaluating health technologies and expanding prevention programs.
2. **Distribute resources equitably.** The basis of distribution is value-based and can take many forms: strict equality, access to a determined level of care, access to an equal opportunity for care, limiting access to people responsible for their health problems, and access based on age or other factors.
3. **Adopt managed care plans.** Managed care has been offered as an organizational structure that hopes to distribute healthcare resources more efficiently and wisely by having physicians review policies that balance the healthcare of the individual patient (and the cost of caring for that patient) with the goals and costs of providing healthcare to the entire group.



Ethical Issues

A number of ethical questions arise when discussing healthcare resource allocation:

- If healthcare resources are scarce, how should they be distributed?
- Distribution choices will benefit some and not others. How should choices be made? What values should guide these choices?
- Could Americans devote more resources to healthcare if they chose?
- Does America spend too much on healthcare? What about in comparison to other countries?
- Is the current distribution of healthcare resources fair and equitable?
- Is the current distribution of healthcare resources an efficient and wise use of funding?

Health Care Coverage for Everyone?

According to the National Academies (which advises the federal government and the public on scientific and medical issues), the United States:

- Leads the world in spending on health care.
- Is the only wealthy, industrialized nation that does not ensure that all citizens have health care coverage.
- Has seen the number of uninsured adults increase by 6 million from 2000 to 2004.
- Has seen the number of businesses offering health care plans drop from 69% to 60% in 2005.
- Experiences 18,000 unnecessary deaths each year due to this lack of health care coverage.

In response to this problem, the Institute of Medicine of the National Academies has developed a set of guiding principles for universal health care coverage in a report, *Insuring American's Health: Principles and Recommendations*. A summary is available online at <http://iom.edu/report.asp?id=17632>. The full text is available online at <http://www.nap.edu/books/0309091055/html>.

For more information on health insurance coverage statistics, you can read: [U.S. Census Bureau Health Insurance Coverage: 2004](#).

For more about changes in health care benefits in the workplace, see: [Kaiser Family Foundation Employer Health Benefits 2005 Annual Survey](#).

To understand the basic dynamics of employment, poverty, health care, and insurance coverage, read " [The Uninsured: A Primer](#) " from the [Kaiser Commission on Medicaid and the Uninsured](#). According to the Kaiser Family Foundation, the Primer "reviews the basic profile of the uninsured population, how they receive care, and what options for coverage are being discussed."



Links

The Henry J. Kaiser Family Foundation is a non-profit, private operating foundation focusing on the major health care issues facing the nation. Their website features current information on healthcare policy and spending and allows users to search facts by state. Available online at www.kff.org.

The Centers for Medicare & Medicaid Services (CMS) of the U.S. Department of Health and Human Services provides information on these programs for both patients and professionals and features health care industry market updates, a series of reports on the healthcare industry. Available online at www.cms.gov.

Cost Effectiveness and Resource Allocation is an Open Access, peer-reviewed online journal aimed at health economists, health services researchers, and policy-makers with an interest in enhancing the flow and transfer of knowledge relating to efficiency in the health sector. Users can access all articles online including, *Why Prioritize When There Isn't Enough Money* and *Separate Spheres and Indirect Benefits* . Available online at www.resource-allocation.com/home/.



Suggested Reading

Articles

Rationing medical care: rhetoric and reality in the Oregon Health Plan.
Oberlander J. Marmor T. and Jacobs L. *CMAJ*, 2001; 164(1):1583-1587.

Health care priority setting: principles, practice and challenges.
Mitton C. Donaldson C. *Cost Effectiveness and Resource Allocation*, 2004:2(3).
<http://www.resource-allocation.com/content/2/1/3>

Separate spheres and indirect benefits.
Brock D. *Cost Effectiveness and Resource Allocation*, 2003:1(4).
<http://www.resource-allocation.com/content/1/1/4>

Need for redefining needs.
Asadi-Lari M. Packham C. Gray D. *Health and Quality of Life Outcomes*, 2003:1(34).
<http://www.hqlo.com/content/1/1/34>

Book

What's Your Life Worth? Healthcare Rationing. Who Lives? Who Dies? And Who Decides?
David Dranove; Financial Times Prentice Hall (2003).



Facts & Statistics

- In 2002, the United States spent \$1.6 trillion on healthcare, representing 14.9% of the gross domestic product (GNP).
- In 2002 the United States spent \$5,440 per capita on healthcare.
- In 2000, the World Health Organization published a ranking of the world's health systems. Despite spending a higher proportion of its GDP on health than any other country, the United States ranked 37th out of 191 countries according to its performance.

[source: Trends and Indicators in the Changing Health Care Marketplace: 2004 Update. Published by the Henry J. Kaiser Family Foundation and available online at <http://www.kff.org/insurance/7031/index.cfm>