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Panel on Health Services

Subcommittee on Health Protection Scheme

Background brief prepared by the Legislative Council Secretariat for the meeting on 9 December 2013

Public funding support for the implementation of the Health Protection Scheme

Purpose

This paper summarizes the concerns of the members of the Subcommittee on Health Protection Scheme ("the Subcommittee") on public funding support for the implementation of the Health Protection Scheme ("HPS").

Background

2. Further to the public consultation on the future service delivery model of the healthcare system[1], the Government initiated a two-stage public consultation to take forward the reform. On 13 March 2008, it put forth a package of healthcare service reforms and six possible supplementary healthcare financing options in the First Stage Healthcare Reform Consultation Document entitled "Your Health Your Life". To tie in with the healthcare reform, the Financial Secretary pledged in the 2008-2009 Budget to set aside $50 billion from the fiscal reserves to support the implementation of supplementary financing. Based on the outcome of the first stage consultation which revealed strong resistance to any supplementary healthcare financing options of a mandatory nature, the Government proceeded to develop possible policy options along the principle of voluntary participation.

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[1] The Health and Medical Development Advisory Committee ("HMDAC") released a Discussion Paper entitled "Building a Health Tomorrow" on 19 July 2005 proposing the future service delivery model of the healthcare system.

3. On 6 October 2010, the Government published the Healthcare Reform Second Stage Public Consultation Document entitled "My Health My Choice" ("the Second Stage Consultation") in which a voluntary and government-regulated HPS was proposed for public consultation. On the utilization of the $50 billion fiscal reserve, provision of incentives under HPS in the direction of (a) protection for high-risk individuals; (b) premium discount for new joiners; and (c) savings for future premium was proposed for consideration.

4. According to the Healthcare Reform Second Stage Public Consultation Report released on 11 July 2011, members of the public have expressed support for the introduction of HPS. However, rather divergent views were expressed on the issue of whether public subsidies should be provided for those subscribing to private health insurance ("PHI") and using private healthcare services, and on the use of the earmarked $50 billion for healthcare-related purpose in general. While there were views supporting provision of subsidies under HPS to incentivize participation and suggesting some other forms of financial incentives, others questioned the principle of providing any public subsidies at all. To take forward HPS and prepare for its implementation, a three-pronged action plan is adopted by the Administration. This includes, among others, setting up a Working Group and a Consultative Group on HPS under HMDAC to make recommendations on matters concerning the implementation of HPS. To facilitate the work of the Working Group and the Consultative Group, the Administration commissioned a consultancy study by PricewaterhouseCoopers Advisory Services Limited ("the Consultant") to provide professional and technical advice on key issues relating to HPS, including areas where public funding could be considered to ensure the viability and sustainability of HPS.

Deliberations of the Subcommittee

5. The Subcommittee held two meetings in 2013 to discuss issues relating to the taking forward of HPS and possible areas where public funding support might be considered for the implementation of HPS. The deliberations and concerns of members are summarized below.

<u>Utilization of public funding for HPS</u>

6. Many members expressed strong reservations on using the $50 billion fiscal reserve earmarked to support healthcare reform to subsidize the uptake of PHI. Some members considered it not cost effective to use public money to subsidize people for taking out HPS plans as the insured might continue to utilize the public system, in particular for the more expensive medical services. Hence, whether HPS could achieve, among others, its objective of relieving

pressure on the public healthcare system was in doubt. There was also a view that given the high administrative fees charged by the private insurers, any such subsidies might benefit the insurers more than the insured themselves. Some members considered that the provision of government subsidy for PHI might only spiral medical costs and aggravate medical inflation. These members held the view that it would be more cost effective to use the $50 billion fiscal reserve to improve public healthcare services. Another suggestion was that in face of an ageing population, the $50 billion fiscal reserve should be used to provide direct subsidy to elderly persons aged 65 or above in using private healthcare services, as they might not be able to afford continuous health insurance protection after retirement when they needed it most.

7. A contrary view was that given the stringent core requirements proposed under HPS such as no turn-away of subscribers, guaranteed renewal for life, covering pre-existing medical conditions and capping premium loading at 200% of standard premium, a higher level of risk would be incurred by the insurers. Without government subsidy to support the implementation of HPS, the premium set by the insurers might be excessively high and might not be affordable to most people. In particular, the Government should consider injecting funding to the proposed high-risk pool ("HRP") to ensure its sustainability. It was pointed out that the use of the $50 billion fiscal reserve to support the implementation of HPS would span across 20 to 25 years (i.e. about $2 billion per annum). This amount was insignificant as compared to the some $40 billion annual subvention from the Government to the Hospital Authority to support and finance the delivery of public healthcare services.

8. According to the Administration, Hong Kong was unique in that both the public and private hospital systems were well developed to provide a comprehensive range of quality services. However, there was a significant public-private imbalance that the highly subsidized public system provided over 90% of all in-patient services (in terms of bed-days), resulting in longer waiting lists and waiting time for services. To provide better choice of individualized healthcare for the public, an objective of HPS was to enable more people who could afford and were willing to purchase PHI to use the readily available private services on a sustained basis. In so doing, the public system could focus on serving its target areas and population groups. The proposed requirement of accepting all subscribers into HPS Plans subject to a reasonable premium loading would also eliminate the existing market practice of excluding or pricing out high-risk individuals.

9. The Administration stressed the need to use the $50 billion fiscal reserve to address the risk pool issue. To balance between consumer protection and commercial viability of HPS, it proposed to set up a HRP to accept policies of the Standard Plans of high-risk individuals. If, in the opinion of the insurer

providing the coverage, the premium loading of a policy was assessed to equal or exceed 200% of standard premium charged by the insurer, the insurer might decide, upon the inception of the policy, to transfer the policy to HRP. The proposed HRP would be financed by the premium income (net of administrative fee) of these policies and operated by the Government. Subject to the findings from the Consultant, using part of the $50 billion fiscal reserve to support HRP would be considered as necessary. A preliminary estimation was that the amount of injection should not exceed $10 billion.

Provision of financial incentives under HPS

10. Members noted that the proposals of utilizing the $50 billion fiscal reserve to provide financial incentives in the form of premium discount for new joiners and premium rebate for long stay under the savings options as put forward in the Second Stage Consultation were no longer included in the latest proposal of the Administration on the possible areas where public funding might be considered. Some members considered that, without the provision of such financial incentives, the current proposal could not incentivize the purchase of HPS plans by the young and healthy population and encourage the insured to stay on. There was a suggestion that to encourage policyholders of HPS plans to stay insured continuously, consideration could be given to offering a fixed amount of monthly premium subsidy to the insured at their old age.

11. The Administration explained that the provision of direct premium subsidy or discount might provide an incentive for some insurers to mark up the premiums of the HPS plans, thus effectively pocketing a significant portion of the premium subsidy or discount. Some form of premium control would therefore be necessary. On the proposal of requiring the insured to save for premium in their old age, the outcomes of the Second Stage Consultation revealed considerable reservations within the community over the inclusion of compulsory savings component as an essential part of HPS, as it would result in a higher premium at the younger age and discourage people from enrolling in HPS plans. It was also worth noting that the circumstances in Hong Kong and in overseas countries were different in the sense that the tax rate in overseas countries was relatively high. As a result, stronger incentives might be required to encourage people in overseas countries to save. Whereas in Hong Kong, the situation was different as Hong Kong people were culturally more accustomed to personal savings. It was therefore more appropriate for the savings component to be an optional feature under HPS.

12. Question was raised as to whether tax incentive, in the form of deduction of the taxable income for premiums paid, would be introduced for subscribers of HPS plans to incentivize them to stay insured over a long period of time. The Administration advised that this was an option under consideration of the

Consultant. In determining whether this option should be taken forward, due regard would be given to, among others, whether the PHI market could be effectively regulated to safeguard the interests of the insured in using health insurance products.

Relevant papers

13. A list of the relevant papers on the Legislative Council website is in the **Appendix**.

Council Business Division 2
Legislative Council Secretariat
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Appendix

Relevant papers on public funding support for the implementation of the Health Protection Scheme

Committee	Date of meeting	Paper
Subcommittee on Health Protection Scheme	14.1.2013 (Item II)	Agenda Minutes CB(2)698/12-13(01)
	8.7.2013 (Item III)	Agenda Minutes CB(2)151/13-14(01)

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