Supplementary financing in Hong Kong's mixed health care economy – Health Protection Scheme 2010

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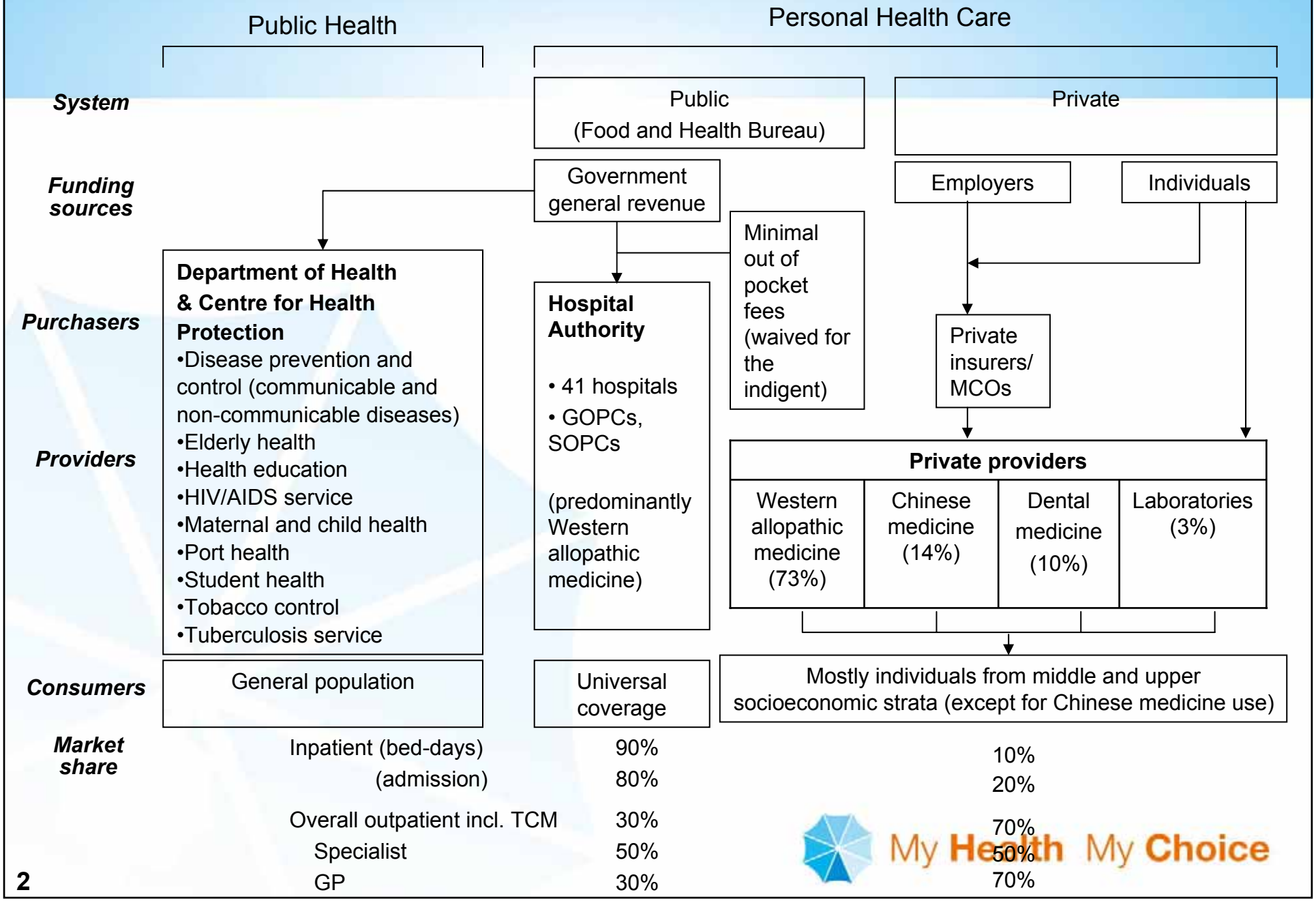
Macro-organisation of the HK Health System



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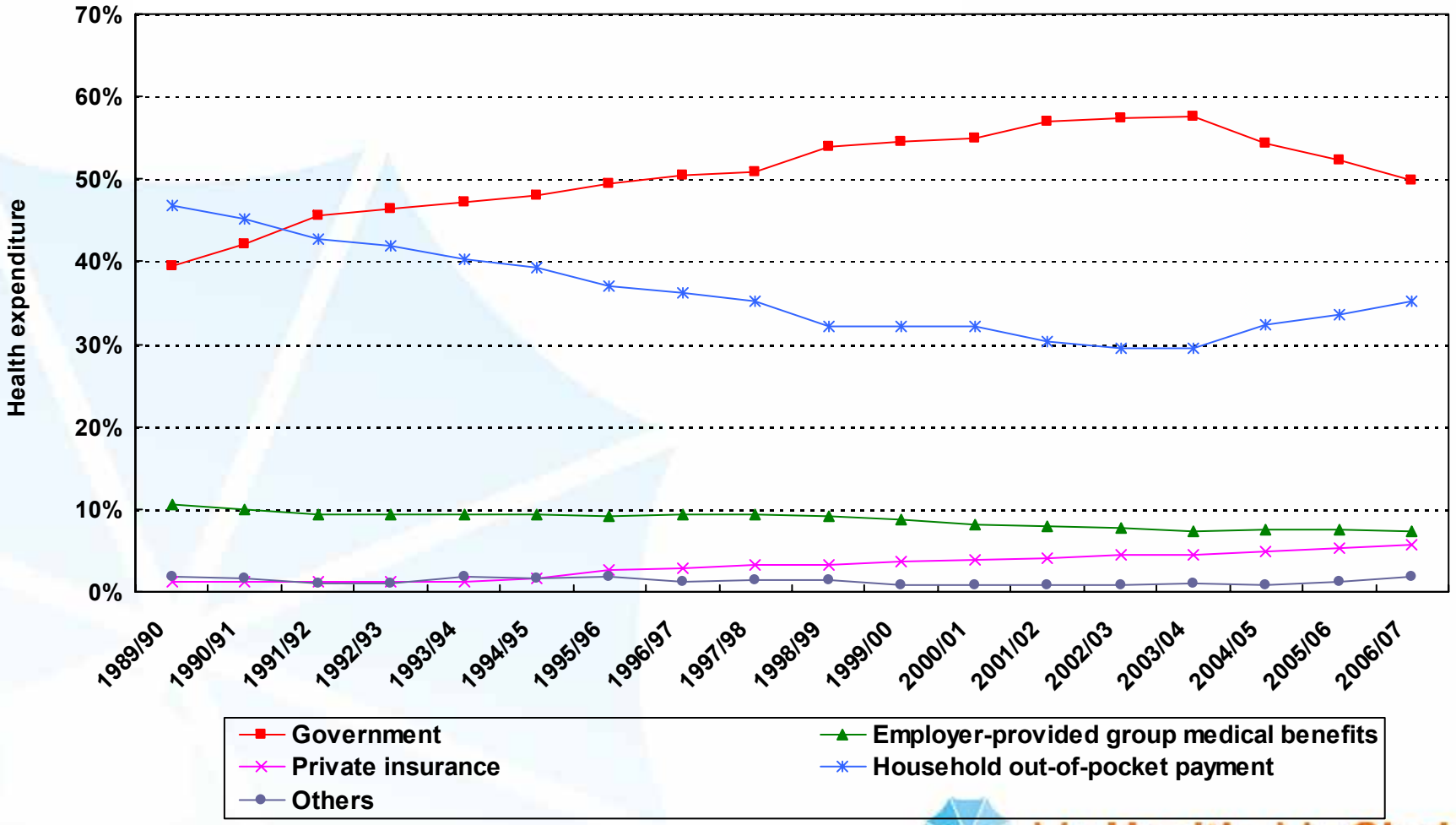
Health spending by financing source



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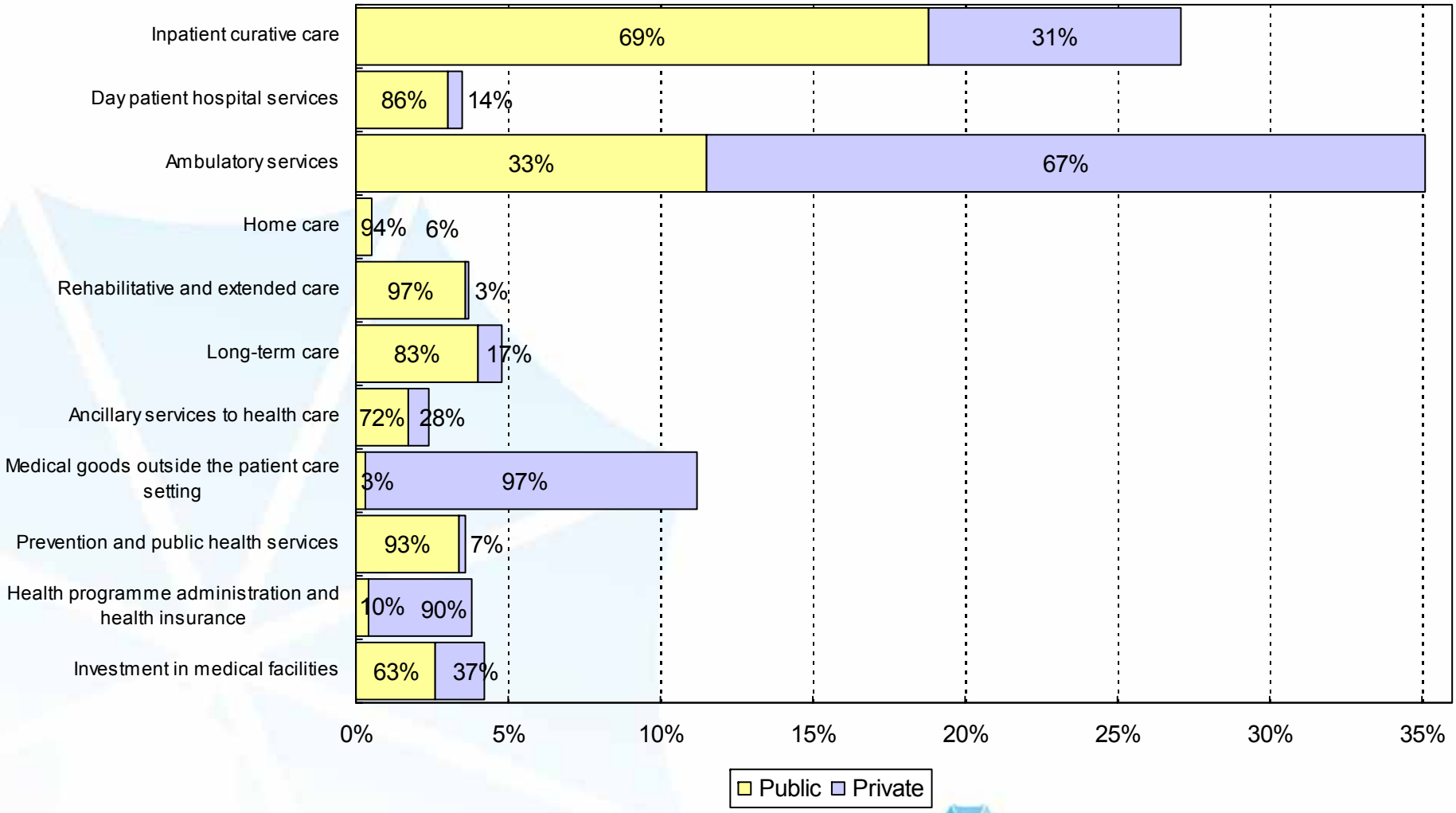
Source: Hong Kong's Domestic Health Accounts 1989/90 – 2006/07

Total Health Expenditure by Financing Source, 1989/90-2006/07 (HK$ Million)

	1989/90	1992/93	1995/96	1998/99	2001/02	2004/05	2005/06	2006/07	Average Annual Change 1989/90 to 2006/07
Government	7,749	15,844	25,316	35,800	39,152	37,094	36,930	37,417	9.7%
PHI	2,338	3,622	6,015	8,198	8,117	8,434	9,057	9,786	8.8%
Individually purchased PHI	263	419	1,336	2,188	2,721	3,284	3,663	4,213	17.7%
Employer-provided PHI	2,075	3,204	4,680	6,010	5,396	5,150	5,395	5,573	6.0%
Out-of-pocket	9,202	14,332	18,963	21,347	20,847	22,114	23,753	26,451	6.4%
Others	370	375	993	928	571	620	903	1,394	8.1%
Total	19,659	34,173	51,288	66,273	68,687	68,263	70,643	75,048	8.2%

Source: Hong Kong's Domestic Health Accounts 1989/90 – 2006/07

Health spending by healthcare function and financing source (2006/07)



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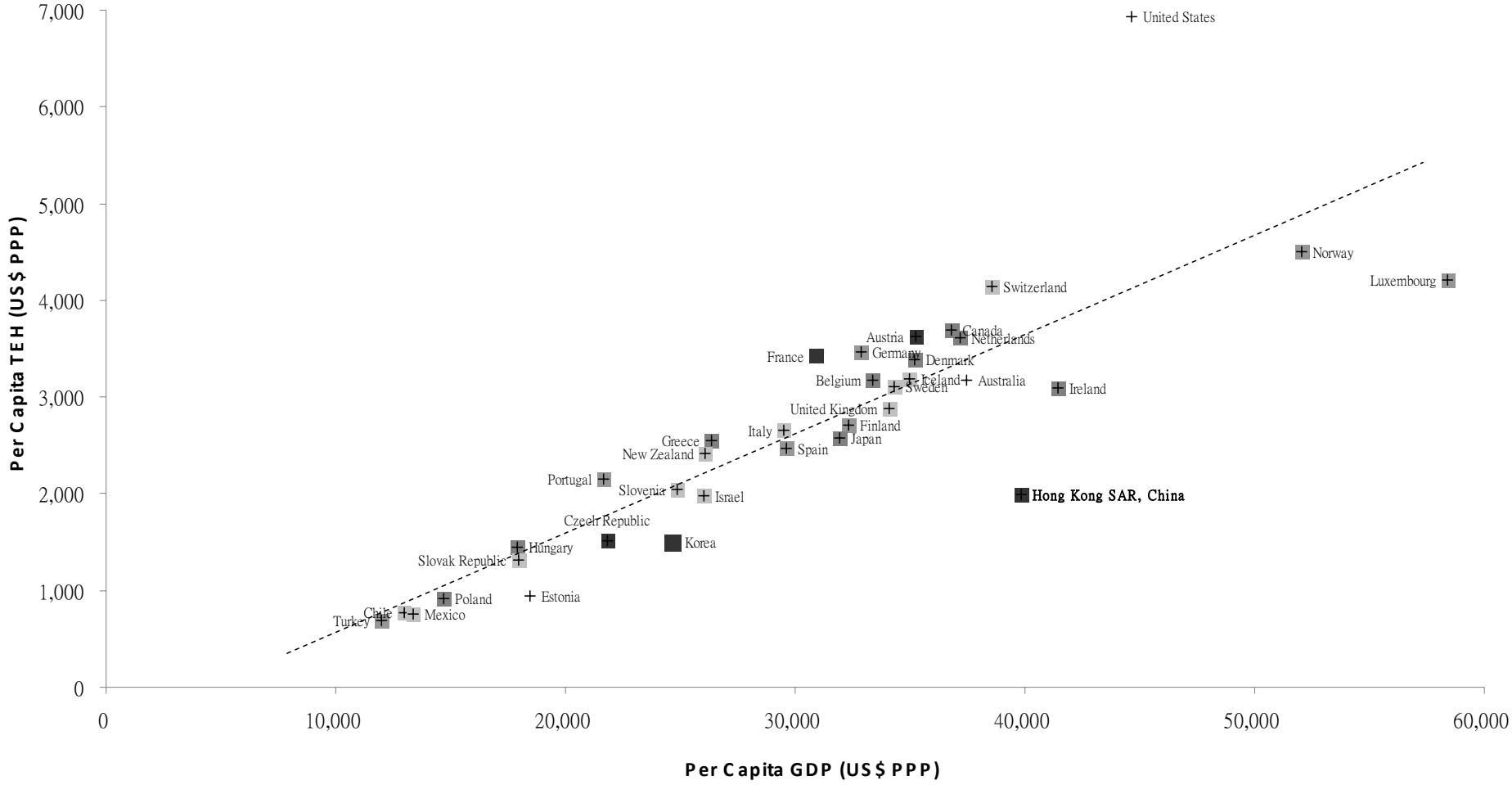
Source: Hong Kong's Domestic Health Accounts: 2006/07

Hong Kong has spent relatively less on health compared to OECD countries



2006

Source: OECD Health Data 2010, June 2010
Hong Kong's Domestic Health Accounts: 2006/07

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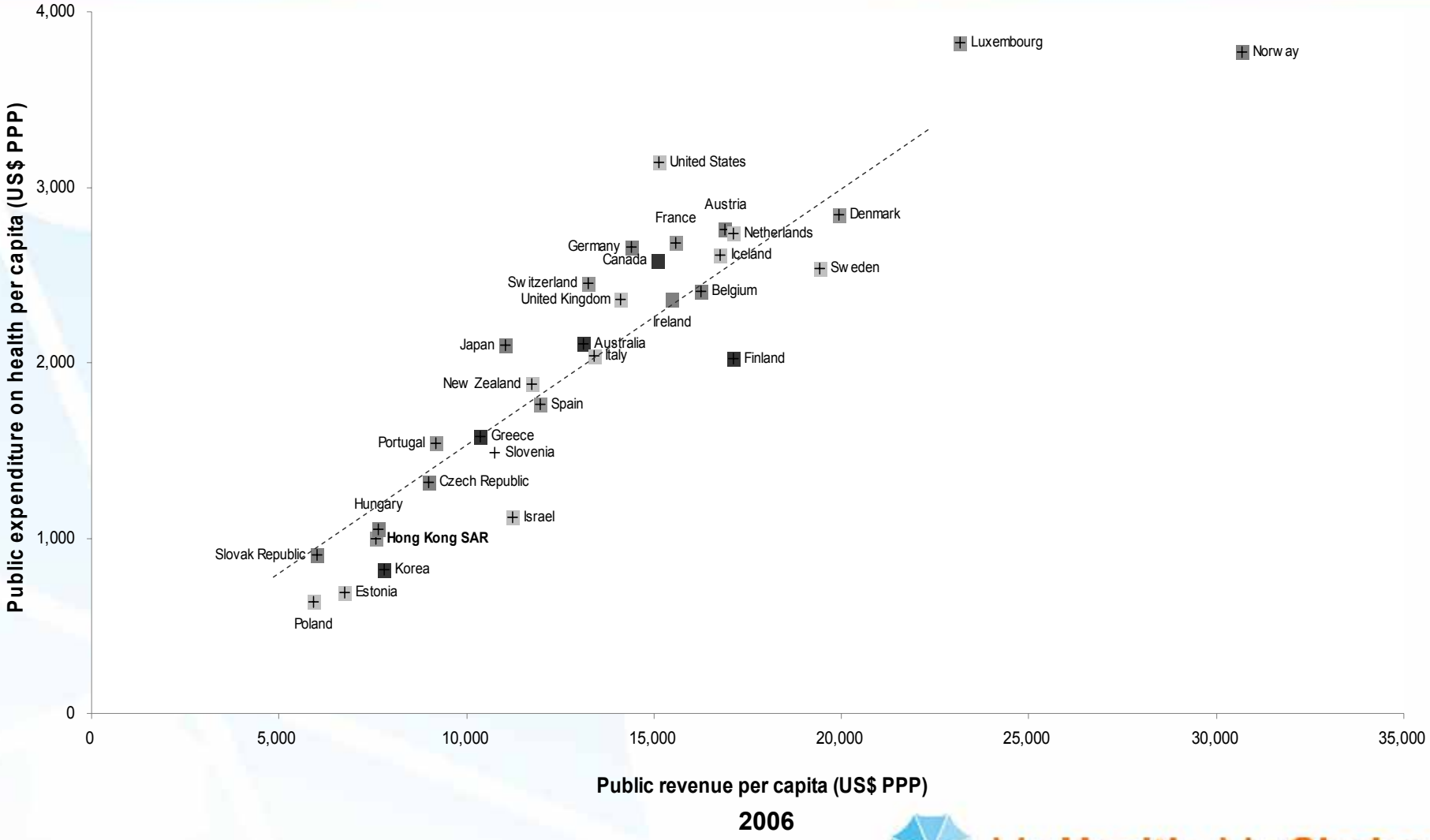
…although public spending is commensurate with the different levels of public revenue between countries



Source: OECD Health Data 2010, October 2010
Hong Kong's Domestic Health Accounts: 2006/07

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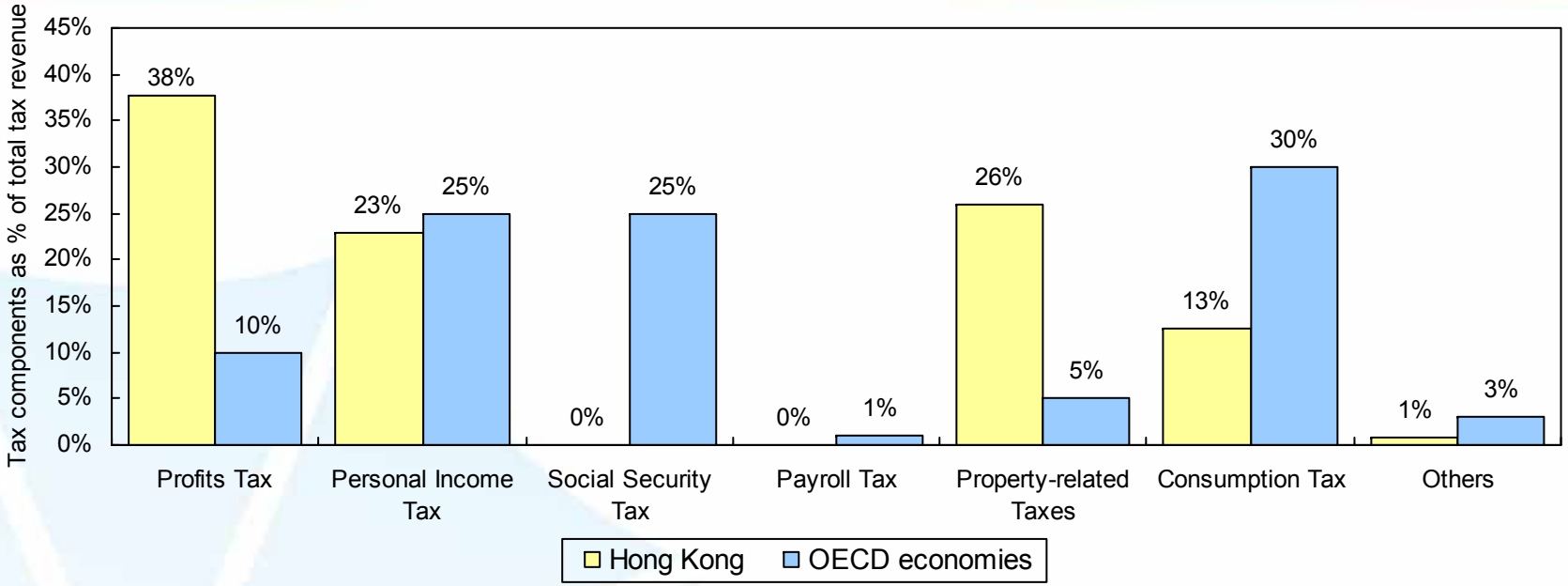
Sources of Government Revenue

Notes:

- Indirect taxes include bets and sweeps tax, hotel accommodation tax, stamp duties, air passenger departure tax, duties, general rates, motor vehicle taxes, royalties and concessions, and tax-loaded fees and charges.
- Others include fines, forfeitures and penalties, loans, reimbursements, contributions and other receipts, utilities, fees and charges (excluding tax-loaded fees), and capital revenue (excluding land premium).

Source: Census and Statistics Department website

Hong Kong tax revenue compared to OECD economies in 2009



Notes:

- Profits Tax includes Profits and Capital Gains Taxes on enterprises.
- Personal Income Tax includes salaries tax, personal assessment and property tax.
- Social Security Tax includes all compulsory payments that confer an entitlement to receive a future social benefit. Hong Kong has a Mandatory Provident Fund Scheme that provides for retirement benefits. For OECD definitional purposes, this is not considered as a social security tax.
- Payroll tax includes taxes paid by employers, employees or the self-employed which do not confer entitlement to social benefits. There is no such tax in Hong Kong.
- Property-related Taxes include rates, stamp duties, and estate duty. (Estate Duty was abolished with effect from 11 February 2006)
- Consumption Tax includes taxes on all goods and services. In Hong Kong, it includes duties, bets and sweeps tax, hotel accommodation tax, air passenger departure tax and motor vehicle tax.
- In Hong Kong, Others refer to income from royalties and concessions.
- Figures for Hong Kong are in 2009/10.
- The OECD figure does not add up to 100% due to rounding.

Source: Revenue Statistics, 1965 – 2009, 2010 Edition
Hong Kong Annual Digest of Statistics 2010, C&SD

A historical timeline of public consultations

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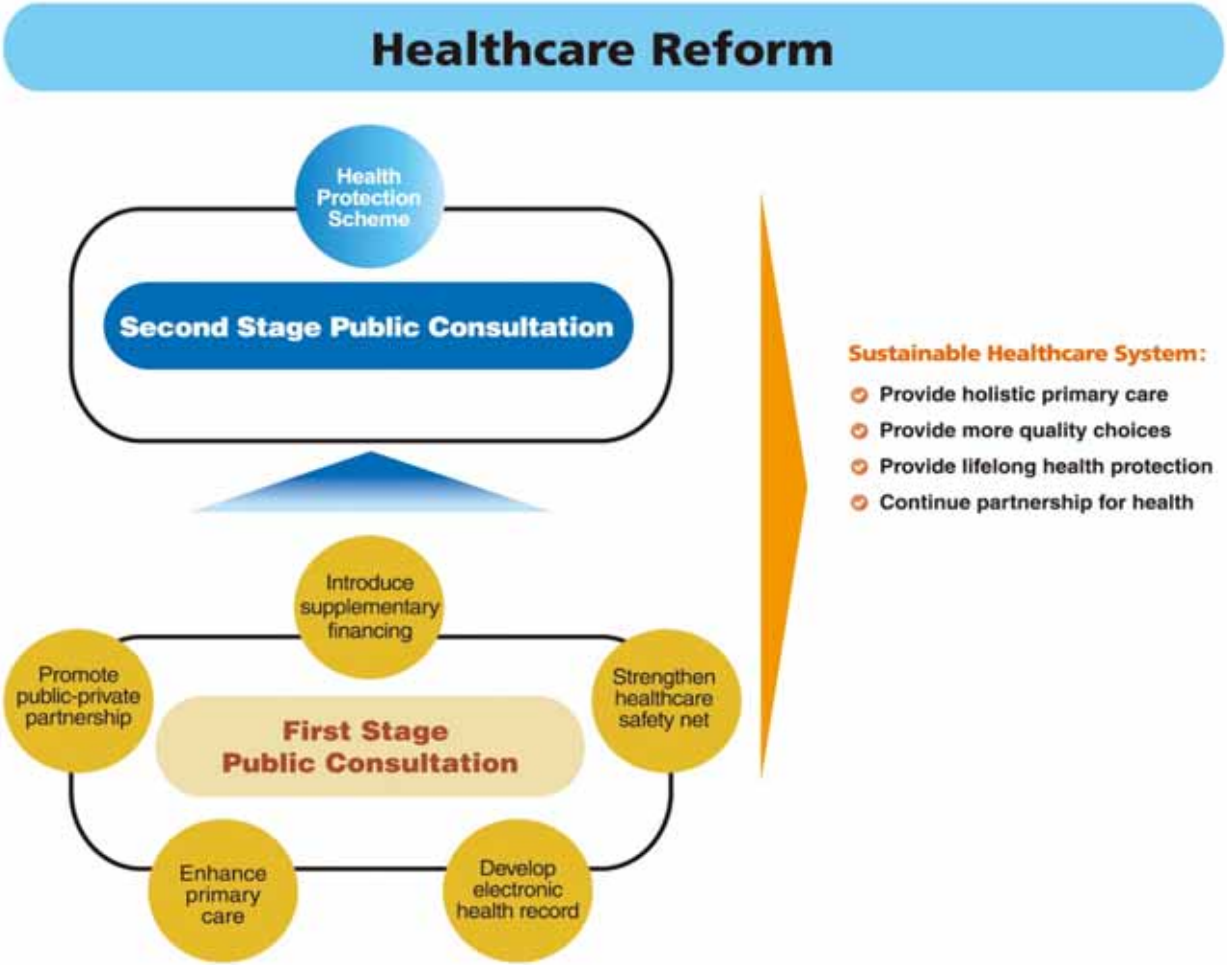
Where are we now?



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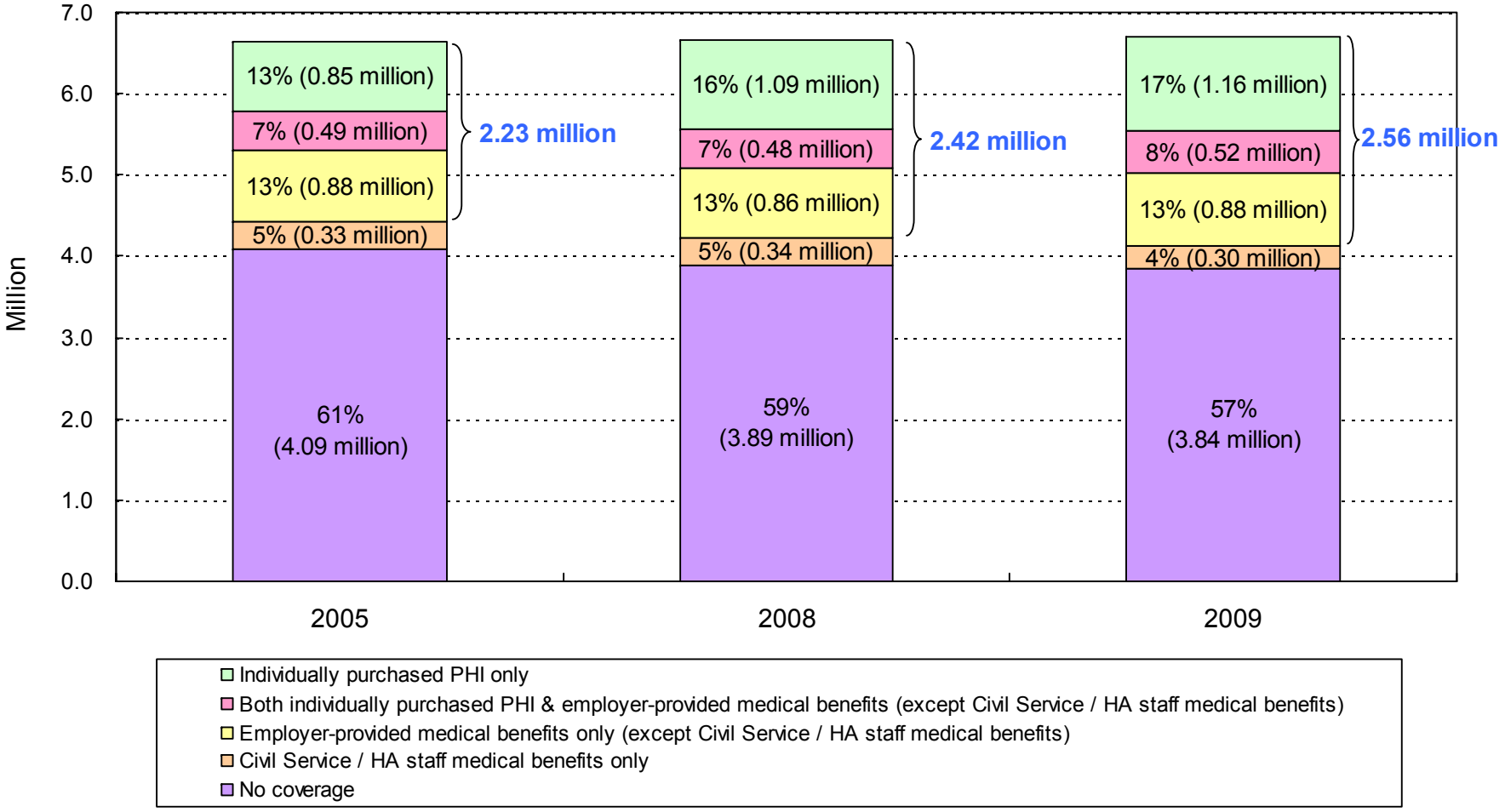
Population Coverage of PHI, 2005 to 2009



Source: Thematic Household Survey 2005, 2008 and 2009

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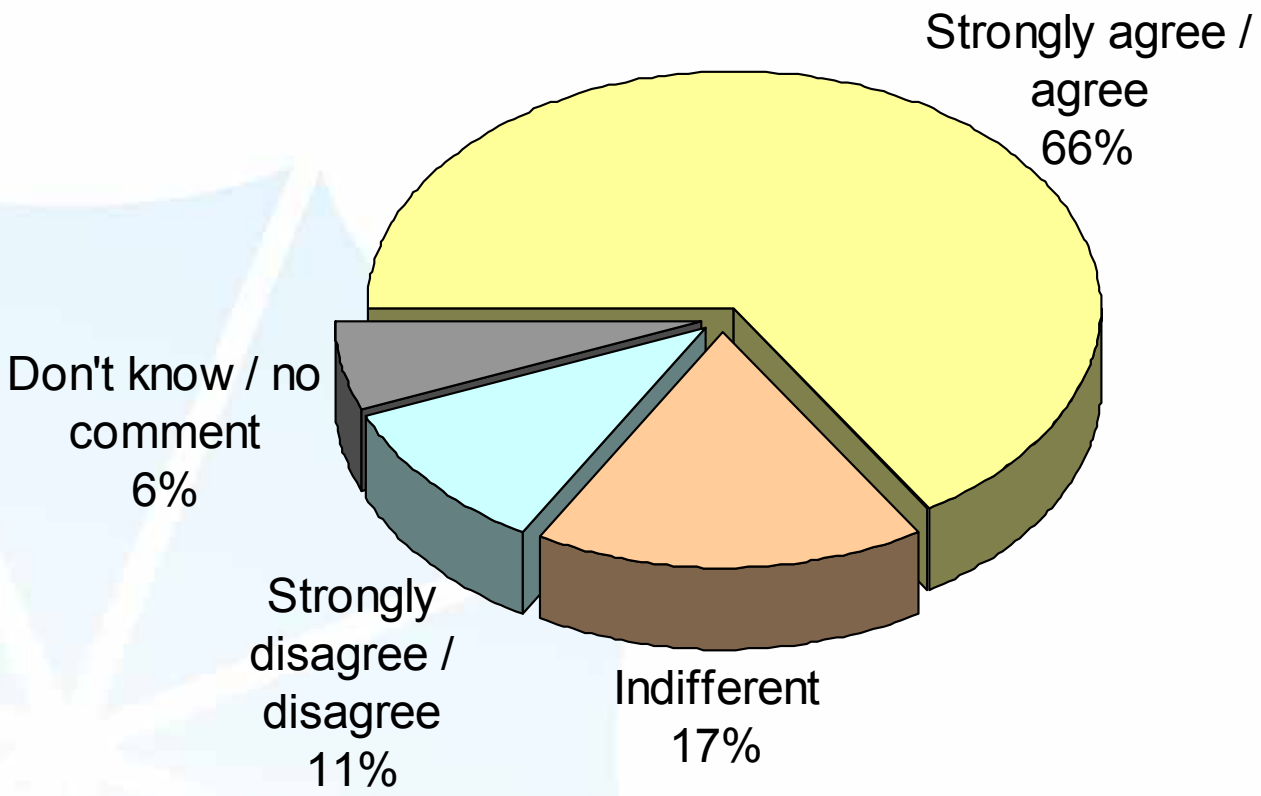
Need to Reform Healthcare System



Source: Opinion Poll on Healthcare Reform and Financing, March to August 2008

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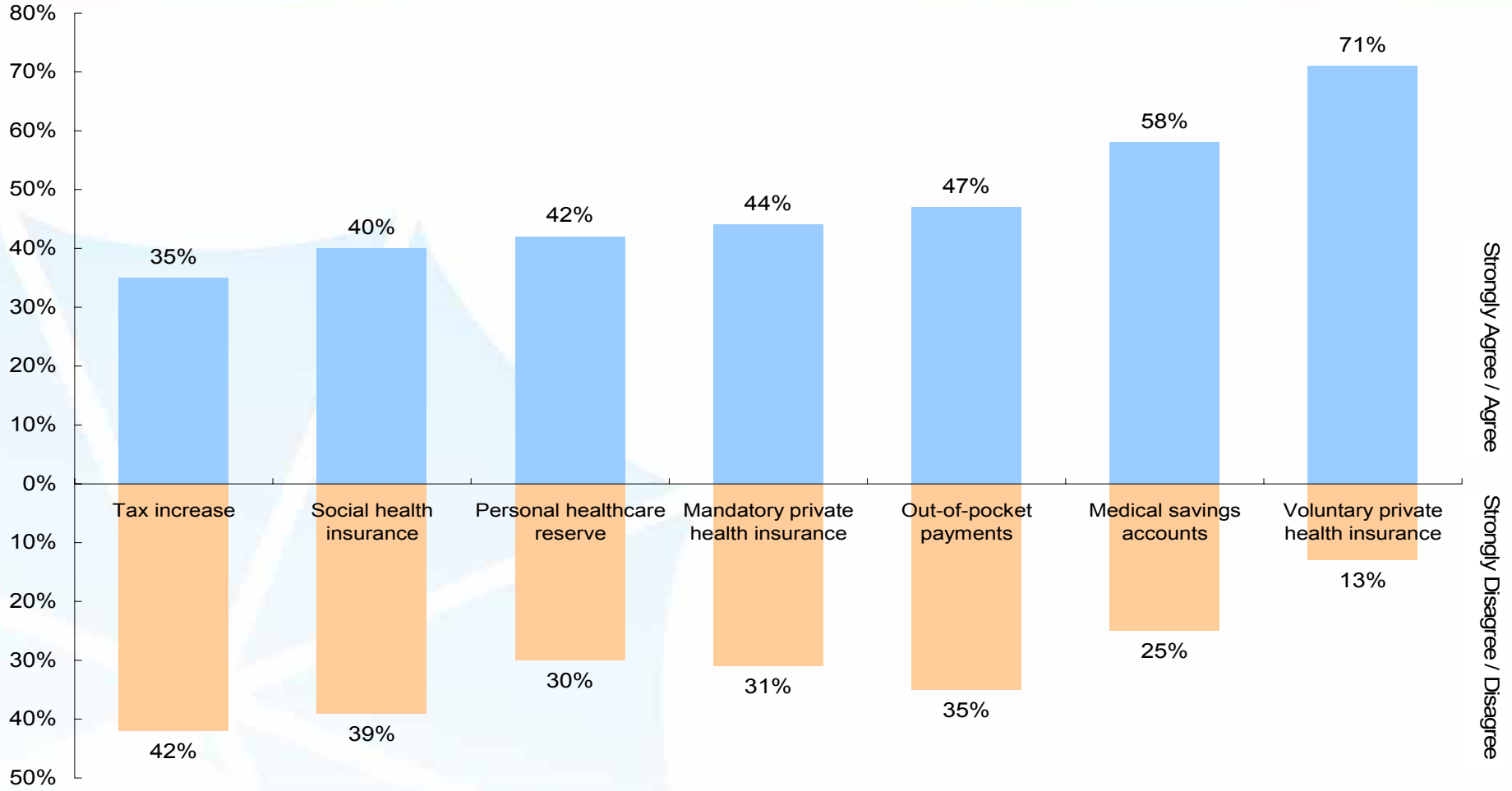
Voluntary Private Health Insurance Preferred



Source: Opinion Poll on Healthcare Reform and Financing, March to August 2008

My Health My Choice

How did we get here?

- **On the public revenue side, spending on health has been broadly commensurate. Without a major review and revamp of the public revenue model, there is limited scope to generate new resources for health**
- **Private insurance as a financing source has grown considerably, although adverse and risk selection remain unresolved. Many products are designed to take advantage of the public delivery system, exacerbating these abnormal economic forces**
- **First Stage Consultation (2008): Healthcare Service and Financing Reform**
  - The public support reform in general, but have reservations about mandatory supplementary financing
  - Prefer voluntary private health insurance, and choice of private healthcare services according to one's needs
  - Want more choice and better protection beyond public healthcare services provided by the Government

My Health My Choice

Second Stage Consultation (2010)

- **Voluntary Health Protection Scheme (HPS)**
  - Standardise and regulate voluntary private health insurance by legislation for consumer protection
  - Formulate HPS core requirements and specifications to address shortcomings of existing private health insurance
  - Consider making use $50 billion fiscal reserve to provide incentives to HPS subscribers

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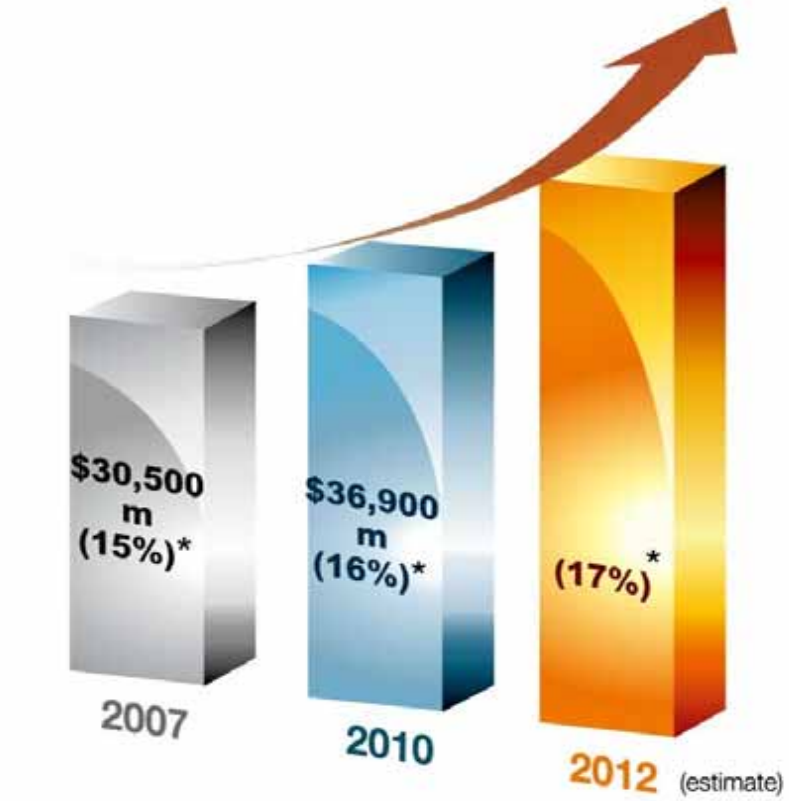
Public Healthcare:
Unwavering Government Commitment



* Recurrent expenditure on health as a share of the Government's total recurrent expenditure

4 Core Targets:

- Acute and emergency care
- Care for low-income and under-privileged groups
- Catastrophic illness requiring professional team work, advanced technology and high cost
- Training of healthcare professionals

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Health Protection Scheme: Voluntary and Government-Regulated

HPS benefits everyone

Health insurance:

- Accessible to all
- Guaranteed renewal
- Fully portable
- Transparent premium
- Consumer protection

Private healthcare:

- Increase capacity
- Quality assurance
- Healthy competition
- Transparent pricing
- Consumer confidence

Public healthcare:

- Safety net for all
- Queue relief
- Needy groups
- Acute & emergency care
- Catastrophic care

Healthcare system:

- More choices and better protection
- More sustainable development

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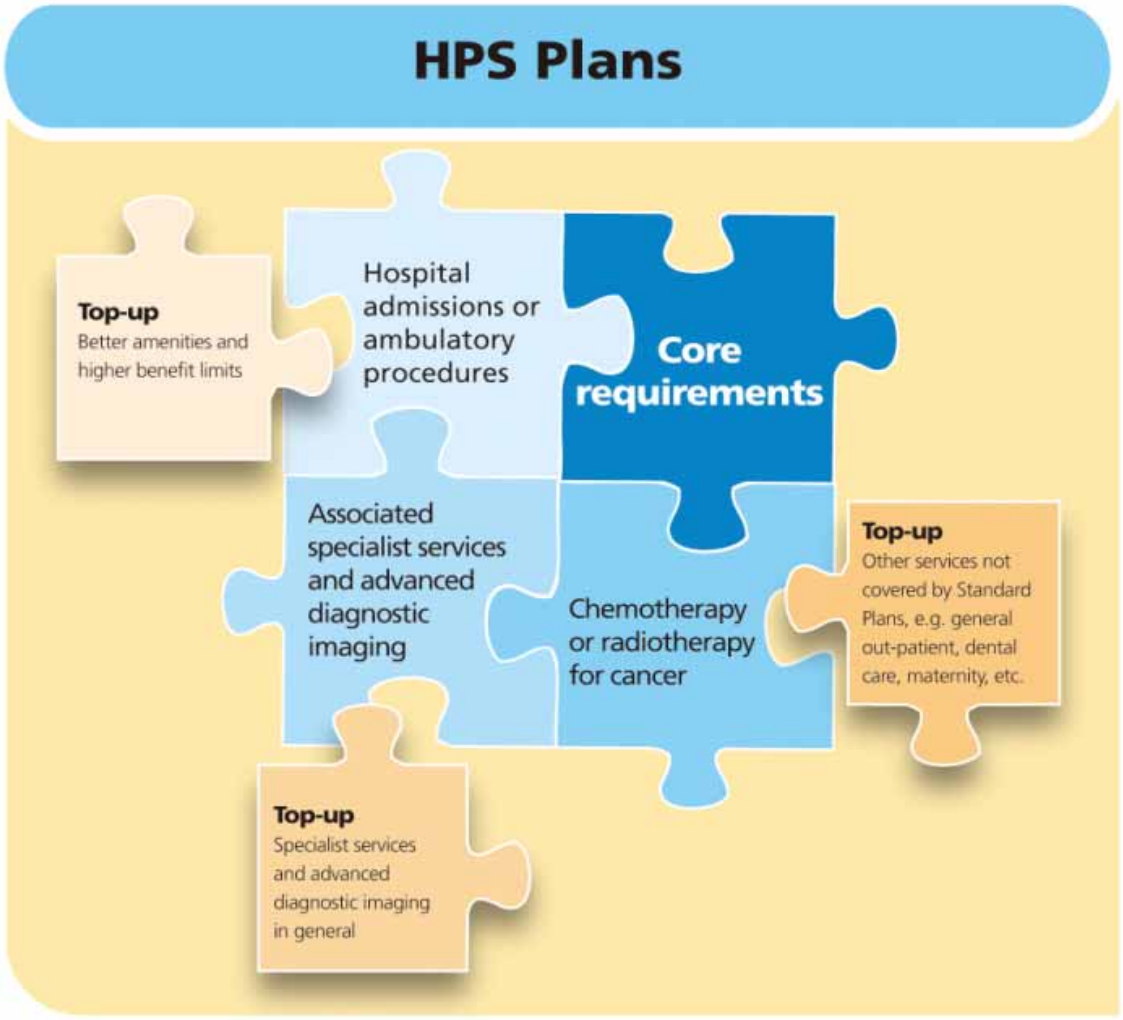
Health Protection Scheme – What it is (is not)

HPS is …	HPS is not …
A **supplementary financing** option for more effective use of private health expenditure, with a positive effect on the sustainability of long-term healthcare financing	**Not** a panacea that can solve the long-term healthcare financing problem completely given its voluntary nature
A **regulated scheme** to promote value-for-money services and enhance consumer protection in the private healthcare insurance and healthcare markets	**Not** a reduction of public health expenditure or public healthcare services which remains the safety net for all
A measure to facilitate **healthcare service development**, enhance service capacity, competition and transparency in private healthcare, relieve pressure on public system, and enhance sustainability of healthcare system	**Not** a once-and-for-all scheme – it requires continued monitoring and adjustment, including the use of the $50 billion fiscal reserve set aside

Health Protection Scheme – Better Protection

	Health insurance plans under Health Protection Scheme	Private health insurance plans generally available in the market
Guaranteed renewal for life	Yes	Offered by about half of the insurers
Coverage for pre-existing conditions	Increasing protection after waiting period	Usually not covered by individual insurance policies
Portability of insurance policies	Yes	No
Upfront certainty of protection & charges	Yes (packaged charging based on diagnosis-related groups (DRG))	No (only itemised charging)
High-Risk Pool reinsurance	Yes	No
No-claim discount	Yes	No
Premium adjustment	With published guidelines	No guidelines
Standardised terms and conditions	Yes	No
Govt-regulated claims arbitration mechanism	Yes	No

Health Protection Scheme – Coverage



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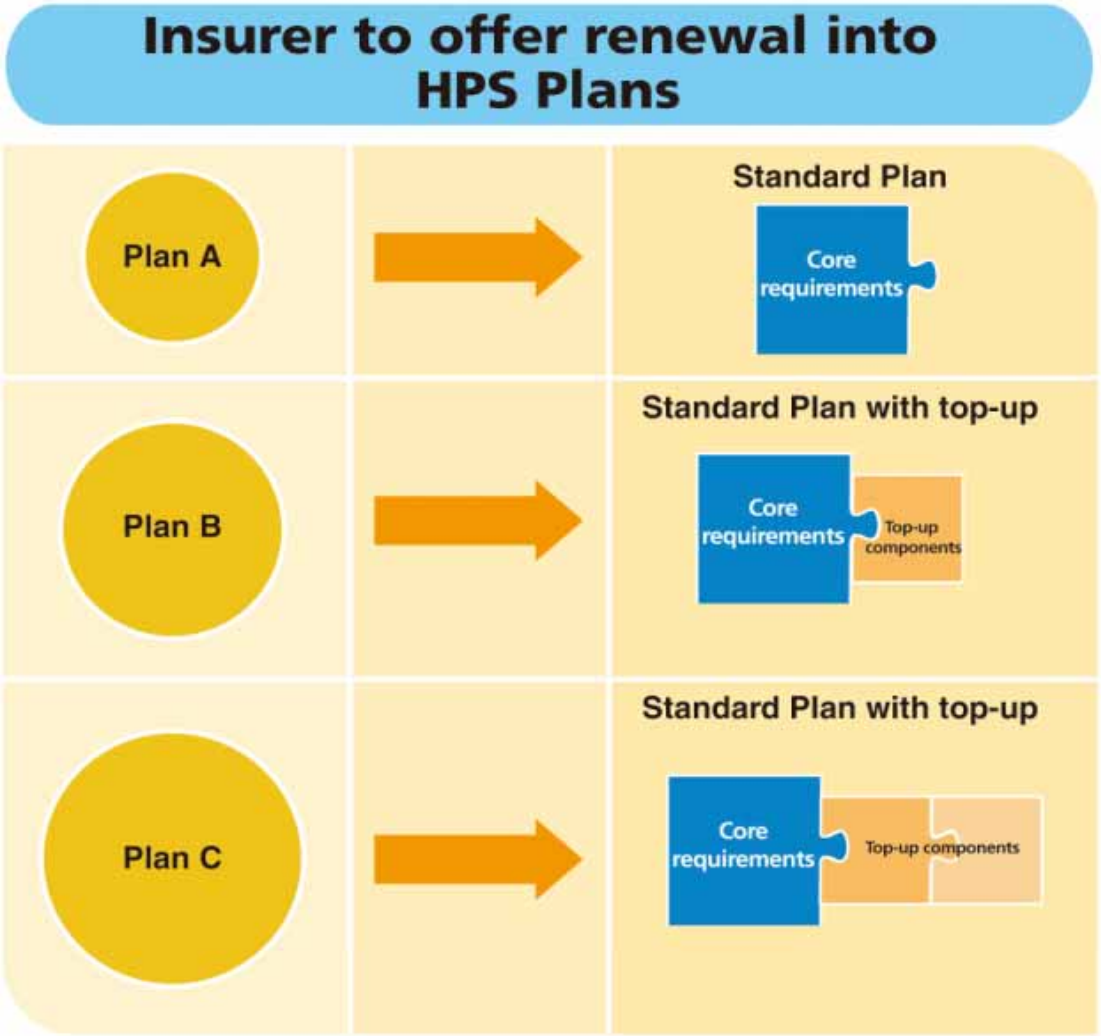
Health Protection Scheme – Migration of Existing Health Insurance



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Health Protection Scheme – Access for Higher Risk Groups

Higher Risk Groups to Access HPS

	Lower risk / premium Lower accessibility	Proposal	Higher risk / premium Higher accessibility
1. How long should people with pre-existing conditions wait to be covered? 	Longer waiting period Lower ratios for reimbursement	**1-year waiting period; reimburse 25% in 2nd year; 50% in 3rd year; 100% after 3rd year**	Shorter period for full cover Higher ratios for reimbursement
2. How much more premium should people with higher risks pay? 	Higher premium cap Lower reinsurance	**Capped at 3 times the published premium**	Lower premium cap Higher reinsurance
3. How may the elderly get health insurance? 	Set upper age limit for entry	**65+ may join within 1st year with no cap on premium plus loading**	Apply premium cap Higher reinsurance

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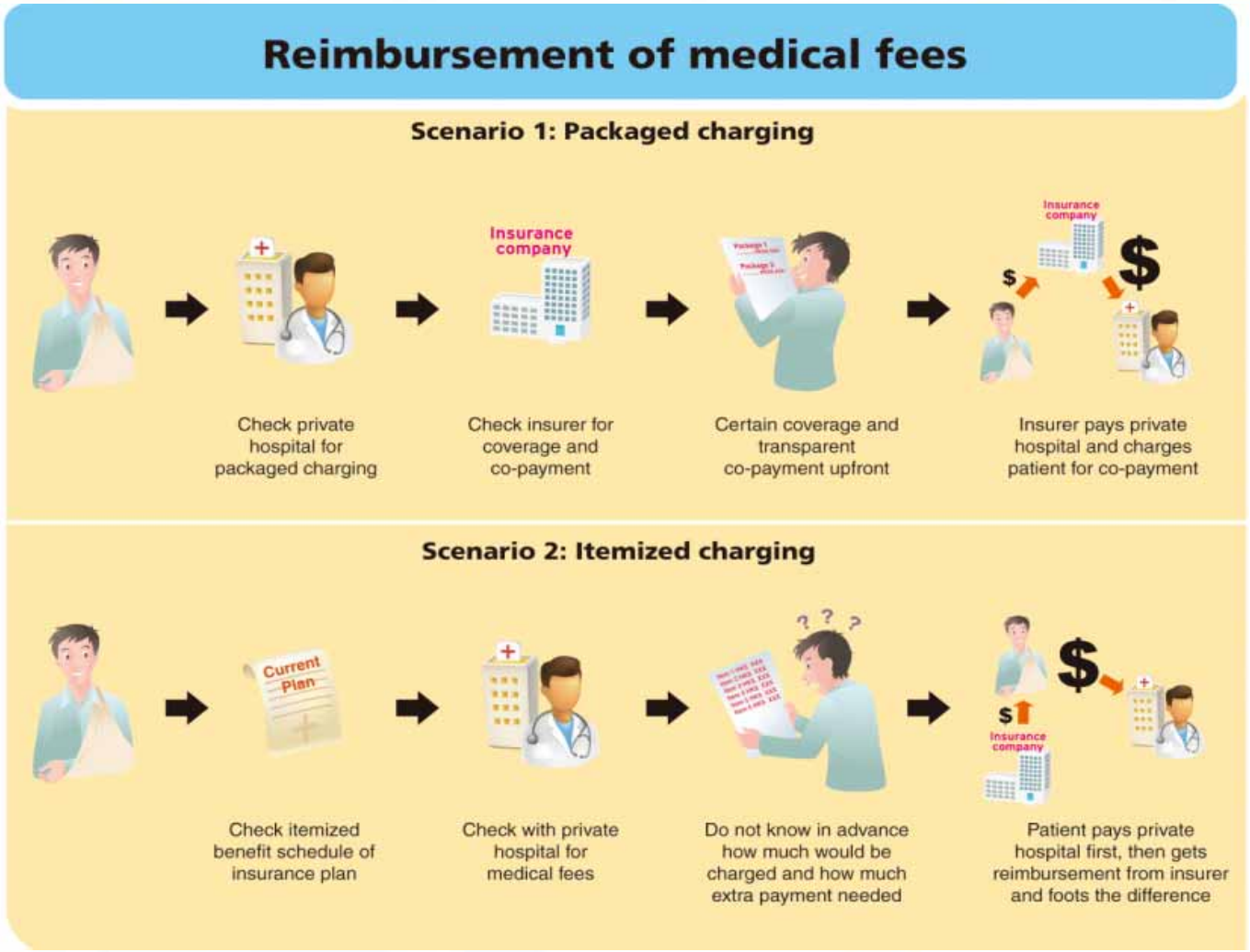
Health Protection Scheme – Government Incentives

We propose that financial incentives (one-off or recurrent) be considered in the following three directions making use of the $50 billion fiscal reserve earmarked to support healthcare reform –

- **Protection for high-risk individuals:** Government injection into High-Risk-Pool where necessary to buffer the excess risks arising from a large number of high-risk individuals joining the HPS
- **Premium discount for new subscribers:** subsidies for new joiners during a limited period after HPS introduction to enjoy maximum no-claim discount, i.e. to receive 30% discount on Standard Plan premiums immediately upon joining
- **Savings for future premium:** encourage savings (through options below) by individuals for paying future premium at older age (say 65+)
  - Required in-policy savings: government subsidies for savings
  - Optional savings accounts: government subsidies for savings
  - Save on their own means: premium rebate based on insured length

Health Protection Scheme – Provider Payment



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Health Protection Scheme – Proposed Supervisory Structure

- Oversee scheme implementation and operation, and monitor achievement of scheme objectives
- Proposed supervisory structure:
  - **Prudential regulation**: a regulator (Office of the Commissioner of Insurance) to supervise financial soundness and capability of insurers, ensure that they could discharge obligations to the insured, and oversee complaint handling mechanisms applicable to insurance in general
  - **Quality assurance**: an authority (Department of Health+) to supervise quality and standards of hospital services, oversee hospital accreditation and clinical audits, collect benchmarking information and statistics, and carry out other quality assurance measures
  - **Scheme supervision**: a new dedicated agency to supervise scheme implementation and operation - product registration, regulation of health insurance products, collecting pricing and costing information, compiling pricing and costing information of healthcare service, and administering claims arbitration mechanism
- Require legislative changes to support implementation of these supervisory functions

Healthcare Infrastructure & Manpower

- **Private healthcare capacity**
  - Implementation of the HPS requires corresponding expansion in the capacity of the private healthcare sector
- **Private hospital development**
  - Known/planned private hospital development expected to be able to meet increased demand
  - New private hospitals required to provide certain proportion of services based on packaged charging
  - Government to monitor demand for private healthcare services and ensure sufficient capacity to meet
- **Healthcare manpower planning**
  - Government will undertake manpower planning for various healthcare professions to assess training needs
  - Will take into consideration potential demand arising from expansion of the healthcare system and implementation of the healthcare reform initiatives


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