

## **PC's Response on Healthcare Reform Second Stage Consultation**

### **I. Introduction**

1. Despite completion of the three-month long consultation, many stakeholders are still worried of the adverse consequences of the Voluntary Health Protection Scheme (hereafter HPS) proposed by the Government. As a crux of the problem, there are still plenty of uncertainties concerning government's discourses as well as respective information over the scheme.
2. It is obvious that the Government has abandoned its ambitious plan to have an overhaul over the existing healthcare financing arrangement. Instead, it proposed a supplementary healthcare financing scheme with voluntary participation of citizens. This is an alternative nothing more than scratching the surface, therefore improving the imbalance between public and private healthcare system at a very limited extent. Although the Government has adopted a soft option as its policy goal, the policy tools being used are by no means effective in reducing public suspicions over the proposal. Hence, The Professional Commons (hereafter The ProCommons or PC) has strong reservation on the proposed HPS.

### **II. Private Healthcare System: Not Capable of Managing New Demands**

#### **A. Curtailing cost by the promotion of “packaged charging”**

3. As indicated by government blueprint concerning healthcare reform, the imbalance between public and private healthcare system is one of the most important issues that has to be addressed as soon as possible. Through a wider application of “packaged charging” in private practices as well as public endorsement of the proposed HPS, a clearer item price list concerning each medical treatment is possible. Such a move is expected to address the malpractice that has been prevalent in private practices so that the amount charged by private hospitals or doctors can always be set at the upper limit of respective insurance policy, therefore indirectly reducing possible disputes between private hospitals and insurance companies over medical fees. By doing so, it is suggested that public worry over charges and use of private

healthcare services will be somewhat dispelled, therefore reducing the demands on public healthcare system substantially.

4. Whether the private practices can provide adequate services to meet the demand from the market teeming with voluntary healthcare insurance policies hinges on the number of hospital beds on readiness for “packaged charging”. It is not optimistic as many private hospitals hold a very negative view on the scheme in general as well as “packaged charging”, therefore low participation amongst private hospitals is expected. As far as private hospitals and doctors are concerned, the proposed pricing mechanism lacks its necessary flexibility to accommodate market positioning of different hospitals, not to mention deprivation of their pricing power. In the light of this, it is likely that only mass-oriented hospitals will be interested in the proposed charging scheme. Besides motivation to engage in the scheme, another issue of great concern is whether the private hospitals have spare resources or capability to explore the potential of this new healthcare market. But it is generally accepted by private practices that the surging demands on local healthcare services by Mainland users are making almost no room for further squeezing of resources to entertain patients under the proposed HPS.
5. The Government has already realized the importance to reverse the situation where provision of private healthcare services has been far behind its public counterparts. To this end, the land grant provision of four hospital sites will require the new hospitals to facilitate the proposed healthcare reform by allocating part of their beds to “packaged charging”. According to the existing plan, it is estimated that there will be 70 to 80 per cent increase in private hospital beds, approximately six thousands, by 2015-16.<sup>1</sup> Having taken account of the new supply mentioned above, it is very likely that medical capacity of private practices is still far from expected to entertain needs of these new insured patients. Reasons are as follows:
  - Given a constant in the number of public beds, private beds will constitute 20 per cent of total bed number from the existing proportion of a mere one-eighth. But up to 2008, there were 2.4 million of individual insurance holders,

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<sup>1</sup> 〈4 私院地年內招標 條款與醫保掛鈎〉, *Wenweipo*, 6 January 2010.

accounting for 35 per cent of the whole population;

- Only a certain proportion of private beds in the new private hospitals will be required to adopt “packaged charging” in new private hospitals. Further, in view of the current situation in which 40 per cent of all medical payments have been settled by self-pay patients, it is anticipated that medical resources of considerable proportion will still be allocated to patients who pay out of their pocket;
- Despite the fact that inclusion of some ambulatory operations by the proposed scheme will be conducive to alleviating demands on private beds, hospital bed-days will not necessarily be reduced as more care for each individual patient is expected by private hospitals in the sense that they are supposed to provide much better services than their public counterparts. As a result, more private beds are required to handle the same amount of cases as public hospitals do;
- Developing healthcare industry and attracting more overseas and Mainland users have been put on government’s priority of preferences. Such a move will impose great pressure on local medical sector which if not handled probably will boost up the medical fees.

**B. Expansion of private healthcare system as necessary**

6. Given that scarcity of supply has been a reason of utmost importance behind the inflationary consequence of prices in provision of private in-patient services, we are of the view that the Government should help ensure that all money spent by individual citizens will be of considerable value through increasing supply of private medical services and new hospital sites. In so doing, medical charges will be lowered via market forces. More importantly, such a move should not be strategy of any kind in a bid to relieve government’s burden and, as a necessary conditions, public healthcare services must not be compromised by any reasons. Another principle of critical importance is that public money should not be directly injected to facilitate the development of private hospitals. Moreover, anticipated increase in proportion of private medical services should be accomplished by a corresponding increase in supply of private hospital beds and even new private hospitals. Even more, apparent growth of training places for medical professionals must be materialised as soon as possible. If not, any effort to be put is doomed to be in vain.

7. We echo government's policy direction of reducing private medical charges to some acceptable levels. Based on this, we support the establishment of "packaged charging" scheme, but the premise is that the Government should create a favourable market environment so that private practices can be steered to some right directions. Also, as its current practice, the Government should continue to grant sites for building of private hospitals at nominal, even zero, premium. However, it would be important to ensure that hospital beds of significant proportion are to be designated for "packaged charging", therefore helpful in realizing the primary goal of this new charging arrangement as facilitating a reduction of medical fees.
8. In order not to further push up the existing expensive medical fees, the Government is advised to expand market supply of private healthcare services, or insurance premiums will be eroded by skyrocketing medical charges due to an upsurge in the number of new policy holders, therefore jeopardizing their interests to enjoy a proper medical care. In the light of this, the Government should launch a second round of study regarding private hospital development, in which we suggest a push of another 3,000 private beds in the next five years following the completion of the recent development phase. These extra beds, coupled with existing private one and those in the pipeline, will account for 25 per cent of the overall supply without considering growth in their public counterparts.

### **III. Voluntary Health Protection Scheme: Not Financially Viable**

9. Other than an insurance product of a mere commercial significance, the proposed HPS is also a public policy measure at large. As far as its nature is concerned, the business and finance model of the scheme should be sustainable on the one hand, and, more importantly, help embody social justice and policy priority on the other.

#### **A. Big pecuniary rebate: not appropriate**

10. To ensure public endorsement, the Government has decided to splash out HK\$50 billion of fiscal reserve for the sake of promotion. Firstly, potential teenage subscribers and those who are going to transfer their existing

insurance scheme to the proposed HPS can enjoy a 30 per cent discount in premium. Secondly, up to 60-70 per cent of the fund will be given to teenage subscribers as saving subsidy to settle premium payment in their old age.<sup>2</sup> To infer, the amount involved in the above pecuniary rebate is anticipated to take up as much as 80 per cent of the HK\$50 billion earmarked to the scheme. Most importantly, employers providing their employees with medical benefits as well as individuals engaging in the scheme even without government's incentive will be the one who benefit the most from the proposed rebate measure. On the other hand, it would be skeptical concerning the potential attractiveness of the rebate for employers and other citizens who have not bought healthcare insurance of any kind.

## **B. Insufficient fund for reinsurance**

11. As mentioned, the splash-out of HK\$50 billion as pecuniary rebate of sponsoring teenage policyholders is aimed at alleviating their burden on premium payment. But it is not expected to provide any extra fund for medical compensation, as premium concerned is suggested to be capped at the level that trebles the normal rate. In the light of this, the fund left for reinsurance targeting at high-risk subscribers would then be less than HK\$10 billion, which is so worrying that the earmarked fund will be draining in the near future.

## **C. Dubious of cost-effectiveness**

12. There has been social odium of considerable scope concerning justification of the Government to sponsor financially-able people to use private healthcare service, which is in violation of the principle of social justice. In order to dispel public worry, evidences should be marshaled and the Government should show to the public that such an arrangement will genuinely fulfill the requirement of cost-effectiveness, rather than just squeezing through by a cliché of offering the public more choices. As a rule of thumb, every cents of public fund given away should facilitate the saving of public medical resources of at least an equivalent amount. Unfortunately, the Government has not yet provided the public with adequate and up-to-date information,

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<sup>2</sup> 〈港府預留 500 億 確保營運 25 年〉, *Wenweipo*, 6 January 2010

therefore difficult to win their trust. In the light of this, it would be important for the Government to provide a detailed projection on the number of new subscribers of the proposed HPS including those to be transferred from other insurance schemes and their shift to private healthcare services. The Government should also clarify the benefits to be brought about by the earmarked fund worth HK\$50 billion. More specifically, these should comprise saving to be generated in public sector resulting from a shift to private healthcare services by potential holders of the proposed HPS. The amount should be more than HK\$50 billion and expenditures on hospitalization charges covered by insurance compensation should be exempted. In 2006-07, HK\$3.5 billion has been spent on compensations from insurance companies on hospitalization.

#### **D. Capability to compensation and liability accordingly**

13. The Government is expected to bear moral hazard of enormous degree in the form of indispensable liability to citizens who will participate in the proposed HPS, while it strives very hard to promote. Even worse, the Government will definitely bear unlimited liabilities as it, unlike corporate and companies, cannot just walk away with a mere announcement of bankruptcy. Moreover, the Government is committed to establish a mechanism of reinsurance on top of the earmarked fund of HK\$50 billion as subsidy. Secretary for Food and Health Dr. York Chow has even assured of an underwriting where necessary.<sup>3</sup> It can be seen that the Government, in the eye of the public, is more than willing to take a sole role as the ultimate guarantor. Albeit this, the Government should explain to the taxpayers the following points, including:

- From the perspective of financial management, the proposed scheme will not be sustainable because aging population, as the inevitable trend, was being ignored by relevant government officials. At early stage of the scheme, solvency is not supposed to be an issue of great concern as there will be relatively high proportion of young subscribers and relatively low rate of claims. Nevertheless, the advent of demographic ageing 20 years later will usher in problems including sustainability of the scheme arising from continued expansion of “high-risk” groups and corresponding shrinking of

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<sup>3</sup> 〈港府預留 500 億 確保營運 25 年〉, *Wenweipo*, 6 January 2010

young age groups. On such occasion, there will not be enough young and healthy subscribers to balance the risk; premium collected will be far from covering the compensations. In this regard, government officials give no account of how long could the HK\$50 billion last;

- Given no turn-away of subscribers and guaranteed renewal for life, all subscribers are entitled to use private medical services as long as they default no premium payments. Coupled with government's promise of underwriting, subsidy concerned will be infinite. In this regard, taxpayers should be informed of any possible burden as a result.

#### **E. A decision between short-term and long-term protection**

14. Information available in the course of the consultation has been far from comprehensive, making informed decision by individual members of the public impossible. The Government, through unilateral emphasis on the merit of the scheme it proposed, failed to highlight possible influences on benefits and interests of subscribers' existing insurance schemes. It should also be noted that the proposed HPS aims at fulfilling the needs on long-term medical care, whilst ordinary citizens are more concerned of their medical care on a short-term basis. Also, the consultation only focused on benefit of renewal for life, whilst not reminding the public of their possible loss of insurance coverage on short-term medical care in exchange for long-term benefits as suggested. The Government maintained that out-patient care should not be covered by the proposed insurance scheme in order to avoid mismatch of resources from further exacerbation. But, as a consequence, such arrangement will incur a reshuffle of existing healthcare insurances, in terms of their coverage, as well as benefits currently enjoyed by employees. In the light of this, potential subscribers are advised to get informed of the following changes before deciding whether to opt for the proposed HPS:

- If benefits provided by their existing insurance plans are *under par* compared with the core requirements and specifications by the Government, subscribers will be required to pay extra premiums as a top-up of the core scheme that does not cover out-patient care, or opt for plans that contain less coverage of out-patient care in exchange for a more extensive hospitalization cover;
- Currently, people under the protection of private healthcare insurance are mainly teenagers and post-adolescents who are less likely to suffer serious and

even terminal illnesses. Most current plans therefore cover more on out-patient care rather than hospitalization. In the light of this, young and healthy subscribers might not find expansion of hospitalization care particularly attractive. Instead, it will be nothing less than a reduction of their remuneration and benefit if out-patient care is to be cut as a sacrifice.

#### **IV. Healthcare reform: possible ways forward**

15. Government officials hope that all costs in relation to transactions and bonus are to be capped within 10 per cent of total premiums, whilst legislation as a means to regulate has not been ruled out.<sup>4</sup> The proposed arrangement should be supported by members of the public in the sense that it would bring them apparent benefits and protections. Despite this, two issues should be clarified. First, it is whether the proposed HPS must be a requisite for the introduction of corresponding legislation. In fact, regulations on existing private insurance market are necessary even the proposed scheme is not to be implemented. It is believed that most citizens are not repulsive to tougher regulation, while holding reservation over the proposed scheme. Second, by the same token, it is whether the suggested HK\$50 billion is necessary before the scheme is to be introduced, as insurance products similar to government's basic plan have been available in the market.

##### **A. Strengthening regulation of healthcare insurance market**

16. At present, healthcare insurance products offering protections to subscribers up to 100 years of their age have been available in local market, in which applicants are accepted before a certain age as 70 years old.<sup>5</sup> Individual plans even offer saving option so that premiums can be fixed at some certain levels. These commercial insurance plans are quite attractive that both standard premiums and scope of coverage are similar to specifications laid down in the proposed HPS. To abide by its golden principle of "Big Market Small Government", the Government is not encouraged to step into the market by providing, even selling, any healthcare insurance products. Given availability of similar products in the market, the Government should instead focus on

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<sup>4</sup> 〈自願醫保限保險公司利潤〉, *Hong Kong Economic Journal*, 15 December 2009

<sup>5</sup> Insurance companies that provide healthcare insurance product for life-long protection including the AIA, Manulife, Bupa, Ageas and ING



regulations to make sure that relevant businesses can be run in a fairer market environment, rather than splashing out HK\$50 billion of valuable public money for promotion.

**B. Strengthening of primary care**

17. In 2010, the Government released a document entitled “Primary Care Development in Hong Kong Strategy Document” that suggests a policy framework concerning primary care development in the coming decade or so, but no achievement is expected if to be judged by the essence of primary care. Simply put, the Government shows no intention to put in place family doctor system in the nearest future. Instead, it only strives to establish registers of both family doctors and other healthcare professionals as well as to develop electronic health record sharing system between public and private system to encourage financially-able patients to patronize private services. But there has been no further account of how family doctor system is to be fully promoted toward people of different walks of life. Meanwhile, several remedial measures that might help improve primary care still remain in either pilots or implementations of restricted scale, suggesting that no holistic plan has been in place to address the pressing need for a full promotion of primary care. Examples include establishment of the Community Health Centers and nurse clinics.
  
18. Primary care has been playing a key role in the overall healthcare system. Its contributions and importance have been recognized by various international authorities including the World Health Organization. If the Government could engage in primary care development proactively, it was expected that the overall level of local healthcare services could be taken to a new height. More importantly, even ordinary citizens could have a better health protection as some covert symptoms at their early stage would be discovered via prompt investigation then timely treatment. If the Government fails to dispel public worry concerning its alleged squandering of the earmarked fund of HK\$50 billion, the funding should instead be designated for development of primary care, therefore more fulfilling in terms of its value.

## V. Closing Remarks

19. The ProCommons is holding a strong reservation on the proposed HPS, unless more adequate information and more compelling arguments are to be given. It is obvious that the proposed “packaged charging” is by no means an effective policy tool of tackling the existing pressing supply of private medical services, therefore suggesting the grimness concerning any lowering of private medical fees. In this connection, it is likely that the issue could be addressed effectively on the supply side. As policy tool to kick-start the scheme, government’s proposed allocation of the earmarked HK\$50 billion of fiscal reserve is also problematic in the sense that over 80 per cent of which will be spent on pecuniary rebate for employers and individual citizens who can afford buying medical insurances. Such an arrangement is not only violating the social justice principle, but also endangering the sustainability of the reinsurance mechanism under government’s promise as the remaining HK\$10 billion is definitely far from adequate. We are also dubious whether the sum to be injected in private medical insurance market can actually facilitate the saving of at least an equivalent amount in public healthcare system. If not, this amount of money should instead be spent on aspects suggesting considerable social and economic effectiveness, of which primary care is one of the possible options.

The Professional Commons  
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