

**For discussion on
21 May 2012**

**Legislative Council Panel on Health Services
Subcommittee on Health Protection Scheme**

**Utilisation of Public Funding to Facilitate the Implementation of
Health Protection Scheme**

PURPOSE

This paper discusses the option of and the Administration's preliminary thoughts on the utilisation of public funding to facilitate the implementation of the Health Protection Scheme (HPS).

BACKGROUND

2. In the Second Stage Public Consultation on Healthcare Reform in 2010, we put forth the HPS proposal, a voluntary and government-regulated health insurance scheme for public consultation. While the Government will continue to strengthen its commitment to the public healthcare sector, which has been and will continue to be the cornerstone of our healthcare system and safety net to all, the HPS was designed to complement the public healthcare sector by providing more choices and better protection to those who are willing and may afford to use private healthcare services. As more people choose to make use of private healthcare services under the HPS, it would better enable the public healthcare system to focus more on providing service in the four target areas¹.

3. The outcomes of the Second Stage Public Consultation on Healthcare Reform revealed broad-based support for the Government's healthcare reform direction: a strengthened public healthcare system as the core, complemented by a competitive and vibrant private healthcare sector. Many considered the proposed HPS a positive step forward to enhance the long-term sustainability of our healthcare system. They

¹ The four target areas are: (a) acute and emergency care; (b) low income and under-privileged groups; (c) illnesses that entail high costs, advanced technology and multi-disciplinary professional team work; and (d) training of healthcare professionals.

concurred that the proposed HPS could help enhance transparency, competition and efficiency of the private healthcare sector.

4. A majority of views supported the concept of the HPS as a standardised and regulated framework with core requirements and specifications that private health insurance must meet as a basic standard. They considered that the standardised core requirements and specifications of HPS could help ensure basic and essential healthcare protection for the insured, and enable genuine access to and choice of private healthcare services for the insured when in need.

5. There was also wide support for the proposed features of the HPS aiming at safeguarding consumer interests and enhancing consumer protection. In particular, the key features of guaranteed acceptance and renewal for life, portability, coverage of pre-existing conditions and pooling of high-risk subscribers were considered attractive by the respondents. Some pointed out that guaranteed acceptance and renewal would be a major step forward in enhancing consumer protection and considered this feature one of the greater competitive edges of HPS plans over existing health insurance products. The feature of portability was generally welcomed by the public as an important measure to safeguard consumer interests and to enhance healthy competition among insurers, which would enhance consumer's confidence and choice in HPS. Many submissions were in support of enabling high-risk individuals to access health insurance plans under the HPS by allowing access of individuals with pre-existing medical conditions and requiring insurers to establish a risk equalization mechanism/high-risk pool to share out the higher risks.

6. A health insurance scheme which provides the additional coverage and protection will incur a higher level of risk. If all the risks are fully reflected in the scheme, the higher premium will discourage the young and healthy from joining the scheme, which will further reduce the risk pool and push up the premium level. In order to achieve the policy objectives of the HPS and to implement the key features of the HPS, in formulating the detailed proposals for the HPS, we will consider the option of utilising the \$50 billion fiscal reserve earmarked to support healthcare reform to, among other things, address the risk pool issue, maintain the premium at an affordable level, and provide incentives for

the young and healthy and all potential participants to join early so as to ensure the long-term sustainability of the scheme.

UTILISATION OF PUBLIC FUNDING TO FACILITATE THE IMPLEMENTATION OF THE HEALTH PROTECTION SCHEME

Considerations

7. In considering the option of utilising public funding for the HPS, we would have regard to all relevant considerations including, but not limited to, the following –

- (a) the use of public funding should contribute to and facilitate the achievement of the policy objectives² of the HPS through incorporating key features in HPS plans, such as no turn-away of subscribers and guaranteed renewal for life; covering pre-existing medical conditions subject to waiting period; and accepting high-risk groups through the high-risk pool mechanism, etc.;
- (b) the use of public funding should be conducive to the sustainability of the HPS in the long-run, including encouraging the young and healthy to participate in the scheme;
- (c) the use of public funding should contribute to enhancing the protection of consumers' rights, such as increasing the transparency and certainty of insurance payment and claims;
- (d) any provision of public subsidy or financial incentives should be considered on the basis of prudent and sustainable use of

² The HPS is designed with the following objectives –

- (a) provide more choices with better protection to those who are able and willing to pay for private health insurance and private healthcare services;
- (b) relieve public queues by enabling more people to choose private services and focus public healthcare on target service areas and population groups;
- (c) better enable people with health insurance to stay insured and make premium payment at older age and meet their healthcare needs through private services; and
- (d) enhance transparency, competition, value-for-money and consumer protection in private health insurance and private healthcare services.

public funding, bearing in mind any possible pitfalls or adverse effects that may arise. For instance, the provision of public subsidies might aggravate moral hazards in using private health insurance and private healthcare services, hence contributing to medical inflation. Considerations should also be given to ensure that the public funding would benefit the insured and the community at large; and

- (e) possible options of public subsidies or financial incentives should be developed in consultation with all stakeholders concerned.

Areas Where Public Funding Might be Considered

8. Without prejudice to the deliberations and recommendations of the Working Group on Health Protection Scheme and the Health and Medical Development Advisory Committee (HMDAC) (see paragraph 18 below), we have initially identified a number of areas where public funding might be considered to facilitate the implementation of the HPS.

(A) Protect high-risk groups

9. One of the key objectives of the HPS is to better protect the high-risk groups by enabling them to gain access to health insurance coverage. Currently, it is difficult for individuals with pre-existing medical conditions or those with higher health risks to subscribe to health insurance plans. Most existing health insurance products for individuals in general do not cover pre-existing medical conditions to reduce insurers' risk exposure and manage the risk profile of their risk pool. On the other hand, previous public consultations indicated that the public was concerned about the exclusion of pre-existing conditions because it would severely restrict the access of higher-risk groups to health insurance protection and undermine the risk-pooling function of private health insurance. A balance would need to be struck between maintaining the financial viability of health insurance plans on the one hand, and requiring insurers to cover pre-existing conditions on the other hand.

10. To enable the higher-risk groups to have access to health insurance while ensuring the financial viability of the HPS plans, we have proposed in the Second Stage Public Consultation on Healthcare Reform to set up a high risk pool mechanism for participating insurers to share out the high-risks insured by their HPS plans, with Government injection into the high risk pool where necessary and justified.

11. In some overseas countries, there are similar mechanisms (high risk pool or risk equalization mechanisms) to share out the risks when guaranteed acceptance is offered to all prospective subscribers irrespective of age and health status.

(B) Attract new joiners

12. For the HPS to be rolled out successfully, it is important to start off the scheme with a substantial number of subscribers. Given that about 2.56 million people have already purchased private health insurance, migration of existing policyholders could provide the critical mass for the HPS so that the scheme could be financially viable and could bring about material impact on market developments. To encourage early migration to HPS plans, migration rewards such as premium rebate or initial promotional discount might be considered for new joiners of the scheme in the initial years of implementation.

13. In addition to attracting new joiners to the scheme, HPS subscribers should be encouraged to stay insured under the scheme so as to maintain the size of the risk pool. In this connection, some form of loyalty rewards could be considered for long-term subscribers, taking into account factors such as entry age or length of subscription.

(C) Ensure sustainability of the HPS

14. It is essential for the HPS to appeal to the young and healthy population so as to avoid having a disproportionate number of unhealthy subscribers in the scheme. Some form of financial incentives might be considered to enhance the attractiveness of the scheme for the young and healthy, such as premium subsidies targeting the younger age groups. In overseas countries, both carrots and sticks were used to encourage the

young to take up private health insurance, such as offering premium rebate to those taking out private health insurance, or charging premium loading for those taking out private health insurance after a certain age. These incentives would mitigate the risk of anti-selection and help maintain a balanced risk pool.

15. To encourage HPS subscribers to stay healthy, incentives might be introduced to promote preventive care by rewarding those who maintain a healthy lifestyle, such as those who quit smoking, regularly exercise, or undergo regular body check-up. These measures might attract more people to join the HPS and at the same time promote preventive care in the community.

(D) Support institutional and supervisory framework for the HPS

16. Financial support might be considered for setting up the institutional and supervisory framework required for the implementation of the HPS, such as the establishment of an authority for supervising the implementation and operation of the HPS, or setting up platforms for participating insurers and healthcare service providers to discuss matters related to the HPS.

(E) Protect consumers' rights

17. In order to better protect consumers' rights, investment in market infrastructure development would be necessary to enhance transparency and certainty of payment and claims under HPS plans, including the collation, compilation and publication of claims/charges data and information. Public funding might be considered to support these arrangements under justified circumstances.

NEXT STEP

18. In order to formulate a detailed and sound proposal for implementing the HPS, we have set up a Working Group on HPS under the HMDAC to examine the various issues involved, including the utilisation of public funding to facilitate the implementation of the HPS. In support of the Working Group, a Consultative Group on HPS has been set up to collect views and suggestions from the wider community and

pass them to the Working Group for reference and consideration. To provide professional and technical support to the Working Group and Consultative Group, a consultant will be appointed shortly to formulate a detailed design for implementing the HPS. In working out the details, the consultant will, amongst other things, analyse and examine the necessity, feasibility and effect of various options of utilising public funding to facilitate the implementation of the HPS. The Working Group on HPS is expected to submit its recommendations in mid-2013.

Food and Health Bureau
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