

Bills Committee on Inland Revenue (Amendment) (No. 4) Bill 2018

Government's response to submissions

Purpose

This paper sets out the Government's response to the submissions from Business and Professionals Federation of Hong Kong, Civic Party, The Hong Kong Medical Association, Hong Kong Patients' Voices and Liberal Party (CB(2)1729/17-18(03) to CB(2)1729/17-18(07)) concerning Inland Revenue (Amendment) (No. 4) Bill 2018 (the Bill).

The Submissions

2. The key concerns and suggestions as reflected in the five submissions are extracted in paragraphs 3 to 6 as follows.

3. Some submissions support the implementation of the Voluntary Health Insurance Scheme (VHIS). One of them considers VHIS to be a "stepping stone towards a more coordinated total healthcare strategy encompassing both public and private healthcare"¹. Specifically, it may help alleviate pressure on public healthcare system. However, it is suggested that the High Risk Pool (HRP) proposal should be reviewed in future. One submission opines that the benefit limits under the Standard Plan (e.g. \$80,000 for prescribed non-surgical cancer treatment) are too low, and hence the Government should provide additional subsidy for people who need cancer treatments. Furthermore, it is suggested that additional subsidy on insurance premium should be provided for young people.

4. Some consider that the tax deduction can incentivise the public in taking up VHIS. However, the annual maximum deduction allowable in respect of each insured person is suggested to be increased, say from \$8,000 to \$20,000. One submission recommends that the tax deduction arrangement should be extended from VHIS to all health insurance products.

¹ Paragraph 2 of LC Paper No. CB(2) 1729/17-18(03) refers.

5. One submission suggests that VHIS should cover outpatient services. Furthermore, it is proposed that the Government should regulate the administration cost of Certified Plans under VHIS.

6. Two submissions suggest that Government should increase expenditure on the public healthcare system.

Response to the Submissions

7. The Government's consolidated response is as follows -

HRP and Providing Premium Subsidy for Selected Groups

8. During the public consultation exercise, some respondents questioned the concept of using public money to help high-risk individuals to purchase private hospital insurance, and the financial sustainability of the proposed HRP in general. Given the public's diverse views on HRP, we mentioned in the consultation report that a more prudent approach is to implement VHIS with the proposed features other than the HRP first. The HRP proposal would be re-examined at a later stage, taking into account, among others, the experience of the actual implementation of VHIS.

9. Providing premium subsidy for selected groups (e.g. people that need cancer treatments) to use private healthcare services also involve the use of public money to help high-risk individuals. The proposal may be examined together with the HRP proposal at a later stage.

Additional Subsidy for Young People

10. We wish to stress that the tax deduction is **not** meant to be the key or sole incentive for the public (including the young and healthy) to purchase Certified Plans under VHIS. Compared with many existing indemnity hospital insurance products (IHIPs), Certified Plans under VHIS are more attractive to young people in a number of ways, e.g. guaranteed renewal until 100 years old of the insured, premium adjustment not to be based on changes in the health condition of that individual insured; no "lifetime benefit limit"; and coverage extended to include unknown pre-existing conditions and ambulatory procedures including endoscopy.

Increasing the Maximum Deduction Allowable

11. The Government's proposal to peg the maximum deduction allowable in respect of each insured person at \$8,000 per year is already a very generous offer. Under this cap, the premium of about 90% of Standard Plan policy holders is estimated to be fully allowable for tax deduction. Furthermore, a person can apply for tax deduction if he / she purchases Certified Plan under the VHIS for himself / herself or his / her specified relatives. There is no cap on the number of specified relatives. This arrangement provides more flexibility for tax deduction.

Extending the Coverage of Tax Deduction from VHIS to all Health Insurance Products including Outpatient Services

12. The policy objectives of VHIS are to improve the quality of IHIPs and offer consumers a more comprehensive choice of quality IHIPs. By improving the accessibility, quality and transparency of IHIPs, consumers will have more confidence and certainty in purchasing insurance coverage for use of private healthcare services when needed, thereby alleviating the long-term financing pressure on the public healthcare system. The nature of other health-related insurance products such as outpatient insurance plans, hospital cash plans or critical illness insurance is different from the aforementioned policy objectives, and hence cannot be covered by the proposed tax deduction.

Regulation of Premium and Administration Cost

13. In accordance with the free market principle, the Government has no plan to regulate the level of insurance premium (including administration cost). That said, VHIS covers a series of features that promote market competition and enhance cost-effectiveness, including the extension of coverage to ambulatory procedures and enhancement of premium transparency, etc. These arrangements can help contain medical inflation and promote healthy market competition among insurers.

Increase Expenditure on the Public Healthcare System

14. The Government is investing heavily in the public healthcare system. VHIS, being part of our effort to recalibrate the public-private balance among other important policy initiatives, will **not** eat into the resources for meeting

patient needs and the needs of the Hospital Authority (HA). VHIS is **not** intended to be a total solution for all healthcare-related issues.

15. Public healthcare services have been and will continue to be the cornerstone of our healthcare system, acting as the healthcare safety net for all local residents (including high-risk individuals). Even if high-risk individuals may not be able to purchase IHIPs, the public health services will continue to take care of the medical needs of these people. The total recurrent provision for HA in 2018-19 amounts to \$61.5 billion, representing an increase of 10.7% over the 2017-18 revised estimate (\$55.5 billion). To sustain continuous improvement in our public healthcare services, the Government will progressively increase the recurrent provision for the HA on a triennium basis, having regard to population growth and demographic changes.

Food and Health Bureau

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