ON THE HARVARD TEAM'S RECOMMENDATIONS

Peter P. Yuen, PhD
Professor
Department of Management
The Hong Kong Polytechnic University

The long awaited report on Hong Kong's health care financing and delivery system by the Harvard School of Public Health has finally been published. The consultants reviewed the strengths and weaknesses of Hong Kong's existing system, examined a number of options for improvement, and proposed a series of recommendations. Amongst the 10 proposed "Steps Forward", the recommendations on changes in financing health care services appear to be most controversial.

This article seeks to review the four major financing related recommendations that have attracted most attention in media: (1) the implementation of mandatory long term care savings accounts (MEDISAGE); (2) the establishment of a mandatory health insurance scheme, known as the Health Security Plan (HSP); (3) the expansion of subsidized primary outpatient services; and (4) the development of 12 to 18 competing health integrated systems (HISs) to replace the Hospital Authority. Each of these proposals will be assessed by contrasting it with existing arrangements.

MEDISAGE

The Harvard Team proposes the establishment of individual mandatory savings accounts, as part of the mandatory provident fund, to be used to purchase long-term care insurance upon retirement or disability. Contributions to this savings account is estimated to be around 1% of salary, to be made jointly by employees and employers. For the low-income and unemployed, the contributions will be made by the government. Upon retirement, the balance in the savings account will be used to purchase a long-term care insurance policy, offered by private insurance companies. The insurance will pay for the cost of long-term care, such as nursing home stay, visiting nurse services and home helper services, if and when required.

The MEDISAGE scheme will provide additional funds for the development of long term care services, which currently are very much underdeveloped. Most elderly persons do not have the resources to purchase long term care for themselves. The burden often falls on their children, but many of them are unable and/or unwilling to pay for the services needed by their parents. The number of places in government and government subsidized nursing homes are grossly inadequate, resulting in long waiting lists. The quality of care in many private nursing homes are not up to standard. Visiting nurse and home helper services are also far from sufficient to meet the needs. The present situation is already extremely unsatisfactory, and the situation is likely to worsen as the population ages. Such type of scheme is absolutely necessary if the long term care needs of the elderly are to be met, Under such a plan, all elderly residents in Hong Kong will be protected, and they will not be a burden to their children or taxpayers in the event of disability. More and better long term care services will be developed as the scheme will provide more funding for these

services. The administrative costs of these savings accounts will be relatively low, as these accounts will be a part of the Mandatory Provident Fund scheme, which, in any case, will have to be in place to collect retirement contributions.

There are still many details that need to be studied, such as: whether the contribution of 1% of salary is adequate? when should a person begin to contribute? whether the benefits should be uniform for all regardless of the amount contributed or whether a higher level of benefits could be given to those who have contributed more? and who will assess and decide whether an individual is eligible to receive the benefits?

Health Security Plan (HSP)

The Harvard Team proposes the introduction of compulsory insurance for inpatient hospital services and specialist outpatient services for certain chronic conditions. The plan involves the compulsory deduction of 1.5 to 2 % of employees' salary as premium for this community wide insurance, to be managed by a Health Security Fund Inc. Family members of employees will be covered by the scheme. The unemployed and the elderly are also covered, and their premium will be paid by the Government. Patients can seek care from private or public hospitals, and the services will be paid for by the Health Security Fund. There will be deductibles and coinsurance payments for most patients. For the low income and elderly patients, such co-payments will be made by the Government. The Government will no longer provide funds to public hospitals for their recurrent expenditures. All hospitals, public or private, will have to compete for patients to survive. General outpatients services are not covered by the scheme.

The attractiveness of this proposal is the implementation of the "money follows the patient" concept. Under this system, each and every Hong Kong resident becomes an income generating customer of public and private hospitals. Hospitals that are unable to attract patients to their hospital will face financial consequences. Furthermore, this system will bring in more resources to the health care system through the mandatory salary deductions. The Harvard Team predicts, using a financial projection and simulation model, that the existing tax-based funding system would not be sustainable.

One negative aspect of this proposal is the costs associated with the implementation of such a scheme. The scheme will involve the setting up of a huge bureaucracy to administer the Health Security Fund. Claims will have to be filed with the Fund for every single hospital stay and specialist clinic visit. The Harvard Team has estimated that the administrative cost for the Health Security Fund Inc. would be in the range of 3 to 5 % of the total fund. This does not include the administrative costs incurred by public hospitals as a result of the implementation of the central insurance scheme. Each hospital will have to develop elaborate accounting, collection, and case-mix systems, which are unnecessary under existing arrangements, and hence do not exist.

The second negative aspect of this proposal is the change in providers' behaviour as a result of the change in financing system. With the "money follows patients" reimbursement system, there are strong incentives for providers to over-provide, a phenomenon known as "supply-side moral hazard". Under the current system, there are no incentives for providers in public hospital to deliver unnecessary care, as public hospitals are given a fixed budget at

the beginning of the year regardless of the amount of services rendered. In an insurance based system, in which hospitals' income depends on the number of patients admitted, there is a greater tendency for public hospitals to admit patients unnecessarily. The additional expenses incurred as a result of such behaviour could be very substantial.

The proposal is also based on the analysis that the existing tax-based financing system is unsustainable. The projections by the Harvard Team show that by the year 2016, public health care expenditure will increase from the current level of 14% of total public expenditure to 20% of total public expenditure. This unsustainable argument is, however, based on a number of questionable assumptions: (1) the first assumption is that the rate of increase in public health care expenditure for the next 20 years will be similar to the rate of increase during 1991 to 1996. These 6 years happen to be the first 6 years when the Hospital Authority was first established. There were major expenditures on infrastructure development during those years; (2) the second assumption is that the existing share of total public expenditure amongst different services (ie health care, education, housing, etc.) is optimal for the present and the year 2016. If there is an increase in the percentage of elderly population in 2016, should the amount of spending on education not be changed as there will be fewer young people needing education services? If property prices continue to stabilize, |
should the amount to be spent on public housing not also decrease? (3) a third assumption is that there can be no increase in taxation, despite the fact that Hong Kong's tax rate is amongst the lowest in the world. A modest increase in salary and |
corporate profit tax can bring in the same amount of additional income for health care which the HSP promises to bring in without the additional administrative costs and increased in unnecessary utilizations associated with insurance systems.

Clinics in Low-income Communities

The Report proposes to take 20 to 25% of the recurrent budget of the Hospital Authority to establish subsidized family medicine clinics in low-income communities. Patients will pay only 20% of the true cost of each visit. The rationale for this proposal is that public funds should be targeted at the poor and at services that are most cost-effective.

While few would argue against the desirability and cost-effectiveness of family medicine. this proposal, however, assumes that outpatient services accessibility is a problem in Hong Kong. A review of the facts show that private outpatient services in Hong Kong are quite competitively priced, and are, for the most part, affordable to the general public. Private general practitioner's clinics are found extensively in low-income areas such as public housing estates. The elderly and the low income can also received subsidized care from the General Outpatient Clinics of the Department of Health. While there are problems with the quality of care delivered by some of these providers, accessibility, in general, is not a problem.

It is a known fact that demand side moral hazards (ie consumers would consume more services than what is necessary because they do not have to pay the full cost) is widespread in outpatient services. The proposal to subsidize 80% of the cost of visit is an open invitation to abuse.

Competitive Integrated Systems

The Report proposes to dismantle the Hospital Authority, and to set up, in its place, 12-18 Health Integrated Systems (HISs), each offering a comprehensive range of primary, secondary and tertiary care. This scheme is proposed as the solution to the problem of compartmentalization of different levels and sectors of health care services. The Report does not provide much details regarding the scheme, except that the Health Security Fund would continue to be the single payer, and each HIS would contract with GP's and other providers to provide a comprehensive benefit package for their enrolled members.

It is not clear how much more in terms of salary deduction the consumer has to make to pay for the added primary care services. Nor do we know the amount of co-payment required for general outpatient services under such scheme. The lack of the operational details makes assessment of the scheme difficult.

It is, however, reasonable to assume that the scheme would be costly because of the following reasons: (1) the economy of scale of having one authority serving the whole SAR will be lost. Many functions, such as personnel, planning, IT, etc, currently performed centrally, will have to be replicated for each HIS; (2) the control over capital expenditure would be more difficult under such system. Each HIS will want to acquire state of the art equipment and facilities in order to compete; and (3) the utilization of outpatient services will bound to go up. Under the current system, direct payment to providers by patients is the dominant form of payment for outpatient services. This mode of payment is always more effective in controlling unnecessary utilization than the proposed prepayment system, which does not require full payment at the point of consumption.

Conclusions

In short, there are grounds for the implementation of the long term care savings/insurance scheme. However, the evidence on the need for compulsory health insurance, subsidized outpatient clinics, and regional based integrated health systems does not appears to be strong.