

**For discussion on
14 January 2013**

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

Latest Progress in Taking Forward the Health Protection Scheme

PURPOSE

This paper recaps the background leading to the Health Protection Scheme (HPS) and provides an update on the latest developments.

BACKGROUND

Public Consultations on Healthcare Reform

2. In 2008 and 2010, we conducted two stages of public consultation on healthcare reform. In the First Stage Public Consultation on Healthcare Reform, we consulted the public on healthcare service reforms and six possible supplementary healthcare financing options. In view of public resistance to any supplementary healthcare financing options of a mandatory nature, we proceeded to develop possible policy options along the principle of voluntary participation.

3. Taking into account the above, we put forth the HPS proposal, a voluntary and government-regulated health insurance scheme, for public consultation through the Second Stage Public Consultation on Healthcare Reform in 2010. Under the HPS, insurers will offer standardised health insurance plans providing the insured individuals with benefit coverage and reimbursement levels that would enable them to access general ward class of private healthcare services when needed. Key features of the HPS plans such as no turn-away of subscribers and guaranteed renewal for life; coverage of pre-existing medical conditions subject to waiting period; and acceptance of high-risk enrollees through a high-risk pool mechanism, etc., are designed to offer better protection, value-for-money services to consumers, as well as an alternative to those who are willing and may afford to pay for private healthcare services. As more people

choose to make use of private healthcare services under the HPS, it would also better enable the public healthcare system to focus more on providing service in the four target areas¹.

4. The HPS is meant to complement the public healthcare system, which have been and will continue to be the cornerstone of our healthcare system and the safety net for all under our dual public-private healthcare system. Over the years, the Government has made substantial and sustained investment to improve our public healthcare services. We have progressively achieved a substantial increase in recurrent health expenditure to almost \$45 billion in the 2012-13 Estimates, amounting to 17% of total government recurrent expenditure.

Outcome of Second Stage Public Consultation

5. The Second Stage Public Consultation on Healthcare Reform revealed broad-based community 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. Noting, among others, that about one third of our population have had health insurance coverage through employers or purchased on their own, there is wide and strong support for strengthening the regulation of the private health insurance and private healthcare sectors. Many considered the HPS a positive step forward to enhance the long-term sustainability of our healthcare system. They concurred that the HPS could help enhance transparency, competition and efficiency of the private health insurance and private healthcare sectors. They supported the introduction of HPS to provide value-for-money choices to the community, indirectly providing relief to the public healthcare system by better enabling it to focus on serving its target areas.

LATEST DEVELOPMENTS

6. We are currently taking forward the HPS based on the outcome of the Second Stage Public Consultation on Healthcare Reform. A Working Group and a Consultative Group on the HPS have been set up under the Health and Medical Development Advisory Committee (HMDAC). The Working Group will make recommendations on matters concerning the implementation of the HPS, including supervisory

¹ The four target areas are: (i) acute and emergency care; (ii) low income and under-privileged groups; (iii) illnesses that entail high costs, advanced technology and multi-disciplinary professional team work; and (iv) training of health care professionals.

and institutional frameworks, key components of the HPS standard plan(s), and rules and mechanism in support of the operation of the HPS as well as various feasible options for provision of public subsidies or financial incentives to facilitate the implementation of the HPS. The Working Group is supported by the Consultative Group, which will collect views and suggestions from the wider community and pass them to the Working Group for reference and consideration. The terms of reference and membership of the Working Group and Consultative Group are at **Annex A and Annex B** respectively. Taking into account the views of the Consultative Group and other stakeholders, the Working Group is expected to tender its recommendations on the HPS to the HMDAC by 2013.

7. To facilitate the work of the Working Group and Consultative Group, we have commissioned a consultancy study on the HPS in order to provide professional and technical support to the Working Group and the Consultative Group. The consultancy study comprises two inter-related parts:

- (a) Part I, under which the consultant is tasked to review and analyse the current state of private health insurance in Hong Kong by collecting relevant market data from private health insurers and private healthcare service providers; and
- (b) Part II, under which the consultant is tasked to propose a technically feasible and actuarially sound design with implementation details for the HPS.

8. With regard to Part I, the consultant has been acquiring market data from private health insurers and private healthcare providers in Hong Kong through surveys and face-to-face consultations, with a view to analysing the environment and structure of the local private health insurance market. Besides, the consultant has been researching into relevant experiences in overseas jurisdictions where private health insurance plays an important role in their healthcare system, including Australia, the United States, the Netherlands, Switzerland and Ireland. All these findings are expected to provide useful references to facilitate the design of a sustainable and viable HPS in Part II.

9. With regard to Part II, the consultant has begun to formulate detailed design and arrangements for the HPS, including, amongst others, the key components of the HPS standard plan(s), rules and mechanism in

support of the operation of the HPS, and feasible options of public subsidy or financial incentives to facilitate the implementation of the HPS. To ensure the financial sustainability, commercial viability of the proposed scheme design and its effectiveness in achieving the policy objectives of the HPS, the consultant will assess the short-term and long-term implications of the scheme on various aspects, including but not limited to, the size of population with PHI coverage, healthcare financing structure, healthcare capacity requirement in both public and private sectors, financial implications for the Government, and development of the healthcare service and health insurance market. Details on the progress of the consultancy study are at **Annex C**.

10. Findings from the consultancy study will be published for public information as part and parcel of the work of the Working Group on the HPS.

ADVICE SOUGHT

11. Members are invited to note the contents of the paper.

**Food and Health Bureau
January 2013**

**Working Group on Health Protection Scheme
Health and Medical Development Advisory Committee**

Terms of Reference

To draw up proposal and make recommendations, with regard to relevant consultancy studies and views from the Consultative Group on Health Protection Scheme, to the Health and Medical Development Advisory Committee (HMDAC) on matters concerning implementation of the Health Protection Scheme (HPS), including, but not limited to, the following –

- (a) legislative and institutional proposals for the HPS, including powers, functions and composition of the statutory HPS authority; the key provisions governing the high-risk pool and dispute resolution/mediation mechanism; and the supervisory framework (e.g. scheme features and mandatory requirements) for insurance products and healthcare services offered under the aegis of the HPS;
- (b) measures aiming to enhance the viability and mitigate potential risks of the HPS, and matters requiring Government intervention justified on grounds of enhancing the long-term sustainability of our healthcare system and safeguarding legitimate public interest;
- (c) key components of standard plan(s) under HPS, including benefit coverage, benefit limits, premium schedule, co-payment requirement, and standardized terms and conditions;
- (d) rules and mechanisms in support of the operation of HPS, including those concerning acceptance, renewal, underwriting, portability, plan migration, premium adjustment, transparency requirements, high-risk pooling, dispute resolution/mediation, and provision of top-up/add-on products on top of standard plan(s) under the HPS; and
- (e) the manner and extent to which public subsidy, specifically the use of the \$50 billion fiscal reserve earmarked to support healthcare reform, should be provided in the form of financial incentives under HPS or for other purposes in connection with healthcare reform.

**Working Group on Health Protection Scheme
Health and Medical Development Advisory Committee**

Membership

Chairman

Permanent Secretary for Food and Health (Health)

Non-official members

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Mr Victor APPS

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Prof CHAN Wai-sum

Mr CHU Wing-yiu

Dr David FANG Jin-sheng, S.B.S., J.P.

Dr Anthony LEE Kai-yiu

Dr LEUNG Pak-yin, J.P.

Prof Raymond LIANG Hin-suen

Ex-officio members

Director of Health

Head, Healthcare Planning and Development Office, Food and Health Bureau

**Consultative Group on Health Protection Scheme
Health and Medical Development Advisory Committee**

Terms of Reference

To provide views and suggestions to the Working Group on Health Protection Scheme on matters concerning implementation of the Health Protection Scheme (HPS), including –

- (a) legislative and institutional proposals for the HPS;
- (b) measures aiming to enhance the viability and mitigate potential risks of the HPS;
- (c) key components of standard plan(s) under HPS;
- (d) rules and mechanisms in support of the operation of HPS; and
- (e) the manner and extent to which public subsidy should be provided.

**Consultative Group on Health Protection Scheme
Health and Medical Development Advisory Committee**

Membership

Chairman

Head, Healthcare Planning and Development Office, Food and Health Bureau

Non-official members

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Ms Shirley YUEN

Ex-officio member

Director of Health or representative

**Consultancy Study on Health Protection Scheme
Progress to Date**

Part I – Private Health Insurance Survey and Claims Review

- In Part I of the consultancy study, the consultant is tasked to collect data and information from different sources, including private health insurers and private hospitals, with a view to conducting a comprehensive review of the current state of private health insurance (PHI) market in Hong Kong. The consultant is also tasked to research into relevant overseas experiences, with a view to drawing useful references and lessons for the case of Hong Kong.
- With regard to collection of PHI market data, the consultant has surveyed eight major health insurers in Hong Kong about their health insurance products, distribution methods, underwriting practices, claims administration and customer profiles, etc. Separately, the consultant has collected detailed health insurance premium and claims data in recent years from the Hong Kong Federation of Insurers.
- With regard to collection of private healthcare market data, the consultant has met with all private hospitals in Hong Kong to collect data on patient profile, diagnoses, procedures and fees. So far eight private hospitals have provided or agreed to provide data for the consultancy study. The consultant has also obtained relevant information and data from Hospital Authority and Department of Health to analyse the utilisation of hospital services on the population level. Separately, the consultant has met with a few panel doctor groups to analyse the market structure of ambulatory care in the private sector.
- With regard to research on relevant experience of overseas jurisdictions, the consultant has focused research efforts on five countries where PHI plays an important role in their healthcare systems, namely Australia, the United States, the Netherlands, Switzerland and Ireland. Particular attention is paid to, among other topics, their regulatory practices of PHI, incentives

and disincentives for taking up PHI, management of costs and medical inflation, claims dispute resolution and high risk pool mechanisms.

- The consultant is in the process of analysing the data collected with respect to, among others, profile of insured persons, utilisation of healthcare services, structure of the PHI market and services provided by the private healthcare sector. It is also in the process of examining overseas experiences relevant to the design of the Health Protection Scheme (HPS), especially for features that are novel in Hong Kong, such as the high risk pool. All these findings are expected to facilitate the design of the HPS and assessment of the scheme's implications under Part II of the consultancy study.

Part II – Actuarial Study

- In Part II of the consultancy study, the consultant is tasked to propose a technically feasible and actuarially sound design for the HPS. It is also tasked to assess the implications of the scheme on various aspects in the short- and long-term, including, among others, the size of population with PHI coverage, healthcare financing structure, healthcare capacity requirement in both public and private sectors, financial implications for the Government, and development of the healthcare service and health insurance market.
- The consultant is in the process of formulating detailed design of the HPS, including, among others, key components of the HPS standard plan(s) (such as benefit coverage and limits), operation rules and mechanisms necessary to support the operation of the HPS (such as guaranteed acceptance, guaranteed renewal, portability and high risk pool), and feasible options of public subsidy or financial incentives to facilitate the implementation of the HPS. A consumer survey in the form of household interviews will be carried out to test market response to illustrative HPS standard plan(s). Findings of the survey will be used to refine the design of the standard plan(s) and provide a basis for projecting take-up and assessing various implications of the HPS.