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Panel on Health Services

Updated background brief prepared by the Legislative Council Secretariat for the meeting on 11 July 2011

Healthcare Reform Second Stage Public Consultation - Health Protection Scheme

Purpose

This paper gives an account of the past discussions by the Panel on Health Services ("the Panel") on the Health Protection Scheme ("HPS").

Background

2. The Health and Medical Development Advisory Committee ("HMDAC") released a paper entitled "Building a Healthy Tomorrow" on 19 July 2005, in which a host of recommendations on the future service delivery model of the healthcare system was put forth for public consultation. During the three-month consultation period, the Administration received some 600 written submissions from various sectors of the community. Whilst the respondents expressed diverse views on the proposed service delivery model, the majority of them agreed that it was high time to review the healthcare system to ensure its sustainability. It was also suggested that the Government should put forth healthcare financing options as soon as possible to facilitate discussion.

3. Based on the recommendations of HDMAC, the Government put forth a package of inter-related proposals for reform in the First Stage Healthcare Reform Consultation Document entitled "Your Health Your Life" on 13 March 2008 for public consultation for three months. The Consultation Document aimed at garnering the views of the public on the key principles and concepts of four proposals on the healthcare service reform, and the pros and cons of reforming the current healthcare financing arrangements through introducing the following six possible supplementary financing options -

(a) social health insurance (mandatory contribution by workforce);

(b) out-of-pocket payments (increasing user fees);

(c) medical savings accounts (mandatory savings for future use);

(d) voluntary private health insurance;

(e) mandatory private health insurance; and

(f) personal healthcare reserve (mandatory savings and insurance).

To tie in with the proposals, the Government would increase government expenditure on healthcare from 15% to 17% of the overall recurrent government expenditure by 2011-2012. The Financial Secretary also pledged in the 2008-2009 Budget to draw $50 billion from the fiscal reserves to take forward the healthcare reform, after the supplementary financing arrangements had been finalized for implementation.

4. The report on the first stage consultation on healthcare reform was released on 19 December 2008. According to the Administration, while there were divergent views on healthcare financing, there was a general willingness among the public and stakeholders to continue deliberations on the issue of healthcare financing with a view to finding a solution. The Administration would examine possible proposals for further consultation, having regard to the board principles as reflected in the first stage consultation.

5. On 6 October 2010, the Government published the Healthcare Reform Second Stage Public Consultation Document entitled "My Health My Choice" in which a government-regulated, voluntary HPS, aiming at enhancing the long-term sustainability of the healthcare system, was proposed for public consultation for three months ending 7 January 2011. Under the proposal, insurers participating in HPS were required to offer standardized health insurance plans in accordance with the core requirements and specifications ("Standard Plans"). Participating insurers were also required to comply with scheme rules and requirements specified under HPS. There were 10 key features of HPS as follows -

(a) no turn-away of subscribers and guaranteed renewal for life;

(b) age-banded premiums subject to adjustment guidelines;

(c) covering pre-existing medical conditions subject to waiting period and time-limited reimbursement limits;

(d) high-risk individuals insurable with a cap on premium loading (say 200%);

(e) sharing risks arising from accepting high-risk groups through High-Risk Pool industry reinsurance;

(f) offering no-claim discount up to 30% of published premiums;

(g) providing insurance plans renewable on leaving employment and portable between insurers;

(h) requiring the insurers to report all costs, claims and expenses;

(i) providing standardized health insurance policy terms and definitions; and

(j) establishing a Government-regulated health insurance claims arbitration mechanism.

Deliberations of the Panel

6. The Panel held three meetings to discuss the proposed HPS and received the views of deputations at one meeting. The deliberations and concerns of members are summarized below.

Rationale and scheme concept of HPS

7. Members noted that one of the key features of HPS was the guaranteed acceptance of all applicants, including the high-risk groups such as the elderly and those with pre-existing medical conditions who were being excluded or priced out in the existing private health insurance ("PHI") market. Question was raised as to whether improving the existing PHI market through regulatory intervention by the Government was the primary objective of the proposed HPS.

8. The Administration advised that the first stage public consultation held in 2008 reflected that the majority of the public had reservations about mandatory financing options and preferred having their own voluntary choices of healthcare protection. They expected more choices of private healthcare services according to their own means and needs, as an alternative to public healthcare services. In the light of this, the proposed HPS aimed to make available government-regulated health insurance to provide better choices to those who chose private healthcare services by enhancing consumer protection, price-transparency, quality assurance and market competition in both PHI and private healthcare markets. It also aimed to ease the pressure on the public

healthcare system by encouraging more people to use private healthcare on a sustainable basis, and enhance the sustainability of the entire healthcare system, thus benefiting those who depended on the public system for their healthcare needs.

9. Some members held another view that a public entity should be set up to offer health insurance plans under HPS to ensure compliance with the HPS requirements, set the benchmarks for heath insurance plans under HPS as well as avoid oligopoly and promote competition.

10. The Administration advised that at this juncture, its role should be restricted to improving the existing private insurance services and supervising the implementation of HPS to safeguard consumer interests. There was concern from members of the public that any involvement of the Government in the health insurance market would result in crowding out other private insurers. The Administration however would not rule out the option of setting up a public entity to offer health insurance plans should there be a general lack of interests from the industry in offering health insurance plans under HPS or the market was not performing efficiently and effectively.

Benefit coverage of Standard Plans

11. Members noted that HPS Plans would be required to provide coverage for medical conditions requiring hospital admission or ambulatory procedures as well as the associated specialist out-patient consultations and investigations and the advanced diagnostic imaging services; and chemotherapy or radiotherapy for cancer. Noting the call from many deputations for extending the benefit coverage of HPS to out-patient services, some members further suggested that the benefit coverage of HPS should also be extended to cover the first specialist consultation in general as well as physiotherapy that entailed high cost.

12. The Administration explained that it did not propose to include primary care as a core requirement under HPS because primary care was relatively more affordable and out-patient demand was far more predictable than in-patient needs. The inclusion of primary care under HPS might also lead to premium escalation. The Administration further pointed out that HPS was designed to be modular and insurers participating in HPS could offer other health insurance plans with top-up benefits and add-on components to cover such services. The public healthcare system would also provide a safety net of last resort for patients in need.

Savings for future premium

13. There was concern that HPS would become less affordable when the insured got older as age-based premium was bound to increase sharply with the

age of the insured due to their increasing health risk. To better enable people to afford continuous health protection under HPS at older age when they needed it most, there was a suggestion that consideration could be given to creating a medical savings component under the Mandatory Provident Fund.

14. The Administration advised that taking into account the need to encourage the insured to stay on and the need to secure a pool of funding to cover future healthcare protection especially at the old age, it had proposed for public consultation three options to encourage savings: (a) required in-policy savings; (b) optional savings accounts; and (c) premium rebate for long-stay. The Administration was open-minded on building in a medical savings component under the Mandatory Provident Fund to encourage savings by individuals for paying future premium at older age.

Subscription

15. Noting that HPS might lack the critical mass to be financially viable if it was unable to attract a substantial number of subscribers, question was raised on the number of subscribers to make HPS sustainable.

16. The Administration estimated that around several hundred thousands subscribers would make HPS sustainable. The Administration further advised that at present, around 2.42 million people in Hong Kong were covered by PHI. Some of them might choose to migrate to HPS plans.

17. The Administration further advised that to attract individuals especially the young and healthy people to join HPS Plans, consideration should be give to providing Government incentives for all new joiners of HPS Plans to enjoy maximum no-claim discount immediately upon joining HPS, or to encourage savings by individuals under HPS for paying future premium at older age.

Service provision based on packaged charging

18. It was proposed that HPS Plans would be required to set reimbursement levels based on "diagnosis-related groups" ("DRG") packaged charging where available, thereby enhancing transparency and certainty of medical charges to the insured. Question was raised as to how the Administration could ensure an adequate supply of private healthcare services based on DRG packaged charging.

19. The Administration advised that DRG-based payment systems had been introduced in various overseas economies, such as Australia, Canada, New Zealand, the United Kingdom and the United States, for some 20 years. The Administration considered that such charging scheme would work equally well in Hong Kong. The Administration further advised that in designing the

development requirements for the new private hospital developments at the four pieces of land earmarked for such (at Wong Chuk Hang, Tseung Kwan O, Tung Chung and Tai Po respectively), the Administration would take into account the need to support HPS, including, among others, the requirement to provide services at DRG packaged charging.

Use of the $50 billion fiscal reserve earmarked to support healthcare reform

20. Members expressed diverse views on the Government's proposal to make use of the $50 billion earmarked in the fiscal reserves to buffer the excess risks arising from the participation of high-risk individuals in HPS; provide a time-limited premium discount for new joiners, especially the young, with a view to encouraging participation in HPS; and provide incentives for savings by individuals for paying premium at older age. Some members welcomed the proposal to make use of the $50 billion to attract people to subscribe HPS while other members had reservation about the suitability of using the reserves to subsidize people who had already bought PHI to migrate to an HPS plan. Some members suggested that the Government should consider extending the use of the $50 billion to improve public healthcare services.

21. There was a view that offering a tax deduction for the premiums, instead of making use of the $50 billion to provide fiscal incentives under HPS, could serve the same purpose of increasing take-up of HPS Plans.

22. The Administration advised that it was open-minded on the offering of tax deduction for HPS premiums. The Administration however pointed out that the if the $50 billion was not used to provide scheme incentives such as allowing high-risk individuals to join HPS Plans without requiring other healthy insured to pay excessive premium, it might not be able to ensure viability or achieve the objectives of HPS.

Healthcare capacity and manpower

23. Members were concerned about whether there would be corresponding expansion in the capacity of the private healthcare sector to cope with the potential increase in demand arising from the implementation of HPS.

24. The Administration advised that the known redevelopment projects of existing private hospitals and the development of new private hospitals under planning would double the number of hospital beds in the private sector in five to seven years' time, thus enabling the sector to meet the projected demand for private healthcare services arising from the HPS.

25. There was concern that an expansion of the private healthcare sector would lead to an increasing number of experienced doctors in HA switching to

the private hospitals, thereby adversely affecting the quality of services provided by the public healthcare sector.

26. The Administration advised that while some specialties of the Hospital Authority recorded a higher turnover in the past year, the annual turnover rate of doctors in HA was within the normal range of 3% to 5%. It should also be noted that there would be a steady increase in the supply of healthcare personnel in the years to come. For instance, the respective number of nurse graduates and medical graduates from University Grants Committee-funded programmes would be increased from the present 1 000 and 250 to about 2 000 and 320 in 2012-2013. The Administration would continue to discuss with the Committee on the need to increase the first-year intake places for health professionals.

27. Some members were of the view that the implementation of HPS would drive overall healthcare costs up, the results of which would only benefit the participating insurers and private healthcare providers.

28. The Administration advised that the implementation of HPS would help achieve the goal of making healthcare services more transparent and address the significant public-private imbalance in Hong Kong's healthcare system where over 90% of hospital services were presently provided by the public sector. The Administration stressed that patients would not be denied of proper medical care due to lack of means following the implementation of HPS. The Government would continue to increase funding for healthcare and uphold the public healthcare system as the community's healthcare safety net.

Relevant papers

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

Council Business Division 2
Legislative Council Secretariat
5 July 2011

Appendix

Relevant papers on
Healthcare Reform Second Stage Public Consultation
- Health Protection Scheme

Committee	Date of meeting	Paper
Panel on Health Services	6.10.2010 (Item I)	Agenda
Panel on Health Services	11.12.2010 (Item I)	Agenda
Panel on Health Services	13.12.2010 (Item IV)	Agenda Minutes
Finance Committee	25.3.2011	Administration's replies to Members' initial written questions in examining the Estimates of Expenditure 2011-2012 (Reply Serial Nos. FHB(H)017, FHB(H)069, FHB(H)094, FHB(H)114, FHB(H)115, FHB(H)152 and FHB(H)241)

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