For information on
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Legislative Council Panel on Health Services
Subcommittee on Health Protection Scheme

Public Funding Support for the Implementation of the Health Protection Scheme

PURPOSE

This paper briefs Members on the Administration's considerations in providing public funding support for the implementation of the Health Protection Scheme (HPS).

PUBLIC FUNDING FOR SUPPORTING THE IMPLEMENTATION OF HEALTH PROTECTION SCHEME

2. To facilitate the Working Group and Consultative Group on HPS to formulate detailed recommendations on the HPS, the Administration has commissioned PricewaterhouseCoopers Advisory Services Limited (the Consultant) to provide technical and professional advice on key issues relating to the implementation of the HPS, including areas where public funding could be considered to ensure the viability and sustainability of the HPS. Having regard to the Consultant's recommendation and other relevant considerations, we would formulate a detailed funding proposal for supporting the implementation of the HPS under necessary and justified circumstances.

Guiding Principles

3. In considering the use of public funding to support the HPS, we would give due regard to all relevant considerations including, but not limited to, the following –

(a) the use of public funding should contribute to the achievement of the objectives of the HPS, namely providing value-for-money services to those who may afford and are willing to use private healthcare services, such as improving access to health insurance coverage;

(b) the use of public funding should contribute to the implementation of Minimum Requirements proposed for individual-based indemnity hospital insurance products (please refer to the Administration's other paper "Refined Proposal on the Design of Private Health Insurance Policies Regulated Under the Health Protection Scheme), which are socially desirable though with cost implications, such as guaranteed acceptance with premium loading cap;

(c) the use of public funding should be conducive to the sustainability of the HPS in the long-run, including encouraging participation in the HPS; and

(d) any provision of public subsidy or financial incentives should be considered on the basis of prudent and reasonable use of public funding. Considerations should also be given to ensure that the public funding would directly benefit the insured and the community at large.

Areas Where Public Funding Might be Considered

4. Taking into account the findings of the Consultant and with the above guiding principles in mind, we have identified a number of areas where public funding might be considered necessary to support the implementation of the HPS.

(A) Enable high-risk individuals to have access to health insurance

5. In the Second Stage Public Consultation, one of the main misgivings expressed by the community is that high-risk individuals have major difficulties and are often unable to purchase private health insurance even if they are willing to do so. Currently, it is not uncommon for insurers to decline health insurance applications by individuals with pre-existing conditions or those with higher health risks (e.g. those with diabetes or suffer from stroke or heart attack, etc.). Where their applications are accepted, additional exclusion clauses will be imposed so that claims arising from pre-existing medical conditions, directly or indirectly, would be excluded from coverage; or a loading at a rate deemed appropriate by insurers will be charged for coverage of pre-existing conditions. Exclusion clauses are often the source of disputes. There are no standardised wordings with well-defined meaning for these clauses across the industry. Nor is there uniform interpretation over such clauses, which are often expressed in highly technical and legal terminologies. The lack of loading cap sometimes

result in exorbitant premium aiming to price out unwanted applications, much to the chagrin of high-risk individuals genuinely wishing to seek health insurance coverage.

6. Under the Minimum Requirements proposed for individual-based indemnity hospital insurance products, insurers offering a Standard Plan are required to guarantee acceptance of –

(a) all ages within the first year of launch of the HPS with a premium loading cap of 200% of standard premium; and

(b) those aged 40 or below starting from the second year of launch of the HPS with a premium loading cap of 200% of standard premium.

7. Given the above requirements, we recognise that insurers might not be able to collect adequate premiums commensurate with the risks taken on for cases with underwriting risks over and above 200% loading. Without a proper mitigation measure, insurers may have to assimilate the excessive risks among their policyholders by charging higher premiums across the board. Since the HPS is a voluntary system, the higher premiums would have the effect of discouraging potential customers, especially those healthier individuals, from taking out private health insurance. This will go against the objective of the HPS to encourage and facilitate more people to take out private health insurance.

8. To tackle the above dilemma, we propose to set up a separate High Risk Pool (HRP) to accept policies of the Standard Plan of high-risk individuals. Under this approach, the Standard Plan policies of high-risk individuals would be transferred to a HRP, which is a separate pool from the "normal" pools consisting of other non-high risk policyholders. In this way, the premiums for non-high risk policyholders in the "normal" pools would not be affected by the excess risks being taken on for providing health insurance coverage to high-risk individuals. We propose that the HRP should be established under the regulatory agency to be set up to supervise the implementation and operation of the HPS. The agency may run the HRP on its own or engage a specialist claims manager for daily management and operation of the HRP.

9. Under the HRP mechanism, if, at the opinion of the insurer providing Standard Plan coverage, the premium loading of the policy is assessed to equal or exceed 200% of standard premium charged by the insurer, the insurer may decide, upon the inception of the policy, to transfer the policy to the HRP. The

insurer will continue to be responsible for the administration of the policy and will receive a nominal administrative fee from the regulatory agency. The premium income (net of administrative fee), claims/liabilities and profit/loss of the policy will be accrued to the HRP under the full control of the regulatory agency, instead of the insurer concerned. Where necessary, the Government would consider injecting funding to the HRP directly to ensure the Pool's sustainability.

10. The HRP is the key enabler of guaranteed acceptance with premium loading cap, which is an essential component of the Minimum Requirements in support of the HPS's goal to improve access to private health insurance. We consider it reasonable and justified for the Government to use public funds to support the HRP. It would be equitable to provide public funding support to enable those high-risk individuals who are willing to contribute to their own healthcare costs through paying premium to obtain health insurance coverage. Without the HRP, most of these high-risk individuals would likely fall back on the public system, which is heavily subsidised by the Government. Enabling some of the high-risk individuals to obtain health insurance coverage through HRP not just offer them the choice to use private healthcare services, but also enable the public healthcare system to better focus its resources on serving its target areas.

11. The Consultant will provide the estimated financial support required for operating the HRP in its final report with reference to a variety of factors, including the estimated number of eligible cases for the HRP having regard to the proposed entry age limit for guaranteed acceptance with premium loading cap, the waiting period for coverage of pre-existing conditions under the Minimum Requirements, estimated claims cost factor of high-risk individuals, and estimated administrative costs for operating the HRP, etc.

12. According to the Consultant, the cost of operating the HRP would likely be under better control if there are effective measures to promote better awareness of healthy lifestyle and encourage active care management. In this connection, the Consultant proposed introducing care management programmes for HPS policyholders in the HRP, such as wellness programmes to induce behavioural changes and to promote greater health consciousness. Wellness programmes are a set of activities designed to proactively assist its members in making voluntary behaviour changes that improve their health and well-being. A wellness programme usually comprises gathering health information from members, developing education and intervention programmes to address identified risk factors, and possibly providing incentives to reward good

performance. Overseas experience suggests that such types of care management programmes could drive better chronic disease management and thus achieving more efficiency and better health outcomes. In the United States, for instance, disease management programmes such as home visits, counselling, medication compliance, etc., had resulted in significant reduction in hospitalization and healthcare service use by patients with chronic diseases like diabetes, asthma or congestive heart failure.

(B) Financial incentives

(i) Encourage take-out of health insurance

13. For the HPS to be rolled out successfully, it is important to start off the scheme with a substantial number of subscribers to generate material impact and motivate market development, such as promotion of no-gap/known-gap arrangement and price transparency. The Consultant will recommend in its final report the feasibility and desirability of financial incentives to encourage take-out of health insurance, including tax deduction for premiums paid for individual-based indemnity hospital insurance policies that comply with the Minimum Requirements, and voluntary supplementary plans purchased by individuals on top of their group-based indemnity hospital insurance policies.

14. Tax deduction has the merits of being simple and easy to understand, and its continuous nature would incentivized policyholders to stay insured over a long period of time. Compared with other forms of financial incentives, such as direct premium subsidy or discount, tax deduction is less susceptible to abuse. Direct premium subsidy or discount would provide an incentive for some insurers to mark up the premiums of HPS plans, thus effectively pocketing a significant portion of the premium subsidy or discount. In comparison, tax deduction would be less easily subject to abuse because the exact amount of tax deduction claimable by individual policyholders would depend on their net chargeable income, which insurers would have little knowledge or control over.

15. Compared with direct premium subsidy or discount, the administrative costs involved in tax deduction would also likely be lower, given that there is already an established mechanism to do so. Direct premium subsidy or discount would be more difficult to implement in practice. Considerable debate in the community would be needed to determine the eligibility for and rate of the premium subsidy or discount, such as whether the subsidy or discount rate should be means-tested, or determined by entry age or

length of subscription; whether breaks in-between subscriptions are allowed, etc. Moreover, implementing direct premium subsidy or discount would require a new administration system to deal with reporting, verification, release of subsidy, monitoring and investigation against fraudulence, etc, and hence resulting in a higher administration cost that would undermine the cost-effectiveness of the measure.

(ii) Incentives for savings

16. In order to encourage policyholders to stay insured continuously and to enhance premium affordability at older age, the Second Stage Public Consultation on Healthcare Reform proposed the option of considering Government incentives to encourage savings by policyholders. Nevertheless, the outcomes of the consultation revealed considerable reservations within the community over the inclusion of compulsory savings component as an essential part of the HPS. According to the Public Opinion Survey conducted between November 2010 to April 2011 in connection with the Second Stage Public Consultation on Healthcare Reform, the proposal of requiring the insured who have received incentives under the HPS to save for premium in their old age was the least favoured by the respondents amongst other proposals of supporting infrastructure for the HPS. We also received views during the Second Stage Consultation raising concerns over the inflexible use of savings for paying premium, the return rate of savings and administrative costs of the savings account. Some considered that compulsory savings would make HPS plans less attractive and discourage people from enrolling in HPS plans.

17. Apart from public views on this issue, it is worth noting that the circumstances in Hong Kong and overseas countries are different. Generally speaking, medical savings accounts are more relevant in countries with high taxes on investment earnings and interests from savings, such as the United States, where people are willing to accept the restrictions on the use of funds in the medical savings accounts in return for tax incentives provided by the Government. Given there is no tax payable on investment earnings and interests from savings in Hong Kong, and that people in Hong Kong are culturally more accustomed towards personal savings, we consider that it would be more appropriate for the savings component to be an optional feature rather than a mandatory feature under the Minimum Requirements. Given such, providing incentives for savings might not be effective use of public money as it may end up benefiting only a limited group of policyholders who are willing to incorporate a savings component in their HPS plans, including those who are already saving or already prepared to save.

ADVICE SOUGHT

18. Members are invited to note the content of the paper.

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