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by the Administration)

Panel on Health Services

Subcommittee on Health Protection Scheme

Minutes of the sixth meeting
held on Monday, 4 June 2012, at 10:45 am
in Conference Room 2A of the Legislative Council Complex

- Members present** : Dr Hon LEUNG Ka-lau (Chairman)
Hon CHEUNG Man-kwong
Hon LI Fung-ying, SBS, JP
Hon Audrey EU Yuet-mee, SC, JP
Hon Cyd HO Sau-lan
Hon CHAN Hak-kan
Hon CHAN Kin-por, JP
Hon Alan LEONG Kah-kit, SC
- Members absent** : Dr Hon Joseph LEE Kok-long, SBS, JP
Dr Hon PAN Pey-chyou
- Public Officers attending** : Mr Richard YUEN Ming-fai, JP
Permanent Secretary for Food and Health (Health)
Food and Health Bureau
- Mr Chris SUN Yuk-han
Head, Healthcare Planning and Development Office
Food and Health Bureau
- Dr CHEUNG Wai-lun
Director (Cluster Services)
Hospital Authority

Ms Eva TSUI
Chief Manager (Statistics & Workforce Planning)
Hospital Authority

Clerk in attendance : Ms Elyssa WONG
Chief Council Secretary (2) 5

Staff in attendance : Ms Priscilla LAU
Council Secretary (2) 5

Miss Liza LAM
Clerical Assistant (2) 5

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I. Meeting with the Administration

[LC Paper Nos. CB(2)2242/11-12(01), CB(2)2011/11-12(01) and (02), CB(2)1216/11-12(01), CB(2)1200/11-12(01) and (02), CB(2)1419/11-12(01), CB(2)1700/11-12(01) and (02), CB(2)1839/11-12(01) and (02) and CB(2)1360/11-12(01) and (02)]

The Subcommittee deliberated (index of proceedings attached at **Annex**).

Follow-up to issues raised by members at the meeting on 30 April 2012

2. Members noted the Administration's response to issues raised by members at the meeting on 30 April 2012 as set out in LC Paper No. CB(2)2242/11-12(01).

Premium setting and control

3. Ms LI Fung-ying was of the view that the information provided in the Administration's paper could not help members fully assess the adequacy of healthcare protection offered under the Health Protection Scheme ("HPS") for the insured, in particular the high-risk individuals. She also expressed grave concern about the continued affordability of HPS premiums as well as the control over the future adjustment of HPS premiums.

4. Ms Audrey EU raised a similar view on the mechanism for controlling premium escalation. Considering the illustrative premiums for the HPS standard plan on the high side, Ms EU also expressed grave

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concern about the continued affordability of HPS premiums. Ms Cyd HO echoed Ms EU's view and considered the premium too high for the elderly to join HPS.

5. The Administration advised that the insurance market was a competitive market with low barriers to entry. There were currently over 100 insurance companies operating in the market. Since HPS would be designed to increase transparency in the insurance market such as requiring participating insurers to be transparent in insurance costs including claims, administrative expenses and commission, this would help secure public confidence in HPS and in turn attract more people to join HPS and stay insured. If the market was profitable, new firms might enter, pushing down the premium.

6. Mr CHAN Kin-por urged the Administration to maintain a balance of views on the issue and cautioned that excessive regulation over the setting of the premium and the administration fees, commission, etc. might discourage insurers or private healthcare providers from participating in HPS.

Risk pooling

7. While noting that a high-risk pool would be introduced with a view to ensuring the financial viability of HPS, the Chairman expressed grave concern that the acceptance of high-risk individuals might aggravate adverse selection, weaken the risk-pooling effect and further undermine the sustainability of HPS. He sought details on the feasibility of operating the high-risk pool. Ms Audrey EU was of the view that the proposed high-risk pool might not be sufficient to deal with the excess risk of high-risk individuals, and its operation might require continued injection from the Government after the \$50 billion fiscal reserve had been exhausted.

8. The Administration advised that one of the objectives of HPS was to enable the high-risk groups to have access to health insurance. As higher risks would also translate into higher premiums, in order to ensure the financial viability of HPS, a high-risk pool mechanism was proposed for the participating insurers for risk sharing. The Administration further advised that the high-risk pool would be separated from the normal risk pool in operation, otherwise the rising claims and escalating premiums might also discourage the young and healthy from joining HPS and undermine the financial viability of HPS.

9. As regards the financial viability and sustainability of the high-risk pool, the Administration advised that a number of variables such as the

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number of high-risk individuals joining HPS, their health status and claims history might affect the performance of the high-risk pool. As the proposed high-risk pool would be a mechanism new to the market, a consultant had been appointed to study and work out the details of the proposed high-risk pool mechanism and its operation.

10. Ms Cyd HO sought clarification on the assumption stated in paragraph 9 of the Administration's paper that 10% of new subscribers would be high-risk individuals in the first year of operation of HPS, but the percentage would fall to a stable level of 2% thereafter.

11. The Administration explained that as many high-risk individuals were currently unable to have access to private health insurance ("PHI"), a relatively large number of high-risk individuals might choose to join the scheme in the first year of implementation. With more and more young and healthy people joining HPS, the proportion of high-risk new subscribers was expected to drop and reach a stable level of 2%.

12. Mr CHAN Kin-por expressed concern that the 200% premium loading for high-risk individuals might not be sufficient to cover their payment of claims and might require continued funding injection by the Government to the high-risk pool to deal with the excess risk arising from the participation of high-risk individuals. He proposed that consideration should be given to introducing an exit clause or a similar mechanism in HPS to ensure the viability of the high-risk pool.

Utilization of government subsidy

13. Ms Cyd HO held the view that the total cost of implementing HPS would be more than the \$50 billion fiscal reserve earmarked for supporting healthcare reform if premiums paid by individuals for subscription to HPS plans were also included. She was sceptical of the cost effectiveness of investing such a large sum of money on PHI. To assess the total cost of implementing HPS, Ms HO requested the Administration to provide information on the average total premium paid into a standard HPS plan to cover the whole life of an individual. In her view, public funds should be used to assist the needy in the community instead of subsidizing the middle class to take up PHI.

14. The Administration stressed that the Government would not reduce its commitment to public healthcare services. It would continue to uphold the public healthcare system as an equitable and accessible safety net for the population as a whole. The \$50 billion fiscal reserve was an additional funding to support the implementation of HPS, which was designed to

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complement the public healthcare sector. If more people chose to make use of private healthcare services under HPS, it would enable the public healthcare system to focus more on providing services to low income and under-privileged groups and other targeted service areas.

15. As regards the total premium paid by a HPS subscriber in his/her whole life, the Administration advised that it was difficult to project an average total premium amount paid by an individual as there were many variables such as the long-term premium trend and the entry and exit age. However, for the sake of illustration, assuming the median annual premium to be paid by a HPS subscriber was \$3,500 and the subscriber would stay insured for 60 years, the total premium paid into a standard HPS plan to cover the whole life would be around \$200,000 if other factors such as price level remained unchanged throughout.

16. In response to some members' view that it would be more cost effective to use the \$50 billion fiscal reserve on the public healthcare system, the Chairman asked the Administration to provide information on the net medical inflation rates of the private healthcare expenditure and the public healthcare expenditure respectively. He was of the view that it would be more cost effective to use the \$50 billion fiscal reserve to improve the public healthcare services if the growth rate of the private healthcare expenditure was always higher than that of the public healthcare expenditure.

17. The Chairman noted a strong view among some members against the use of the \$50 billion fiscal reserve to support the implementation of HPS such as providing subsidies with a view to ensuring the continued affordability of the premium, but a wide support for offering a tax deduction for those who subscribed to HPS plans. He sought members' view on the differences between the two as both involved the use of public funds.

18. Ms Cyd HO considered that government subsidies in the form of tax deduction for HPS premiums would ensure that only those who had made the choice to subscribe to HPS plans would receive the government subsidies. She was also of the view that tax deduction should be extended to drug expenditure incurred by taxpayers. Ms LI Fung-ying pointed out that although both options involved the use of public funds, individuals subscribed to HPS plans would receive a direct benefit every year through the provision of a tax deduction for HPS premiums whereas the provision of government subsidies to facilitate the uptake of PHI or HPS plans in general might not bring a direct benefit to individuals.

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19. Mr Alan LEONG considered that the assessment on the effectiveness of the use of the \$50 billion fiscal reserve should be based on the extent of its achievement on the objectives of HPS, i.e. addressing the pressure on the public healthcare system and improving the quality of public healthcare services. In his view, the provision of a tax deduction for HPS premiums was a tax relief measure aimed at reducing the tax burden on taxpayers. Mr LEONG reiterated the stance of the Civic Party that it would be more cost-effective to use the \$50 billion on the public healthcare system directly.

20. The Administration advised that it was open-minded on the offering of a tax deduction for HPS premiums. However, the Administration also considered it important for the Government to use part of the \$50 billion fiscal reserve to safeguard consumer protection by addressing shortcomings in the existing PHI market.

21. In response to Ms LI Fung-ying's enquiry about the measures to be put in place to protect the interests of HPS subscribers in case of any closure of insurance companies participating in HPS, the Administration advised that as health insurance usually offered and renewed protection on annual basis, the potential loss to the policyholders of a health insurance in case of insolvency of an insurer would be limited to payment of claims made in a year. The Administration further advised that the Office of the Commissioner of Insurance ("OCI") was responsible for supervising the financial soundness of participating insurers and ensuring the financial capability of insurers to discharge obligations to the insured. To better protect the interests of policyholders, OCI was planning to implement a Policyholders' Protection Fund to provide compensation payment to policyholders in case an insurer became insolvent.

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22. The Administration was requested to provide the following information -

- (a) in respect of the Administration's written response to issues raised at the meeting on 30 April 2012 [LC Paper No. CB(2)2011/11-12(01) and CB(2)2242/11-12(01)],
 - (i) the detailed formula for calculating the net medical inflation, including the components making up the net medical inflation in the public and private healthcare sectors and their respective weights in the formula;
 - (ii) whether the net medical inflation rate of the private healthcare expenditure would always be higher than that of the public healthcare expenditure;

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- (iii) using examples to illustrate how the levels of premium for low-risk and high-risk individuals were determined, taking into account the morbidity rates for different age groups, the related medical costs, and key features of health insurance plans offered under HPS;
- (b) in respect of HPS,
 - (i) the estimated number of people who would subscribe to HPS plans; and
 - (ii) the average total premium paid into a standard HPS plan to cover the whole life of an individual.

II. Date of next meeting

23. The Chairman said that all written submissions to the Subcommittee had been circulated to members and uploaded onto the website of the Legislative Council ("LegCo"). Given the tight meeting schedules of various LegCo committees before the end of the current term and the fact that the Panel on Health Services ("the Panel") had already held two special meetings to receive views of 93 deputations on the subject, the Chairman sought the view from members on the need to arrange a special meeting to receive views of deputations. Ms Cyd HO was of the view that the Panel should continue to monitor the implementation progress of HPS in the next legislative term and appoint a subcommittee to assist its monitoring work in this regard if necessary. Stakeholders and members of the public should be invited to give their views on HPS, in particular their opinions on the report of the Subcommittee.

24. Regarding the Administration's response to the outstanding issues raised by members at previous meetings, members agreed that the Administration's response would be circulated for consideration once it was ready. Subject to the views received from members, a meeting would be arranged on 18 June 2012 for deliberations on the issues.

(Post-meeting notes: As the Administration indicated that it needed more time to prepare its response, with the concurrence of the Chairman, the meeting scheduled for 18 June 2012 at 10:45 am had been cancelled.)

25. The Chairman advised that the Clerk would prepare a report on the Subcommittee's deliberations and circulated to members for comments before its submission to the Panel for consideration at its meeting scheduled

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for 9 July 2012. Should members request to discuss the draft report, a meeting would be arranged on 25 June 2012.

26. There being no other business, the meeting ended at 12:31 pm.

Council Business Division 2
Legislative Council Secretariat
19 September 2012

**Proceedings of the sixth meeting of the
Subcommittee on Health Protection Scheme
on Monday, 4 June 2012, at 10:45 am
in Conference Room 2A of the Legislative Council Complex**

Time marker	Speaker	Subject	Action required
000000-000218	Chairman Mr CHAN Kin-por	Opening remark	
000219-001515	Chairman Admin	<p>The Chairman's concerns about the calculation of the premium for the Health Protection Scheme ("HPS") and the cost sharing between the high-risk pool and the normal risk pool.</p> <p>The Administration was requested to provide examples illustrating how the levels of premium for low-risk and high-risk individuals were determined, taking into account the morbidity rates for different age groups, the related medical costs, and key features of health insurance plans offered under HPS.</p>	Admin (paragraph 22 of the minutes)
001516-002201	Chairman Ms Cyd HO Admin	<p>Ms Cyd HO's enquiries about –</p> <p>(a) the estimated number of people who would subscribe to HPS plans; and</p> <p>(b) the assumption that 10% of new subscribers would be high-risk individuals in the first year of operation of HPS, but the percentage would fall to a stable level of 2% thereafter.</p> <p>The Administration's response on the estimated number of HPS subscribers and the proportion of high-risk and low-risk subscribers.</p>	
002202-002508	Chairman Admin	<p>The Chairman's concern about the viability of the high-risk pool mechanism in HPS.</p> <p>The Administration's response that a consultant had been appointed shortly to conduct a detailed study on the HPS, including the viability of the high-risk pool mechanism.</p>	

Time marker	Speaker	Subject	Action required
002509-003337	Chairman Ms LI Fung-ying Admin	<p>Ms LI Fung-ying's concern about the continued affordability of HPS premiums and the control over the future adjustment of HPS premiums.</p> <p>The Administration's response that the insurance market was a competitive market with low barriers of entry and market forces would push down the premium level.</p>	
003338-005429	Chairman Ms Audrey EU Admin	<p>Ms Audrey EU's concerns about the mechanism for controlling premium escalation and the continued affordability of HPS premiums; the operation of the high-risk pool mechanism and the continued injection from the Government to support the operation of the high-risk pool after the \$50 billion fiscal reserve had been exhausted.</p> <p>The Administration's explanation of the operation and financial viability of the high-risk pool.</p>	
005430-010235	Chairman Mr CHAN Kin-por Admin	<p>Mr CHAN Kin-por's view that –</p> <p>(a) consideration could be given to introducing an exit clause or a similar mechanism in HPS to ensure the viability of the high-risk pool; and</p> <p>(b) excessive regulation over the setting of the premium and the administration fees, commission, etc. might discourage insurers or private healthcare providers from participating in HPS.</p>	
010236-011819	Chairman Ms Cyd HO Admin	<p>Ms Cyd HO's concern about the total cost of implementing HPS, in particular if the premiums paid by individual subscribers were also included. Her view that public funds should be used to assist the needy in the community rather than subsidizing the middle class to take up private health insurance ("PHI").</p> <p>The Chairman's enquiry on the cost effectiveness of using the \$50 billion fiscal reserve to improve public healthcare services.</p> <p>The Administration's response on its commitment to public healthcare services; availability of top-up benefits offered by participating insurers to provide more choice for consumers; and an illustrative estimation</p>	

Time marker	Speaker	Subject	Action required
		<p>on the average total premium paid by an individual.</p> <p>The Administration was requested to provide information on –</p> <ul style="list-style-type: none"> (a) the detailed formula for calculating the net medical inflation, including the components making up the net medical inflation in the public and private healthcare sectors and their respective weights in the formula; (b) whether the net medical inflation rate of the private healthcare expenditure would always be higher than that of the public healthcare expenditure; (c) the estimated number of people who would subscribe to HPS plans; and (d) the average total premium paid into a Standard HPS plan to cover the whole life of an individual. 	<p>Admin (paragraph 22 of the minutes)</p>
011820-012410	Chairman Ms LI Fung-ying Admin	<p>Ms LI Fung-ying's enquiry about the measures to be put in place to protect the interests of HPS subscribers in case of any closure of insurance companies participating in HPS.</p> <p>The Administration's response on the supervisory role of the Office of the Commissioner of Insurance; and the establishment of a Policyholders' Protection Fund.</p>	
012411-013955	Chairman Ms Cyd HO Ms LI Fung-ying Mr Alan LEONG Admin	<p>The views of Ms Cyd HO, Ms LI Fung-ying and Mr Alan LEONG as well as the Administration's response to the Chairman's enquiry about the use of the \$50 billion fiscal reserve to support the implementation of HPS and the offer of a tax deduction for HPS premiums.</p>	
013956-014120	Chairman Admin	<p>The Chairman's enquiry about the provision of the tax deduction for HPS premiums.</p> <p>The Administration's response that any tax deduction to be considered would not be provided from the \$50 billion fiscal reserve.</p>	

Time marker	Speaker	Subject	Action required
014121-014701	Chairman Ms Cyd HO	<p>Follow-up with the Administration's response to outstanding issues raised by members at previous meetings.</p> <p>Additional meetings, if necessary, to invite views of deputations on the subject; discuss the Administration's response on the outstanding issues raised by members at previous meetings; and the draft report of the Subcommittee.</p> <p>Ms Cyd HO's suggestions on the contents of the Subcommittee's report.</p>	Clerk

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